INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Practitioner Advisory Group Issue Paper

AGENDA ITEM: PAGED10-01
7 June 2023 – Online

Revenue

Summary	This paper summarises the proposals for the INPAG revenue guidance as a result of recent discussions with the DRG 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
Prepared by	Paul Mason
Actions for this meeting	Advise on: • Nature of agreements in use by NPOs and donors and how this will affect the accounting for grants and donations • Accounting for donations in-kind

Practitioner Advisory Group

Revenue

1. Introduction

1.1 The PAG last discussed revenue at its March 2023 meeting. Since that meeting, the TAG has met and discussed how to take the development of the section forward in ED2. Two focus groups discussing revenue with a range of stakeholders have also been held.

1.2 At this meeting, the Secretariat are seeking feedback on some of the practical issues that have been raised at these meetings.

1.3 Staff will present the issues at the meeting; this paper provides some background information, and sets out the questions on which the Secretariat is seeking PAG members' views.

1.4 The presentation to be used at the meeting is included at Appendix to assist PAG members prepare for the meeting.

2. Accounting for Grants and Donations

2.1 Slide 3 illustrates the process for recognising revenue from grants and donations. Slide 4 sets out some of the key terms that are used in specifying the requirements for accounting for grants and donations.

2.2 A key feature is that where an NPO receives cash, revenue recognition is only deferred if there is a binding grant arrangement with one or mor compliance obligations. For a binding grant arrangement to exist, both the donor and the grant recipient must have both rights and obligations, enforceable through legal or equivalent means.

2.3 At the focus groups, a number of stakeholders questioned whether grant agreements would be legally enforceable. These stakeholders suggested that grant agreements generally operated on trust, and that legal enforceability was generally not a factor.

2.4 As a result of these discussions, the Secretariat are considering what factors ensure that the parties to a grant arrangement will do what they have promised, and whether any of these could be considered ‘equivalent means’.

2.5 If grant arrangements are generally not enforceable, this would mean that most revenue would be recognised when it is received. Terms in a grant arrangement that are not enforceable would not meet the definition of an asset or liability, which is required to defer revenue.

Question 1:	What are PAG members’ experiences regarding the enforceability (or otherwise) of grant arrangements.
Question 2:	Where grant agreements operate based on trust, what are the consequences for an NPO that does not carry out what it agreed to do?

3. Donations in-kind

3.1 Slide 6 illustrates the proposals for accounting for donations of goods and other assets. Slide 7 sets out the proposals for accounting for donations of services.

3.2 For goods donated for an NPO’s own use or for distribution to services recipients, an NPO would be permitted to only recognise revenue (and an expense) when the items are used or distributed rather than when they are received.

3.3 Some stakeholders have questioned the extent to which this exception will benefit NPOs as revenue still has to be recognised when the items are used or distributed. It is accepted that there is a benefit where perishable items are received close to their expiry date and subsequently not used; are there other benefits?

Question 3:	How helpful to NPOs do PAG members think the proposals for donated goods generally are, and in particular the proposals for donated goods for the NPO’s own use or for distribution to service recipients?

3.4 For donated services, the proposals are that NPOs should recognise revenue from these services where they are critical to the NPO’s mission. Where donated services are not critical to an NPO's mission, the NPO will have a choice as to whether to recognise revenue or not.

3.5 These proposals are intended to strike a balance between being practical for the NPO and providing useful information to users of the financial statements about the NPO's dependency on these services.

3.6 Stakeholders raised questions about what services should be treated as mission critical, and whether some services (such as governance services provided by Board members in their role as Board members) should ever be recognised.

Question 4: What services could be critical to an NPO's mission, and which could be scoped out. For example, could administrative services or office accommodation be 'mission critical'?

Question 5: Should services provided by Board members in carrying out their governance role ever be recognised as revenue?

June 2023

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PAG Meeting
June 2023

Revenue

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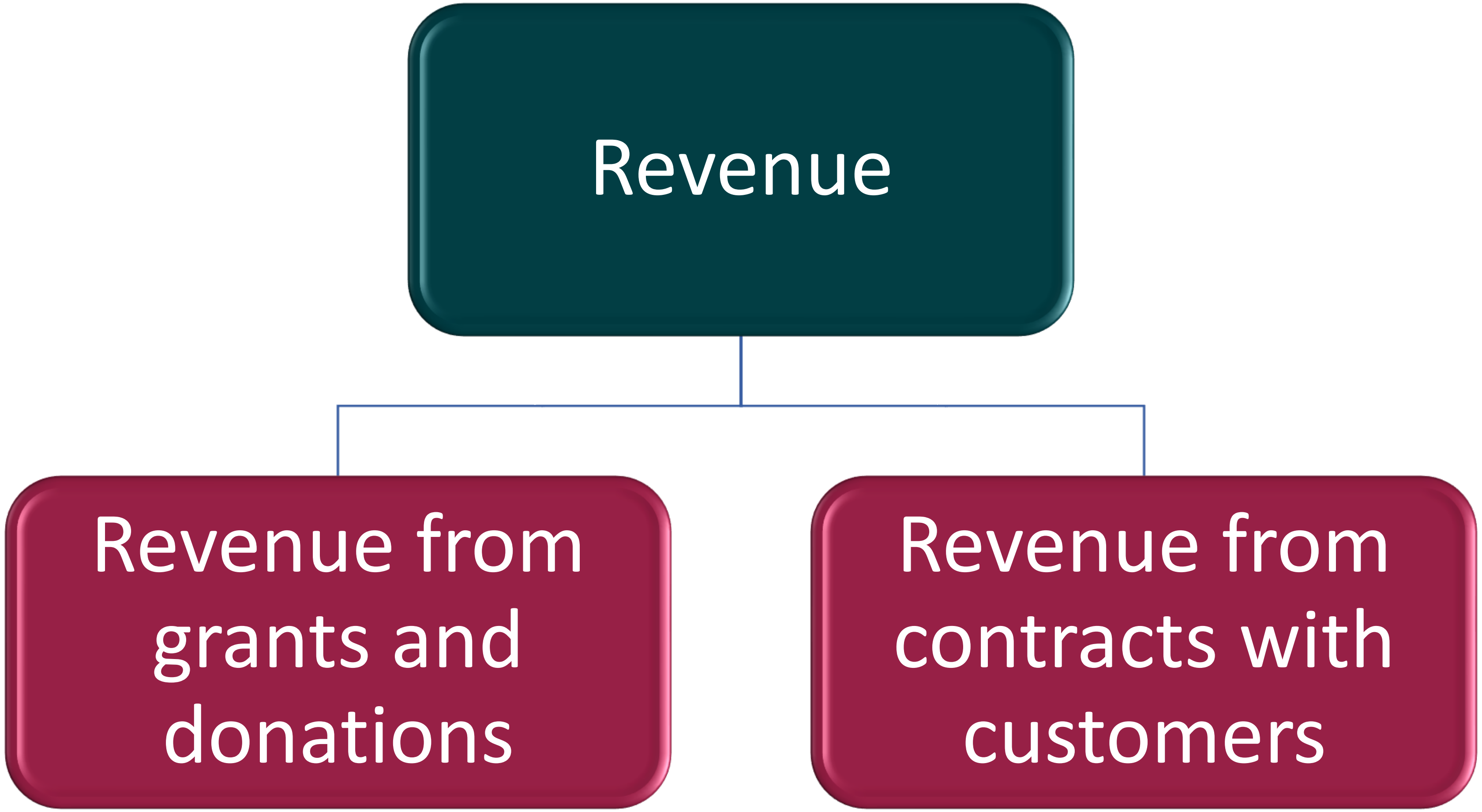
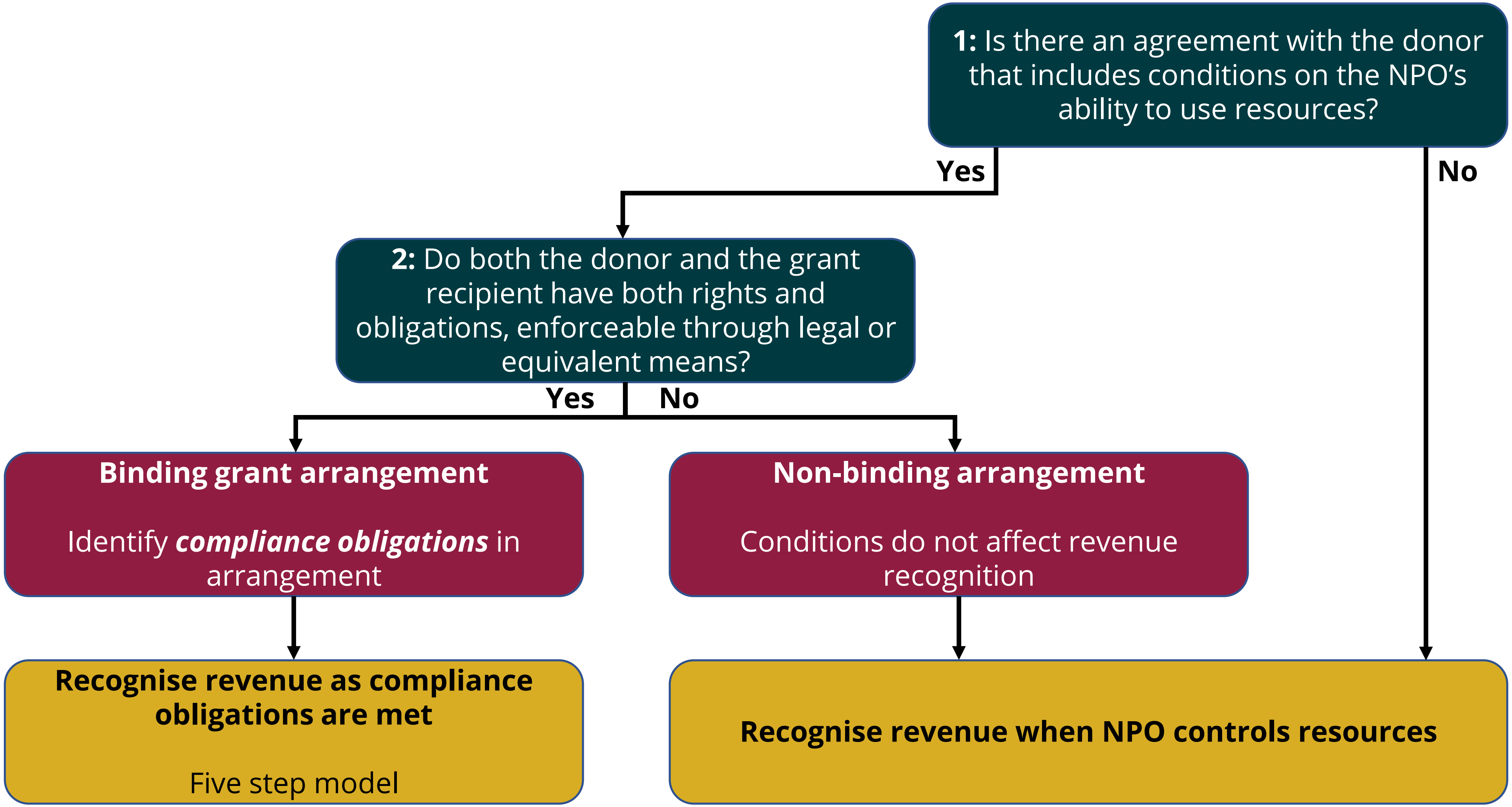
Approach to Revenue



Accounting for grants and donations



Grants and donations – terms used

- **Binding grant arrangement** - a grant arrangement where both the donor and the grant recipient have both rights and obligations, enforceable through legal or equivalent means. A grant recipient's obligations under a binding grant arrangement are compliance obligations.
- **Compliance obligation** – a grant recipient's promise in a binding grant arrangement to either use resources internally for distinct services, goods or other assets or to transfer distinct services, goods, cash or other assets externally.

  [A compliance obligation is a type of condition that creates a present obligation.]
- **Condition -** Any requirement of the grant-provider as part of the grant arrangement that affects how the NPO is able to use the grant.

  [If not a compliance obligation a condition will not create a present obligation when resources are transferred either because the arrangement is not enforceable or distinct services, good or other assets cannot be identified.]

Approach to Revenue 4:
Five-step model for binding grant arrangements

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- Identify binding grant arrangement (see previous slide)
- Identify compliance obligation(s) (one / more than one)
- Determine transaction amount (total grant amount)
- Allocate transaction amount to compliance obligation(s)
  [Not necessary if only one compliance obligation]
- Recognise revenue as compliance obligation(s) are satisfied

Donations in-kind
Donations of goods and other assets

Non-current assets and high value items – recognise revenue on receipt, measured at fair value

Exception

Low value items for resale – option to recognise revenue only on sale, measured at sale amount

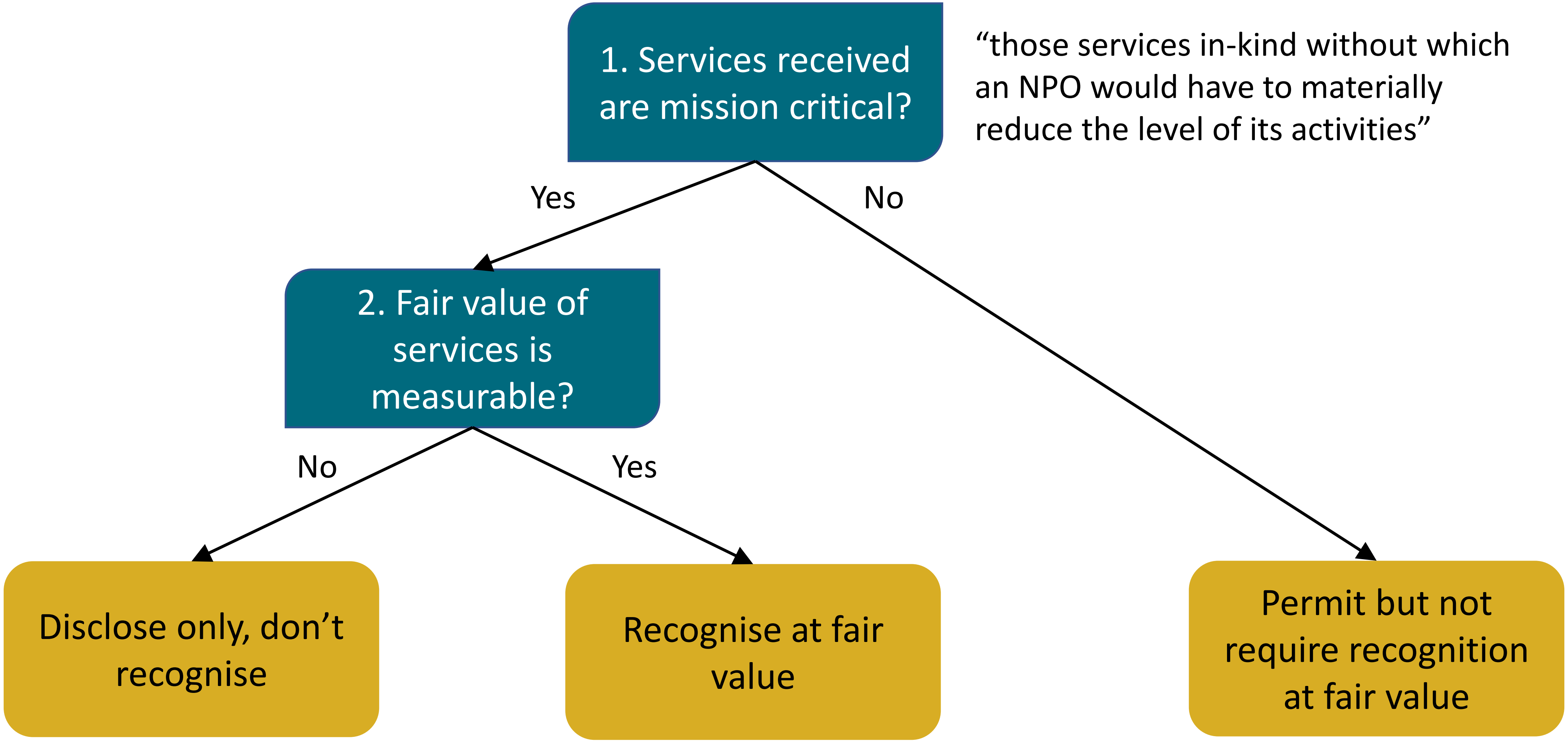
Exception

Items for own use or distribution – option to recognise revenue and expense only when used or distributed, measured at fair value

Exception

Guidance on situations where items cannot be reliably measured, for example when an NPO is responding to an emergency

Donations in-kind
Donations of services



“those services in-kind without which an NPO would have to materially reduce the level of its activities”