

Practitioner Advisory Group Issue Paper

AGENDA ITEM: PAGED09-02

8 March 2023 – Online

Revenue

Summary	This paper summarises the proposals for the INPAG revenue guidance as a result of discussions with the PAG and the TAG.
Purpose/Objective of the paper	To allow PAG members to consider any practical issues associated with these proposals.
Other supporting items	None
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Actions for this meeting	Advise on: <ul style="list-style-type: none"> • Structure of revenue guidance • Approach to recognition • Estimation methods for allocating grant amounts between different obligations

Practitioner Advisory Group

Revenue

1. Structure of the revenue guidance

- 1.1 At their December 2022 meetings, the PAG and the TAG considered options for the structure of the guidance on revenue. The Secretariat presented the following options:

	Single Section approach	Two Section approach
Advantages	<ul style="list-style-type: none"> • Guidance in one place • NPOs don't have to decide whether revenue is exchange or non-exchange • Guidance likely to be shorter in length 	<ul style="list-style-type: none"> • Simpler for those NPOs that only have grants and donations • No amendments to Section 23
Disadvantages	<ul style="list-style-type: none"> • May appear more complex particularly for NPOs that only have grants or donations • Additional work as both Section 23 and Section 24 impacted 	<ul style="list-style-type: none"> • Likely to be duplication resulting in a longer document and potentially cross referencing between Sections • More complex for revenue that has an exchange and non-exchange element as NPOs will need to access both Sections • Need to decide which Section to use based on the type rather than nature of the revenue

- 1.2 The PAG and TAG had different views on the best approach to take in developing INPAG. While PAG members had differing views, there was an overall preference amongst PAG members for a single section covering all types of revenue; PAG members also considered that separating gifts in-kind and services in-kind would be helpful for users of INPAG.

- 1.3 By contrast, TAG members preferred separate requirements for exchange and non-exchange revenue. TAG members expressed the view that NPOs view grants differently from commercial activities., A single section covering all revenue might result in concerns that the unique nature of NPO's revenue was being ignored . TAG members also proposed the inclusion of simplified procedures where a grant only imposes a single obligation on the NPO, avoiding the need to apply the full procedures.
- 1.4 Following these discussions, the Secretariat is proposing a single section covering all revenue, but with separate parts for grants and donations (non-exchange revenue) and revenue from contracts with customers (exchange revenue). The proposed structure of the section is as follows:
- **Preface** – setting out the criteria for deciding which part of Section 23 is applicable to a revenue transaction.
 - **Part I – Revenue from grants and donations** – based on the principles in the draft IPSAS presented to the IPSASB at its December 2022 meeting.
 - **Part II – Revenue from contracts with customers** – based on the *IFRS for SMEs Accounting Standard Exposure Draft*.
- 1.5 Part I includes separate accounting treatments for different types of grants and donation:
- Grants without a binding grant arrangement (no conditions or restrictions).
 - Grants with restrictions but no compliance obligations (conditions).
 - Grants with one compliance obligation (condition).
 - Grants with more than one compliance obligation (conditions).
- 1.6 A consequence of adopting this approach is that there is duplication between Part I and Part II as the underlying principles of revenue recognition are the same. The TAG has reviewed the material, and is of the view that the duplication is not excessive. TAG members have suggested that navigation aids, such as decision trees, be included to aid users of INPAG.

Question 1: PAG members are asked for their views on the structure of the revenue section and what types of navigation aids would be helpful to NPOs.



2. Revenue recognition

2.1 The revenue recognition principles proposed for grants and donations can be summarised as follows:

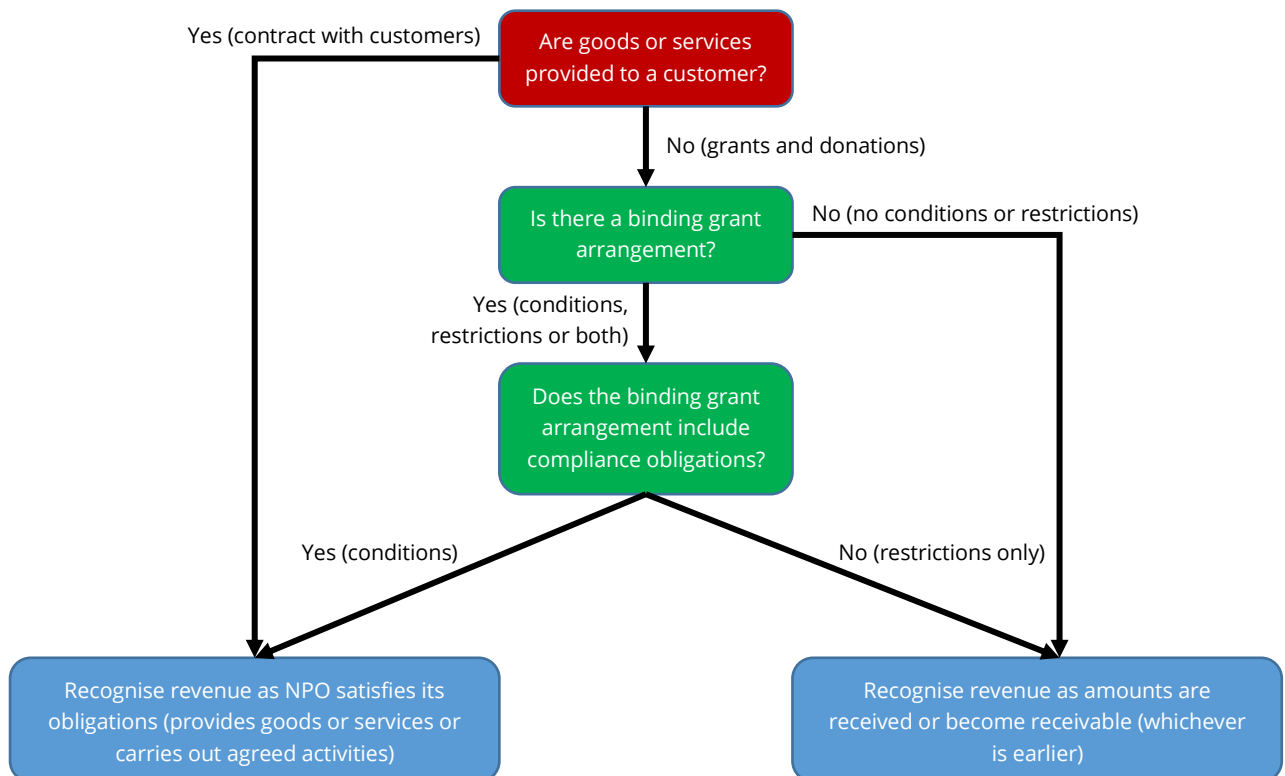
An NPO recognises revenue as follows:

Revenue that does not impose specified future performance conditions on the NPO is recognised in income when the proceeds are receivable.

Revenue that imposes specified future performance conditions on the NPO is recognised in income only when the performance conditions are met.

Revenue received before the revenue recognition criteria are satisfied are recognised as a liability.

2.2 The following diagram and table summarise the effect of applying these principles to the different types of revenue:



Type of revenue	Recognition criteria
Contracts with customers (exchange/commercial revenue)	Recognise revenue as an NPO satisfies performance obligations (delivers goods or services to customers) Presented as income without restrictions
Donations (grants and donations without a grant agreement)	Recognise revenue when a donation is received (or becomes receivable, if earlier) Presented as income without restrictions
Grants and donations with binding grant agreements that only impose restrictions (no compliance obligations)	Recognise revenue either when a donation is received (or becomes receivable, if earlier) or, if the restriction gives rise to a liability, as the restriction is satisfied Presented as income with restrictions
Grants and donations with binding grant agreements that impose conditions (compliance obligations) Simplified accounting included where only one obligation	Recognise revenue as or when each compliance obligation is satisfied Presented as income with restrictions

- 2.3 The guidance for both contracts with customers and grants and donations with binding grant arrangements that impose conditions include additional guidance for allocating the total amount receivable between different performance or compliance obligations (as appropriate). Performance obligations are obligations that arise from contracts with customers, whereas compliance obligations are similar obligations that arise from binding grant arrangements. The guidance also covers other more complex issues such as variable consideration, time value of money and modifications to the contract or arrangement.

Question 2: PAG members are asked for their views on whether they anticipate any practical difficulties for NPOs when applying the revenue recognition approach.

3. Estimation techniques

- 3.1 Some grants impose two or more conditions on an NPO. For example, an NPO providing medical services may enter into a binding grant agreement to provide both a public information campaign and a vaccination campaign. The NPO will need to estimate the amount of the total grant that relates to each obligation (that is, how much of the grant relates to the public information campaign and how much relates to the vaccination campaign). This will determine how much revenue is recognised when each compliance obligation is met.
- 3.2 INPAG requires these values to be estimated based on the relative stand-alone values of each of its obligations (that is, the amount of the total grant is allocated in the same proportions as the stand-alone values). The stand-alone value is the price (or cost) at which an NPO would use a good or service internally or provide a good or service separately to a beneficiary.
- 3.3 In some cases the stand-alone value will be known, for example where the NPO regularly charges for providing services to beneficiaries. However, in many cases this will not be the case, and the NPO will need to estimate the stand-alone value.
- 3.4 INPAG provides guidance on suitable estimation techniques. These include, but are not limited to:
 - Adjusted market assessment approach – how much other entities would be willing to pay for the goods or services. This is not expected to be used for unique NPO services but might be relevant for goods and some services that might be provided by multiple suppliers.
 - Expected cost approach – an NPO’s forecast of its expected costs of satisfying a compliance obligation (condition). This is likely to be the most suitable technique in many cases for NPOs providing services, which are not provided in the market, for example food banks.
 - Residual approach – the amount of the grant remaining after estimating the stand-alone value of other compliance obligations. This approach is



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only appropriate where the stand-alone value of a good or service is highly variable or uncertain.

Question 3: PAG members are asked for their views on the suitability of these estimation techniques for NPOs.

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