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Section 23 – Revenue

Scope of this Section

- G23.1 This section specifies the accounting for revenue by NPOs.
- G23.2 Section 23 applies to all **revenue** except:
- a) Equity contributions received (see Section 22 *Liabilities and Equity* [ED3]).
 - b) lease agreements within the scope of Section 20 *Leases*;
 - c) insurance contracts;
 - d) financial instruments and other contractual rights or obligations within the scope of Section 9 *Consolidated and Separate Financial Statements*, Section 11 *Financial Instruments*, Section 14 *Investments in Associates* and Section 15 *Joint Arrangements*; and
 - e) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.
- G23.3 A revenue transaction may be partially within the scope of this Section and partially within the scope of the other INPAG Sections set out in paragraph G23.2 (for example, a lease agreement that includes the provision of services). If the other Section specifies how to separate or initially measure any parts of the transaction, then an NPO shall first apply the separation or measurement requirements in that Section. Otherwise, the NPO shall apply this Section to separate or initially measure those parts of the transaction.

Structure of Section 23

- G23.4 This section comprises two parts, Part I Revenue from Grants and Donations and Part II Revenue from Contracts with Customers (see Figure AG23.1).
- G23.5 Part I relates to accounting for revenue from grants, donations and similar income. It is revenue that arises from a transaction in which an NPO receives cash, a service, good or other asset from another entity or individual without directly providing any cash, or a service, good or other asset in return to the provider of those resources. This form of revenue is sometimes known as non-exchange revenue, non-reciprocal revenue or unrequited revenue.
- G23.6 Part II relates to accounting for revenue from contracts with customers. This is revenue that an NPO earns from providing services, goods or other assets to customers (be they an entity or individual), usually at a market rate. This form of revenue is sometimes known as commercial revenue, exchange revenue, reciprocal revenue or required revenue.
- G23.7 The Part of Section 23 that an NPO is required to apply to a revenue transaction depends on the economic substance of that transaction. As a consequence, there may be situations where it is necessary to apply both Parts of Section 23 to an individual transaction, or to treat an element of a transaction as a grant expense

where Section 24 Part I *Expenses on grants and donations* will apply. Paragraphs AG23.3–AG23.13 and Figure AG23.1 provide additional guidance separating a transaction into separate elements where revenue transactions involve a subsidy being received or given by an NPO.

Principles for revenue recognition and measurement

- G23.8 ~~An entity shall recognise government grants~~ The general principles for recognising revenue are as follows:
- a) a ~~grant~~ revenue transaction that does not impose specified ~~future-performance conditions~~ enforceable grant obligations on the ~~recipient~~ NPO or requires the satisfaction of promises in a contract with customers is recognised ~~in income~~ as revenue when the ~~grant proceeds~~ amounts are received or, if earlier, become receivable;
 - b) a ~~grant~~ revenue transaction that imposes specified ~~future-performance conditions~~ enforceable grant obligations on the ~~recipient~~ NPO or require the satisfaction of promises in a contract with customers is recognised ~~in income~~ as revenue only when the enforceable grant obligations or promises are met; and
 - c) ~~grants~~ amounts received before the revenue recognition criteria are satisfied are recognised as a liability.
- G23.9 A liability recognised in accordance with paragraph G23.8 c) is subsequently derecognised, and revenue recognised, when the enforceable grant obligations or promises are met.
- G23.10 An ~~entity~~ NPO shall measure ~~grants~~ revenue at the fair value of the asset received or receivable, or the reduction in a liability where the grant provider forgives an NPO's obligation.

Initial recognition of revenue from enforceable grant arrangements or contracts with customers

Five-step model

- G23.11 For revenue transactions that impose specified enforceable grant obligations on the NPO or require the satisfaction of promises in a contract with customers, Parts I and II share a common five-step revenue recognition model. The objective of the model is for an NPO to recognise revenue that reflects the amount to which the NPO expects to be entitled for meeting each enforceable grant obligation or promise. This is applicable to revenue from grants and donations where there is an enforceable grant arrangement, and to all revenue from contracts with customers. Each step is summarised below, highlighting the differences in terminology depending on which Part applies to the transaction.

Step	Part I – Revenue from grants and donations with enforceable grant arrangements	Part II – Revenue from contracts with customers
1 – Identify the existence and nature of grant arrangements and contracts.	Identify if there is an enforceable grant arrangement; and if so, identify the arrangement.	Identify the contract(s) with a customer.
2 – Identify the enforceable grant obligations or promises.	Identify undertakings that give rise to enforceable grant obligations in the enforceable grant arrangement.	Identify the promises in the contract. Promises is used to refer to both the actions an NPO will undertake (equivalent to undertakings in Part I) and the obligation to carry out those actions (equivalent to enforceable grant obligations in Part I).
3 – Determine the transaction amount or price.	Determine the transaction amount (the total amount of the grant).	Determine the transaction price.
4 – Allocate the transaction amount or price to the enforceable grant obligations or promises.	Allocate the transaction amount to enforceable grant obligations (where there is more than one enforceable grant obligation).	Allocate the transaction price to the promises in the contract (where there is more than one promise).
5 – Recognise revenue when (or as) the NPO satisfies an enforceable grant obligation or promise.	Recognise revenue when (or as) the NPO satisfies an enforceable grant obligation.	Recognise revenue when (or as) the NPO satisfies a promise.

Unsatisfied transactions

- G23.12 When an enforceable grant arrangement (Part I) or a contract with a customer (Part II) is wholly unsatisfied, an NPO shall not recognise any asset, liability or revenue associated with the enforceable grant arrangement or contract. The recognition of assets, liabilities, and revenues commences when one party to the enforceable grant arrangement or contract starts to satisfy their obligations under the arrangement.
- G23.13 Enforceable grant arrangements and contracts with customers will be wholly unsatisfied if the NPO has not yet met any of its stated enforceable grant obligations in the enforceable grant arrangement or promises in a contract; and the **grant provider** or customer has not yet paid, and is not yet obligated to pay, consideration to the NPO.

Revenue in foreign currencies

- G23.14 An NPO may receive revenue in a foreign currency. Measurement of revenue in a foreign currency may be affected by the point at which amounts are translated from the foreign currency to the reporting currency.
- G23.15 The effect of changes in foreign exchange rates after the inception of an enforceable grant arrangement or contract with a customer are accounted for in accordance with Section 30 *Foreign Currency Translation*.

Principal versus agent considerations

- G23.16 When another party is involved in satisfying the requirements of an enforceable grant arrangement or contract with a customer, an NPO shall determine whether the nature of its obligation is to satisfy the requirements itself (that is, the NPO is a principal) or to arrange for those requirements to be met by the other party (that is, the NPO is an agent). An NPO shall determine whether it is a principal or an agent for each enforceable grant obligation in an enforceable grant arrangement and each promise in a contract. An NPO cannot be an agent unless it has a present obligation to the grant provider or customer.
- G23.17 An NPO is a principal if:
- a) it is primarily responsible for meeting the requirements of the enforceable grant arrangement or contract;
 - b) when the NPO transfers goods to a service recipient or customer, the NPO obtains control of the specified goods as inventory before it transfers them to the service recipient or customer (that is, the NPO has inventory risk before the goods are transferred); or
 - c) when the NPO provides services to a service recipient or customer, it obtains control of the specified service or right to the specified good or service before:
 - i) it provides the services to the service recipient or customer; or
 - ii) it directs another party who is acting on the NPO's behalf to provide the service to the service recipient or customer.

If none of the circumstances in (a)–(c) apply, the NPO is an agent.

- G23.18 An NPO that is a principal shall recognise the gross amount of revenue to which the NPO expects to be entitled for satisfying the requirements of an enforceable grant arrangement or contract.
- G23.19 An NPO that is an agent shall recognise the amount of any management or administration charge, fee or commission to which the NPO expects to be entitled in exchange for arranging for the requirements of the enforceable grant arrangement or contract to be satisfied as revenue.

Part I – Revenue from grants and donations

Scope of Part I

- G23.20 Part I specifies the accounting for revenue from grants, donations and similar income (hereafter referred to as grant revenue) as described in G23.5.
- G23.21 The accounting for expenditure by an NPO on grants, donations and similar transfers is specified in Section 24 Part I *Expenses on grants and donations*.

Types of grant revenue

- G23.22 Grant revenue may arise from transactions:
- a) from transactions that;
 - i) impose no constraints on the NPO's ability to use the grant revenue; or
 - ii) impose requirements that constrain an NPO's ability to use the grant revenue, without requiring the NPO to undertake specific activities or identifying distinct services, goods and other assets; or
 - b) from enforceable grant arrangements that have:
 - i) only one enforceable grant obligation;
 - ii) multiple distinct enforceable grant obligations.
- G23.23 An **enforceable grant arrangement** is a grant arrangement where both the donor and the grant recipient have both rights and obligations, enforceable through legal or equivalent means.
- G23.24 An enforceable grant arrangement can arise through a written grant agreement an oral agreement or be implied by a party's or a sector's customary practices. In determining whether a grant arrangement is enforceable, an NPO must consider the substance rather than the legal form of the grant arrangement.
- G23.25 An enforceable grant arrangement must specify the outcome the NPO is expected to achieve; the activities that the NPO is required to undertake with the resources or identify the distinct services, goods and other assets that the NPO will use internally or transfer externally. This creates an **enforceable grant obligation**.
- G23.26 An enforceable grant obligation is a grant recipient's undertaking in an enforceable grant arrangement to achieve a specified outcome, to carry out a specified activity, to use distinct services, goods or other assets internally for a specified purpose or to transfer distinct services, goods, cash or other assets to a service recipient. An enforceable grant obligation creates a present obligation.
- G23.27 An arrangement with an NPO that does not specify the outcomes, activities or identify distinct services, goods and other assets may nevertheless include requirements that constrain an NPO's ability to use the grant revenue.

- G23.28 If these requirements do not meet the definition of an enforceable grant obligation, the requirement will not create a present obligation when resources are transferred.
- G23.29 An arrangement with a grant provider that is not enforceable through legal or equivalent means and does not give both parties both rights and obligations is a **funding agreement**. The type grant revenue will determine its recognition and measurement.

Identify the grant revenue transaction

- G23.30 For a grant arrangement to be enforceable, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide each entity with the ability to hold the parties accountable for the satisfaction of their obligations.

Grant revenue from transactions from funding agreements

- G23.31 Grant revenue from transactions with a funding agreement will result in an asset (cash, goods, services or another asset) and revenue for an NPO. The NPO will usually recognise both the asset and revenue when the asset is received or when the amount becomes receivable.
- G23.32 The NPO shall measure the grant revenue and the asset (cash, receivable or other asset) at the fair value of the asset at the point at which it is recognised. Fair value shall be determined in accordance with Section 12 *Fair value* [to be included in ED3]

Subsequent measurement

- G23.33 After initial recognition, an NPO shall subsequently measure:
- a) Cash and receivable assets in accordance with Section 11 *Financial Instruments* of INPAG; and
 - b) All other assets in accordance with the relevant section of INPAG (examples include Section 13 *Inventories* and Section 17 *Property, Plant and Equipment*).

Donations in-kind

- G23.34 Donations in-kind include donations of non-cash items such as goods and other assets, and services such as volunteer time. Donations in-kind are recognised and measured in accordance with paragraphs G23.31–G23.32 except as outlined in paragraphs G23.35 to G23.38.
- G23.35 INPAG allows NPOs to apply permitted exceptions to the general recognition and measurement requirements for grant revenue under a funding agreement. This is because the cost of complying with the general requirements may exceed the benefits to the users of the financial statements of such compliance. These exceptions are not permitted in relation to grant revenue from enforceable grant arrangements.
- G23.36 An NPO may elect to depart from the general recognition and measurement requirements by:

- a) recognising revenue from low value assets donated for resale when the items are sold, measured at the amount of the consideration received or receivable;
- b) recognising revenue from items donated for distribution to service recipients or for an NPO's own use when the items are distributed or used, measured at the fair value of the items at the time they are distributed or used; and
- c) not recognising revenue in respect of any services in-kind, except those that are critical to the NPO's mission.

G23.37 When applying a permitted exception, the NPO shall apply that exception to all items within a class of inventories or other assets.

G23.38 Donations in-kind may only be recognised when they can be measured reliably. For services-in-kind that are critical to the NPO's mission but cannot be reliably measured, an NPO is required to make the disclosures in paragraph G23.63.

Presentation

G23.39 An NPO shall apply Section XX, *Fund Accounting* [to be included in ED 3] to determine whether grant revenue from a funding agreement is presented as income without restrictions or income with restrictions in the Statement of Income and Expenses.

Revenue from transactions with enforceable grant arrangements

G23.40 An NPO shall apply the five-step model set out in paragraph G23.11. Part I provides guidance on common NPO transactions. The guidance in Part II can be used for more complex, less common transactions. Paragraphs AG23.35–AG23.38 set out how Part II is to be applied.

G23.41 The NPO shall present all revenue from an enforceable grant arrangement as income with restrictions, and the costs of fulfilling the arrangement as expenses with restrictions in the Statement of Income and Expenses.

Enforceable grant arrangements with a single enforceable grant obligation

G23.42 Where an enforceable grant arrangement has a single enforceable grant obligation, an NPO may be able to apply the five-step model without a detailed analysis for some or all of the steps. An NPO may apply the five-step model as follows to such transactions:

Step	Action required
1 – Identify the grant arrangement (paragraph G23.44).	Completed by applying paragraphs G23.4–G23.7 to identify an arrangement and determine that the arrangement is an enforceable grant arrangement.
2 – Identify the enforceable grant obligation (paragraphs G23.45–G23.50).	Detailed analysis may not be required.

Step	Action required
3 – Determine the transaction amount (paragraphs G23.51–G23.52).	No analysis required as this is the total amount of the grant.
4 – Allocate the transaction amount to the enforceable grant obligations (paragraphs G23.53–G23.55).	Not required as the total amount of the grant is allocated to the single enforceable grant obligation.
5 – Recognise revenue when (or as) the NPO satisfies an enforceable grant obligation (paragraphs G23.57–G23.59).	The enforceable grant obligation may be recognised over time or at a point in time (see paragraphs AG23.48–AG23.49). Depending on the nature of the enforceable grant obligation, detailed analysis may not be required.

G23.43 An NPO shall:

- a) recognise an enforceable grant arrangement **liability** for the amount of grant received and for which the enforceable grant obligation has yet to be satisfied;
- b) recognise revenue and derecognise the enforceable grant arrangement liability as or when the enforceable grant obligation is satisfied;
- c) recognise revenue and an enforceable grant arrangement **asset** for the amount of the transaction consideration to which the NPO is entitled for progress towards complete satisfaction of the enforceable grant obligation and for which the grant is yet to be received; and
- d) derecognise the enforceable grant arrangement asset as the consideration is received.

Enforceable grant arrangements with a number of distinct enforceable grant obligations

Step 1—Identifying an enforceable grant arrangement

G23.44 An NPO will have completed this step by applying paragraphs G23.4–G23.7 to identify an arrangement and determine that the arrangement is an enforceable grant arrangement.

Step 2—Identifying enforceable grant obligations in an enforceable grant arrangement

G23.45 At the inception of an enforceable grant arrangement, an NPO shall assess its commitments in the arrangement and identify as an enforceable grant obligation:

- a) Each undertaking to achieve a specified outcome or group of outcomes (or to employ best endeavours to achieve a specified outcome or group of outcomes);
- b) Each undertaking to carry out a specified activity or group of activities

- c) each undertaking to transfer a distinct good or service (or a distinct bundle of goods or services) to service recipients; and
- d) each undertaking to use a distinct good or service (or a distinct bundle of goods or services) internally.

G23.46 An undertaking in an enforceable grant arrangement must be sufficient to create an enforceable grant obligation.

G23.47 If an NPO determines that the enforceable grant arrangement has a single enforceable grant obligation, it shall apply paragraphs G23.42–G23.43 in accounting for the enforceable grant arrangement.

Enforceable grant obligations and resources

G23.48 An enforceable grant arrangement will generally explicitly state the outcomes, activities, services or goods that are required by an enforceable grant obligation. However, these may be implied by the customary practices of an NPO, a grant provider's, or a sector in some jurisdictions.

G23.49 Enforceable grant obligations do not include administrative tasks such as monthly monitoring reports unless they are specified activities in the enforceable grant arrangement.

Identifying separate enforceable grant obligations

G23.50 An enforceable grant obligation is separate and distinct if both of the following criteria are met:

- a) an outcome or activity (which may be the transfer of goods or services to service recipients) is separate from other outcomes or activities in the enforceable grant arrangement; and
- b) the resources (including goods or services) required to complete the outcome or activity by the enforceable grant arrangement are separate from other resources required by the enforceable grant arrangement.

Step 3—Determining the transaction amount

G23.51 The transaction amount is the amount of the grant to which an NPO expects to be entitled for satisfying its enforceable grant obligations. An NPO shall consider the terms of the enforceable grant arrangement and its customary practices to determine the transaction amount.

G23.52 For the purpose of determining the transaction amount, an NPO shall assume that the grant will be received in accordance with the terms of the enforceable grant arrangement as it exists at the transaction date and that it will not be cancelled, renewed or modified in the future.

Step 4—Allocating the transaction amount to enforceable grant obligations

- G23.53 An NPO shall allocate the transaction amount to each enforceable grant obligation identified in the enforceable grant arrangement on a stand-alone value basis that is relative to the estimated costs.
- G23.54 The stand-alone value is the cost (including costs such as employee costs) the NPO expects to incur to satisfy an enforceable grant obligation. Where a grant is only intended to contribute towards part of the costs of a specified activity or deliverable as an enforceable grant obligation, the stand-alone value shall be adjusted to reflect any specific amount identified in the enforceable grant arrangement or to reflect the proportion of the activity or deliverable intended in the enforceable grant arrangement.
- G23.55 An NPO shall use the observable price of a good or service as the stand-alone value when the NPO acquires those goods and services in an observable market. Otherwise, the NPO shall estimate the stand-alone value.
- G23.56 When estimating a stand-alone value, shall take into account all information that is reasonably available to the NPO, including market conditions, NPO-specific factors and negotiations with the grant provider. An NPO shall apply estimation methods consistently in similar circumstances.

Step 5—Recognising grant revenue when (or as) the NPO satisfies an enforceable grant obligation

- G23.57 An NPO shall recognise grant revenue from a transaction with an enforceable grant arrangement when (or as) the NPO satisfies an enforceable grant obligation. An NPO satisfies an enforceable grant obligation by completing the activity or deliverable (which may be the transfer of goods or services to service recipients) using the required resources. Enforceable grant obligations may be satisfied over time or at a point in time (see paragraphs AG23.48–AG23.49).
- G23.58 Grant revenue is measured at the value of the transaction amount allocated to the enforceable grant obligation that has been met or partially met.
- G23.59 Where an NPO has received a grant in advance of meeting its enforceable grant obligations it shall recognise an enforceable grant arrangement liability. It shall recognise an enforceable grant arrangement asset where an enforceable grant obligation has been met ahead of the amount being receivable.

Enforceable grant arrangement costs

- G23.60 An NPO shall account for the costs incurred in fulfilling an enforceable grant arrangement in accordance with the relevant Section of INPAG for those costs (for example, Section 13 *Inventories*, Section 17 *Property, Plant and Equipment*, and Section 18 *Intangible Assets other than Goodwill*).

Disclosure

G23.61 An NPO shall disclose the revenue it recognised from grants, donations and other income, disaggregated into categories, showing separately, at a minimum, revenue arising from transactions:

- a) without enforceable grant arrangements, disaggregated into:
 - i) revenue received or receivable in cash;
 - ii) revenue received as gifts in-kind; and
 - iii) revenue received as services in-kind;
- b) with enforceable grant arrangements.

Grant revenue without enforceable grant arrangements

G23.62 If an NPO elects to use the permitted exceptions in paragraph G23.36, the NPO shall disclose that fact.

G23.63 When an NPO receives services in-kind that are critical to the NPO's mission but does not recognise those services in-kind (in accordance with paragraph G23.36 c)) because the value of the services cannot be reliably measured, the NPO shall disclose:

- a) a description of the services received;
- b) an explanation of why the services are critical to the NPO's mission; and
- c) any quantitative information available to the NPO, for example the number of hours or days of each type of service in-kind received.

G23.64 An NPO is encouraged (but not required) to disclose its best estimate of the value of any gifts in-kind or services in-kind that it has received but not recognised as revenue.

G23.65 An NPO shall disclose the opening and closing balances of any receivables from grants, donations and similar income without enforceable grant arrangements if not otherwise separately presented or disclosed.

Grant revenue from enforceable grant arrangements

G23.66 Unless the amounts are presented separately in the Statement of Income and Expenses by applying other Sections of INPAG, an NPO shall disclose the amount of impairment losses recognised (by applying Section 11) for the reporting period on any receivables or enforceable grant arrangement assets arising from an NPO's enforceable grant arrangements, which the NPO shall disclose separately from other impairment losses for the reporting period.

G23.67 An NPO shall disclose:

- a) the opening and closing balances of receivables, enforceable grant arrangement assets and enforceable grant arrangement liabilities, if not otherwise separately presented or disclosed;
- b) revenue recognised in the reporting period that was included in the enforceable grant arrangement liability balance at the beginning of the period; and
- c) revenue recognised in the reporting period from enforceable grant obligations satisfied or partially satisfied in previous periods.

G23.68 An NPO shall disclose information about its enforceable grant obligations in enforceable grant arrangements, including a description of:

- a) when the NPO typically satisfies its enforceable grant obligations (for example, upon delivery, as services are rendered or upon completion of service); and
- b) the significant grant payment terms.

G23.69 For enforceable grant obligations that an NPO satisfies over time, the NPO shall disclose the methods it used to recognise revenue.

G23.70 An NPO shall provide a quantitative or qualitative explanation of the significance of unsatisfied enforceable grant obligations and when they are expected to be satisfied. However, an NPO need not disclose such information if the enforceable grant obligation is part of an enforceable grant arrangement that has an original expected duration of one year or less.

Part II – Revenue from contracts with customers

Part II applies to all **revenue** from **contracts with customers**, except:

- ~~a) lease agreements within the scope of Section 20 *Leases*;~~
- ~~b) insurance contracts;~~
- ~~c) financial instruments and other contractual rights or obligations within the scope of Section 9 *Consolidated and Separate Financial Statements*, Section 14 *Financial Instruments*, Section 14 *Investments in Associates* and Section 15 *Joint Arrangements*; and~~
- ~~d) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.~~

~~A contract with a customer may be partially within the scope of this Section and partially within the scope of other Sections in paragraph G23.160 (for example, a lease agreement that includes the provision of services). If the other Section specifies how to separate or initially measure any parts of the contract, then an NPO shall first apply the separation or measurement requirements in that Section. Otherwise, the NPO shall apply this Section to separate or initially measure those parts of the contract.~~

Revenue recognition model

~~Part II establishes a revenue recognition model for accounting for revenue from contracts with customers. The objective of the model is for an NPO to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the NPO expects to be entitled in exchange for those goods or services. To apply the model, an NPO shall take the following steps:~~

- ~~e) Step 1—Identify the contract(s) with a customer (see paragraphs G23.xx–G23.xx);~~
- ~~f) Step 2—Identify the promises in the contract (see paragraphs G23.xx–G23.xx);~~
- ~~g) Step 3—Determine the **transaction price** (see paragraphs G23.xx–G23.xx);~~
- ~~h) Step 4—Allocate the transaction price to the promises in the contract (see paragraphs G23.xx–G23.xx); and~~
- ~~i) Step 5—Recognise revenue when (or as) the NPO satisfies a promise (see paragraphs G23.xx–G23.xx).~~

G23.71 Part II applies the five-step revenue recognition model in paragraph G23.11 to contracts with customers. An NPO shall apply Part II consistently to contracts with similar characteristics and in similar circumstances.

G23.72 Part II specifies the accounting for an individual contract with a customer. An NPO may apply this Section to a portfolio of similar contracts (or promises) if the NPO reasonably expects that the result of doing so would not differ materially from the

result of applying this Section to the individual contracts (or promises) within that portfolio.

Applying the Revenue Recognition Model to Simpler Transactions

G23.73 Part II establishes the revenue recognition model for all revenue from contracts with customers, and as a consequence includes requirements for many complex features of revenue transactions that are not relevant for many NPO revenue transactions. For complex transactions, NPOs will need to apply all of the requirements in this Section. For simpler transactions, NPOs need only apply the relevant requirements. Paragraph AG23.60 provides guidance on when certain requirements will not be relevant to simpler transactions.

Step 1—Identify the contract(s) with a customer

G23.74 An NPO shall apply the revenue recognition model to account for a contract with a customer that is within the scope of this Section only when all of the following criteria are met:

- a) the parties to the contract have approved the contract and are committed to perform their respective obligations;
- b) the NPO can identify each party's rights regarding the goods or services to be transferred;
- c) the NPO can identify the payment terms for the goods or services to be transferred;
- d) the contract has commercial substance; and
- e) it is probable that the NPO will collect the consideration to which it will be entitled in exchange for the goods or services to be transferred to the customer.

G23.75 The criterion in paragraph G23.74 e) is met when the customer has the ability and intention to pay the consideration when due.

G23.76 If a contract with a customer meets the criteria in paragraph G23.74 at inception, reassessment is only required if there is an indication of a significant change in relevant facts and circumstances.

G23.77 If a contract with a customer does not meet the criteria in paragraph G23.74, an NPO shall initially recognise any consideration received from the customer as a liability, and continue to reassess the contract until the criteria are met.

G23.78 An NPO shall recognise the consideration initially recognised as a liability in accordance with paragraph G23.77 as revenue when either:

- a) the contract is complete and all, or substantially all, of the consideration promised by the customer has been received and is non-refundable; or
- b) the contract is terminated and the consideration received is non-refundable.

G23.79 Some contracts with customers may have no fixed duration or may automatically renew periodically. An NPO shall apply this Section to the duration of the contract (that is, the contractual period) in which the parties to the contract have present enforceable rights and obligations, except for contract renewal options within the scope of paragraph G23.104.

Combination of contracts

G23.80 An NPO shall combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:

- a) the contracts are negotiated as a package with a single commercial objective;
- b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
- c) the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single promise in accordance with paragraphs G23.84–G23.92.

Contract modifications

G23.81 A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A contract modification either creates new enforceable rights and obligations, or changes such rights and obligations that already exist.

G23.82 An NPO shall account for contract modifications as follows:

- a) If the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification, an NPO shall account for the contract modification as if it were a termination of the existing contract and the creation of a new contract. The transaction price for the new contract is the sum of:
 - i) the consideration included in the original estimate of the transaction price that had not been recognised as revenue; and
 - ii) any additional consideration promised as part of the contract modification.
- b) If the remaining goods or services are not distinct from the goods or services transferred on or before the date of the contract modification, an NPO shall account for the contract modification as if it were part of the existing contract. The effect that the contract modification has on the transaction price, and on the NPO's measure of progress towards complete satisfaction of the promise, shall be recognised as an adjustment to revenue at the date of the contract modification (that is, on a cumulative catch-up basis).

G23.83 As an alternative to the treatment set out in paragraph G23.82 a) and instead of terminating the existing contract, an NPO may choose to account for a contract modification as a separate contract if:

- a) the modification increases the scope of the existing contract because of additional goods or services promised that are distinct from those in the existing contract; and
- b) the modification increases the price of the existing contract by an amount of consideration that reflects the NPO's **stand-alone selling price** of the additional goods or services and any appropriate adjustments to that price to reflect the circumstances of that contract.

Step 2—Identify the promises in the contract

- G23.84 At contract inception, an NPO shall assess the goods and services promised in a contract with a customer and shall identify each promise to transfer a distinct good or service (or a distinct bundle of goods or services).
- G23.85 If an NPO is to transfer a series of distinct goods or services that are substantially the same, the series shall be accounted for as a single promise if both of the following criteria are met:
- a) each distinct good or service in the series that the NPO promises to transfer to the customer would meet the criteria in paragraph G23.142 to be satisfied over time; and
 - b) in accordance with paragraphs G23.152–G23.157, the same method would be used to measure the NPO's progress towards complete satisfaction of the promise to transfer each distinct good or service in the series to the customer.
- G23.86 A contract with a customer generally explicitly states the goods or services that an NPO promises to transfer. However, promises may be implied by an NPO's customary business practices, published policies or specific statements if these create a valid expectation of the customer that the NPO will transfer a good or service to the customer.
- G23.87 Promises do not include activities that an NPO must undertake to fulfil a contract unless those activities directly transfer a good or service to the customer (for example, set-up activities and administrative tasks that do not transfer a good or service to the customer).

Distinct goods or services

- G23.88 A good or service that is promised by an NPO to a customer is distinct if both of the following criteria are met:
- a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (that is, the good or service is capable of being distinct); and
 - b) the NPO's obligation to transfer the good or service is separate from other obligations in the contract (see paragraph G23.91).
- G23.89 The criterion in paragraph G23.50 a) is satisfied for goods or services that the NPO regularly sells separately.

- G23.90 For the purpose of applying the criterion in paragraph G23.50 a), readily available resources are:
- a) goods or services sold separately (by the NPO or another entity); or
 - b) goods or services that the customer has already obtained from the NPO (including goods or services transferred to the customer under the contract) or from other transactions or events.
- G23.91 The purpose of the criterion in paragraph G23.50 b) is to determine if the nature of the NPO's obligation, within the context of the contract, is to transfer the good or service individually, rather than to transfer a combined item or items to which the good or service is an input. Factors that indicate that two or more goods or services promised in a contract are inputs to a combined item or items and are therefore not distinct include, but are not limited to, the following:
- a) the NPO provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the NPO is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the customer. A combined output or outputs might include more than one phase, element or unit. An example is a construction contract when an NPO provides an integration (or contract management) service to manage and co-ordinate the various construction tasks necessary for the construction of an asset.
 - b) one or more of the goods or services significantly modifies or customises, or is significantly modified or customised by, one or more of the other goods or services promised in the contract. An example is a software contract when an NPO promises to provide existing software and to customise that software, if the customisation service significantly modifies the software.
 - c) the goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. For example, in some cases, two or more goods or services are significantly affected by each other because an NPO would not be able to fulfil its promise by transferring each of the goods or services independently.
- G23.92 If a good or service promised to a customer is not distinct, an NPO shall combine that good or service with other goods or services in the contract until it identifies a bundle of goods or services that is distinct. In some cases, this will result in the NPO accounting for all the goods or services in a contract as a single promise.

Warranties

- G23.93 An NPO might provide a warranty in connection with the sale of a product (whether a good or service).
- G23.94 If a customer has the option to purchase a warranty separately (that is, there is a choice of purchasing the product either with or without a warranty), the warranty is distinct because the NPO promises to provide a service to the customer in addition

to the product that has the functionality described in the contract. In those circumstances, an NPO shall account for the warranty as a separate promise in accordance with paragraphs G23.84–G23.92.

G23.95 If a customer does not have the option to purchase a warranty separately, an NPO shall account for the warranty in accordance with Section 21 *Provisions and Contingencies* unless:

- a) the warranty is significant to the contract; and
- b) the warranty, or part of the warranty, provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

G23.96 If the conditions in paragraph G23.95 are met, the service that the warranty provides to the customer is a separate promise. Therefore, the NPO shall allocate the transaction price to the product and the service. If a warranty provides the customer with both a service and the assurance that the product complies with agreed-upon specifications, but an NPO cannot reasonably account for these components separately, the NPO shall account for both the components together as a single promise.

Non-refundable upfront fees

G23.97 In some contracts, an NPO charges a customer a non-refundable upfront fee at or near contract inception. Examples include joining fees in health club membership contracts, set-up fees in some service contracts and initial fees in some supply contracts.

G23.98 Often a non-refundable upfront fee relates to an activity that the NPO is required to undertake to fulfil the contract but that activity does not directly transfer a good or service to the customer. If a non-refundable upfront fee relates to the transfer of a good or service, an NPO shall evaluate whether to account for the good or service as a separate promise in accordance with paragraphs G23.84–G23.92. Otherwise, the non-refundable upfront fee is included in the transaction price and allocated to the promises in the contract.

G23.99 An NPO may charge a non-refundable fee that gives customers an option to renew the contract on similar terms. Such options that provide a customer with a material right identified in accordance with paragraph G23.100 are accounted for in accordance with paragraph G23.104, instead of as separate promises in accordance with paragraphs G23.84–G23.92.

Customer options for additional goods or services

G23.100 In some contracts, customers are granted the option to acquire additional goods or services for free or at a discount. If the option provides the customer with a material right that it would not receive without entering into that contract, the option gives rise to a separate promise in addition to the other promises in the contract. If customers are granted the option to acquire additional goods or services at a price that would reflect the stand-alone selling prices for that good or service, the option

does not provide the customer with a material right and does not give rise to a separate promise.

- G23.101 Options that may provide a material right to customers include sales incentives, customer award credits (or points), contract renewal options or other discounts on future goods or services.
- G23.102 If an option provides a material right to a customer, the customer is in effect paying the NPO in advance for future goods or services. As a consequence, the NPO recognises revenue when those future goods or services are transferred or when the option expires.
- G23.103 An NPO shall account for an option that provides a material right to a customer as a separate promise only when the effect of doing so is significant to the accounting for the individual contract.
- G23.104 If a customer is granted an option to renew a contract on similar terms (that is, provide goods or services that are similar to the original goods or services in the contract) and the option provides the customer with a material right, an NPO shall not account for the option as a separate promise. Instead, an NPO shall account for a contract that includes such an option based on:
- a) the expected contract term (that is, including expected renewal periods); and
 - b) the corresponding expected consideration (that is, the consideration that the NPO expects to receive in exchange for the goods or services that the NPO expects to provide).

Principal versus agent considerations

~~When another party is involved in providing goods or services to a customer, an NPO shall determine whether the nature of its promise is to provide the specified goods or services itself (that is, the NPO is a principal) or to arrange for those goods or services to be provided by the other party (that is, the NPO is an agent). An NPO shall determine whether it is a principal or an agent for each promise in a contract. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs G23.xxx–G23.xxx).~~

~~An NPO is a principal if:~~

- ~~c) it is primarily responsible for fulfilling the promise to provide the specified good or service, including responsibility for the acceptability of the specified good or service (for example, the NPO has primary responsibility for the good or service meeting the customer's specifications);~~
- ~~d) it obtains control of the specified good as inventory before it transfers to the customer (for example, the NPO has inventory risk before the specified good is transferred to the customer); or~~
- ~~e) it obtains control of the specified service or right to the specified good or service before;~~

~~i) — it transfers to the customer; or~~

~~ii) — it directs another party who is acting on the NPO's behalf to provide the service to the customer.~~

~~If none of the circumstances in (a)–(c) apply, the NPO is an agent.~~

~~An NPO that is a principal shall recognise revenue in the gross amount of consideration to which the NPO expects to be entitled in exchange for the specified good or service transferred as it satisfies its promise.~~

~~An NPO that is an agent shall recognise revenue in the amount of any fee or commission to which the NPO expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party as it satisfies its promise. An NPO's fee or commission might be the net amount of consideration that the NPO retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.~~

Step 3—Determine the transaction price

G23.105 An NPO shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the NPO expects to be entitled in exchange for transferring goods or services promised to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes).

G23.106 For the purpose of determining the transaction price, an NPO shall assume that the goods or services will be transferred to the customer in accordance with the existing contract and that the contract will not be cancelled, modified or renewed, except for contract renewal options within the scope of paragraph G23.104.

Variable consideration

G23.107 If the consideration promised in a contract includes a variable amount (for example, because of some discounts, rebates, refunds, penalties or performance bonuses), an NPO shall estimate the variable amount in the transaction price that reflects the amount that is expected to become due, determined in accordance with paragraphs G23.108–G23.114.

G23.108 An NPO shall first estimate an amount of variable consideration by using either of the following methods:

- a) the expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an NPO has a large number of contracts with similar characteristics.
- b) the most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (that is, the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two

possible outcomes (for example, an NPO either achieves a performance bonus or does not).

- G23.109 An NPO shall apply one method consistently throughout the contract when estimating the amount of variable consideration. The information that an NPO uses to estimate the amount of variable consideration would typically be similar to the information that the NPO's management uses during the bid-and-proposal process and in establishing prices for the goods or services promised to the customer.
- G23.110 An NPO shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph G23.108 only to the extent that it is highly probable that this amount will become due when the uncertainty associated with the variable consideration is subsequently resolved.
- G23.111 At the end of each reporting period, an NPO shall update the estimate of variable consideration included in the transaction price to reflect any relevant changes in circumstances. An NPO shall account for changes in the estimate of the transaction price in accordance with paragraphs G23.136–G23.138.

Sales-based or usage-based royalties

- G23.112 An NPO shall not apply paragraphs G23.108–G23.111 to a sale-based or usage-based royalty provided in exchange for a licence of intellectual property when the licence of intellectual property is the sole or predominant item to which the royalty relates. Instead, an NPO shall recognise revenue for such royalties when (or as) the later of the following events occurs:
- a) the subsequent sale or usage takes place; and
 - b) when (or as) the promise to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

Refund liabilities

- G23.113 If an NPO receives consideration from a customer and expects to refund some or all of that consideration to the customer, the NPO shall recognise as a refund liability the amount of consideration that the NPO reasonably expects to refund to the customer. For example, the terms of a fixed-price service contract may require a customer to pay upfront and provide the customer with a full refund of the amount paid if the customer is dissatisfied with the service at any time. At the end of each reporting period, an NPO shall update the estimate of the refund liability (and transaction price) to reflect any relevant changes in circumstances. An NPO shall account for changes in the estimate of the transaction price in accordance with paragraphs G23.136–G23.138.
- G23.114 To account for a refund liability relating to a sale with a right of return, an NPO shall apply paragraphs G23.115–G23.120.

Sale with a right of return

- G23.115 In some contracts, an NPO transfers control of a product to a customer and also grants the customer the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:
- a) a full or partial refund of any consideration paid;
 - b) a credit that can be applied against amounts owed, or that will be owed, to the NPO; and
 - c) another product in exchange.
- G23.116 Exchanges by customers of one product for another of the same type, quality, condition and price (for example, one colour or size for another) are not considered returns for the purposes of applying the requirements in paragraphs G23.117–G23.120.
- G23.117 To account for revenue for the transfer of products with a right of return (and for some services that are provided subject to a refund), an NPO shall recognise the following:
- a) revenue only for products expected not to be returned;
 - b) a refund liability for consideration received (or receivable) for products expected to be returned; and
 - c) a refund asset, classified as inventory, for products expected to be returned (and corresponding adjustment to cost of sales).
- G23.118 To determine the amount of consideration that should be recognised in accordance with paragraph G23.117 a), an NPO shall recognise revenue only to the extent that it is highly probable that the products will not be returned. The amount of consideration received (or receivable) that is not recognised as revenue shall be recognised as a refund liability in accordance with paragraph G23.117 b).
- G23.119 A refund asset recognised by an NPO in accordance with paragraph G23.117 c) shall initially be measured at the former carrying amount of the product (for example, inventory), less:
- a) any expected costs to recover those products; and
 - b) allowances for potential decreases in the value to the NPO of those products (for example, because of damage, obsolescence or declining selling prices).
- G23.120 At the end of each reporting period, an NPO shall update its assessment of products expected to be returned. The NPO shall:
- a) recognise changes in the amount of revenue recognised as adjustments to the refund liability, and vice versa; and
 - b) recognise adjustments to the asset recognised for products expected to be returned in cost of sales.

G23.121 Contracts in which a customer may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs G23.93–G23.96.

Time value of money

G23.122 If payment is deferred beyond normal business terms, the arrangement constitutes a financing transaction (see paragraph G11.16). An NPO shall adjust the promised amount of consideration for the effects of the time value of money and recognise the interest revenue in accordance with Section 11. The NPO shall present interest revenue separately from revenue from contracts with customers.

G23.123 An NPO need not adjust the promised amount of consideration for the effects of the time value of money if the NPO expects, at contract inception, that the period between when the NPO transfers the good or service promised to a customer and when the customer pays for that good or service will be one year or less.

Non-cash consideration

G23.124 To determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an NPO shall measure the non-cash consideration (or promise of non-cash consideration) at fair value. If an NPO cannot reasonably estimate the fair value of the non-cash consideration, the NPO shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

Step 4—Allocate the transaction price to the promises in the contract

G23.125 An NPO shall allocate the transaction price to each promise identified in the contract on a relative stand-alone selling price basis in accordance with paragraphs G23.127–G23.131, unless allocating discounts or variable amounts on an alternative basis in accordance with paragraphs G23.132–G23.133.

G23.126 Paragraphs G23.127–G23.138 do not apply if:

- a) a contract contains a single promise; or
- b) all promises in a contract are satisfied at the same point in time in accordance with paragraph G23.147.

However, paragraph G23.135 applies if an NPO accounts for a series of distinct goods or services as a single promise in accordance with paragraph G23.85 and the consideration promised in the contract includes a variable amount.

Allocation based on stand-alone selling prices

G23.127 An NPO shall determine the stand-alone selling price at contract inception of the distinct good or service underlying each promise in the contract and allocate the transaction price in proportion to those stand-alone selling prices.

- G23.128 The stand-alone selling price is the price at which an NPO would sell a good or service promised in a contract separately to a customer. The best evidence of a stand-alone selling price is the observable price of a good or service when the NPO sells that good or service separately in similar circumstances and to similar customers.
- G23.129 If a stand-alone selling price is not directly observable, an NPO shall estimate it. When estimating a stand-alone selling price, an NPO shall take into account all information that is reasonably available to the NPO, including market conditions, NPO-specific factors and information about the customer or class of customer. An NPO shall apply estimation methods consistently in similar circumstances.
- G23.130 Suitable estimation methods include, but are not limited to, the following:
- a) adjusted market assessment approach—an NPO could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services. That approach might also include referring to prices from the NPO's competitors for similar goods or services and adjusting those prices as necessary to reflect the NPO's costs and margins.
 - b) expected cost plus a margin approach—an NPO could forecast its expected costs of transferring the good or service promised to a customer and then add an appropriate margin for that good or service.
 - c) residual approach—only if the stand-alone selling price of a good or service is highly variable or uncertain, then an NPO may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable or estimated stand-alone selling prices of other goods or services promised in the contract.
- G23.131 When estimating the stand-alone selling price for a customer's option to acquire additional goods or services identified in accordance with paragraphs G23.100–G23.104, an NPO shall reflect the discount that the customer would obtain when exercising the option, adjusted for both:
- a) any discount that the customer could receive without exercising the option; and
 - b) the likelihood that the option will be exercised.

Allocation of a discount

- G23.132 A customer receives a discount if the sum of the stand-alone selling prices of the goods or services promised in the contract exceeds the promised consideration.
- G23.133 An NPO shall allocate a discount to the entire contract on a relative stand-alone selling price basis, unless this basis does not depict the amount of consideration to which the NPO expects to be entitled in exchange for transferring the goods or services promised to the customer. In that case, the NPO shall allocate the discount using a method that reflects such an amount.

Allocation of variable consideration

- G23.134 An NPO shall allocate variable consideration in a transaction price to the entire contract on a relative stand-alone selling price basis, unless this basis does not depict the amount of consideration to which the NPO expects to be entitled in exchange for transferring the goods or services promised to the customer. In that case, the NPO shall allocate the variable consideration using a method that reflects such an amount.
- G23.135 An NPO shall allocate variable consideration in a transaction price to all the distinct goods or services promised in a series of distinct goods or services that forms part of a single promise in accordance with paragraph G23.85, unless this basis does not depict the amount of consideration to which the NPO expects to be entitled in exchange for transferring the goods or services promised to the customer. In that case, the NPO shall allocate the variable consideration using a method that reflects such an amount.

Changes in the transaction price

- G23.136 After contract inception, an NPO's estimate of the amount of consideration to which it expects to be entitled in exchange for transferring goods or services may change. For example, an NPO updates its estimate of variable consideration included in the transaction price to reflect any relevant changes in circumstances.
- G23.137 To account for changes in the estimate of the transaction price, an NPO shall allocate any changes to promises in the contract on the same basis as at contract inception. Consequently, an NPO shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a promise that has been satisfied shall be recognised as revenue, or as a reduction of revenue, in the period in which the estimate of the transaction price changes.
- G23.138 A change in transaction price as a result of a contract modification arises from separate and subsequent negotiation between the parties to the contract that changes the enforceable rights and obligations of those parties. Such a change shall be accounted for in accordance with paragraphs G23.81–G23.83.

Step 5—Recognise revenue when (or as) the NPO satisfies a promise

- G23.139 An NPO shall recognise revenue when (or as) the NPO satisfies a promise to transfer a good or service or bundle of goods or services to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service.
- G23.140 For each promise identified in accordance with paragraphs G23.84–G23.92, an NPO shall determine at contract inception whether the promise is satisfied over time (in accordance with paragraphs G23.142–G23.146) or satisfied at a point in time (in accordance with paragraphs G23.147–G23.151).
- G23.141 Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining economic benefits that may flow from, the asset.

Promises satisfied over time

- G23.142 An NPO transfers control of a good or service over time, and therefore satisfies a promise over time, if one of the following criteria is met:
- a) the customer receives and consumes the benefits of the NPO's performance as the NPO performs (for example, routine or recurring services such as a cleaning service);
 - b) the NPO's work carried out to date would not need to be substantially reformed if another entity were to fulfil the remainder of the promise to the customer (for example, a freight logistics contract);
 - c) the NPO's performance creates or enhances an asset that the customer obtains control of as the asset is created or enhanced (for example, in the case of a construction contract in which the customer controls the work in progress); or
 - d) the NPO's performance creates an asset that cannot be readily redirected to another customer and the customer is obliged to compensate the NPO for work carried out to date (see paragraphs G23.145–G23.146).
- G23.143 An asset created by an NPO's performance cannot be readily redirected to another customer if:
- a) to sell the asset in its completed state, the NPO would either recognise a significant loss or incur significant costs to rework the asset (for example, if an asset was highly customised for a particular customer); or
 - b) substantial contractual restrictions exist that preclude the NPO from selling the asset to another customer during the creation or enhancement of that asset (for example, if the NPO is legally obliged to sell the asset to the customer).
- G23.144 An assessment of whether an asset can be readily redirected to a customer is made at contract inception. Reassessment of whether an asset can be readily redirected to a customer shall occur only if there is a contract modification that substantially changes the promise.
- G23.145 An obligation for a customer to compensate an NPO for work carried out to date may arise from specific terms in the contract or laws that apply to that contract. An obligation for a customer to compensate the NPO exists if the NPO has either:
- a) a present unconditional right to payment for work carried out to date; or
 - b) an enforceable right to demand or retain payment for work carried out to date if the contract were to be terminated before completion for reasons other than the NPO's failure to perform as promised.
- G23.146 An amount that would compensate an NPO for work carried out to date would be an amount that approximates the selling price of the goods or services transferred to date (for example, recovery of the cost incurred by the NPO in satisfying the promise plus a reasonable profit margin).

Promises satisfied at a point in time

G23.147 If a promise is not satisfied over time, an NPO satisfies the promise at a point in time. To determine the point in time at which a customer obtains control of a promised asset, an NPO shall consider indicators of the transfer of control, which include but are not limited to the following:

- a) the NPO has a present right to payment for the asset;
- b) the customer has legal title to the asset;
- c) the customer has physical possession of the asset;
- d) the customer has the significant risks and rewards of ownership of the asset;
and
- e) the customer has accepted the asset (see paragraphs G23.150–G23.151).

G23.148 The existence or absence of an indicator in paragraph G23.147 does not determine whether control of a promised asset has transferred. For example, an NPO may retain legal title of an asset that a customer controls as protection against the customer's failure to pay. Conversely, in a consignment arrangement, the other party (for example a dealer or distributor) has physical possession of a product that an NPO controls. An NPO shall not recognise revenue upon delivery of a product to another party if the delivered product is held on consignment.

G23.149 Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:

- a) the product is controlled by the NPO until a specified event occurs, such as the sale of the product to a customer of the distributor or until a specified period expires;
- b) the NPO is able to require the return of the product or transfer the product to a third party (such as another distributor); and
- c) the distributor does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

Customer acceptance

G23.150 Customer acceptance clauses allow a customer to cancel a contract or require an NPO to take remedial action if a good or service does not meet agreed-upon specifications. If a contract includes a customer acceptance clause, an NPO shall consider the effect of the clause when evaluating when a customer obtains control of the asset.

G23.151 If an NPO can objectively determine (that is, determine based on information available to the NPO) that control of a good or service has been transferred to the customer in accordance with the agreed-upon specifications in the contract, then customer acceptance is a formality that would not affect the NPO's determination of when the customer has obtained control of the good or service. However, if an NPO

cannot objectively determine that the good or service provided to the customer is in accordance with the agreed-upon specifications in the contract, then the NPO would not be able to conclude that the customer has obtained control until the NPO receives the customer's acceptance.

Measuring progress towards complete satisfaction of a promise

- G23.152 For each promise satisfied over time in accordance with paragraphs G23.142–G23.146, an NPO shall recognise revenue over time by measuring its progress towards complete satisfaction of that promise.
- G23.153 An NPO shall select a method of measuring progress that depicts the NPO's performance in transferring control of goods or services promised to a customer (that is, the satisfaction of the promise). An NPO shall apply a single method of measuring progress for each promise satisfied over time and shall apply that method consistently to similar promises and in similar circumstances.
- G23.154 At the end of each reporting period, an NPO shall remeasure its progress towards complete satisfaction of a promise satisfied over time and update its measure of progress. Such changes to an NPO's measure of progress shall be accounted for as a change in accounting estimate in accordance with paragraphs G10.18–G10.22.
- G23.155 In determining a method of measuring progress, an NPO shall consider the nature of the good or service that the NPO will transfer to the customer. Appropriate methods of measuring progress include methods that recognise revenue based on:
- a) measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services to be transferred under the contract (referred to as output methods); and
 - b) the NPO's efforts or inputs to the satisfaction of a promise relative to the total expected inputs to satisfy the promise (referred to as input methods).
- G23.156 Common methods, and circumstances when they may be appropriate, include:
- a) an output method based on surveys of work completed, when the surveys provide an objective measure of an NPO's performance to date;
 - b) an output method based on units delivered, when each item transfers an equal amount of value to the customer on delivery;
 - c) an output method based on time elapsed, when control of the goods or services is transferred evenly over time;
 - d) an input method based on time elapsed, when an NPO's efforts or inputs are expended evenly throughout the performance period; and
 - e) an input method based on costs incurred, when there is a relationship between costs incurred and the transfer of control of goods or services to a customer.
- G23.157 If an NPO has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the NPO's work to date (for

example, a service contract in which an NPO bills a fixed amount for each hour of service provided), the NPO may recognise revenue in the amount to which the NPO has a right to invoice.

Licensing

- G23.158 A licence establishes a customer's rights to the intellectual property of an NPO (such as software, technology, trademarks, patents, franchises, music and motion picture films).
- G23.159 If a contract with a customer includes a promise to grant a licence (or licences) in addition to other goods or services, an NPO shall apply paragraphs G23.84–G23.92 to identify each of the promises in the contract. If the promise to grant a licence is not distinct from the other goods or services in the contract, an NPO shall apply paragraphs G23.139–G23.151 to determine whether the promise (which includes the licence) is satisfied either over time or at a point in time. If the promise to grant a licence is distinct from the other goods or services in the contract, an NPO shall apply paragraphs G23.160–G23.165 to determine whether the promise is satisfied over time or satisfied at a point in time.
- G23.160 To determine if the promise to grant a licence is satisfied over time or satisfied at a point in time, an NPO shall consider whether the nature of the NPO's promise in granting the licence provides the customer with either:
- a) a right to access the NPO's intellectual property as it exists throughout the licence period; or
 - b) a right to use the NPO's intellectual property as it exists at the point in time at which the licence is granted.
- G23.161 A licence provides a customer with a right to access an NPO's intellectual property if the NPO expects to undertake activities that either:
- a) will significantly affect the benefit the customer obtains from the intellectual property by changing the substance of the intellectual property; or
 - b) could significantly affect the benefit the customer obtains from the intellectual property by directly exposing the customer to any positive or negative effects of those activities.
- G23.162 An NPO's expected activities may be included in the terms of a contract or arise from those activities that the customer reasonably expects the NPO will undertake. The assessment of whether a licence provides a customer with a right to access an NPO's intellectual property shall not include activities that result in the transfer of a good or service to the customer as those activities occur.
- G23.163 Activities that change the substance of the intellectual property include activities that change the intellectual property's design, content or ability to perform a function or task (for example, development activities that change the content to which the customer has rights). Activities that expose the customer to positive or negative effects of those activities include activities that support or maintain the value of

intellectual property (for example, ongoing activities that maintain the value of the brand to which the customer has rights).

- G23.164 If the criteria in paragraph G23.161 are met, the promise to grant a licence is satisfied over time because a customer receives and consumes the benefits of an NPO's performance of providing access to its intellectual property as the NPO performs. An NPO shall apply paragraphs G23.152–G23.157 to select an appropriate method to measure its progress towards complete satisfaction of that promise.
- G23.165 If the criteria in paragraph G23.161 are not met, the licence provides the customer with a right to use the NPO's intellectual property as it exists at the point in time at which the licence is granted. Types of licences that often provide customers with a right to use an NPO's intellectual property include licences relating to software, biological compounds or drug formulas, and completed media content (for example, motion picture films, television shows and music recordings). An NPO shall apply paragraphs G23.147–G23.151 to determine the point in time at which the licence transfers to the customer. Revenue cannot be recognised for a licence that provides a right to use the NPO's intellectual property before the beginning of the period during which the customer is able to use and benefit from the licence.

Contract costs

Costs to obtain a contract

- G23.166 An NPO may incur costs in its effort to obtain a contract with a customer. An NPO shall recognise such costs as an asset if:
- a) the costs would not have been incurred by the NPO if the contract had not been obtained (for example, a sales commission payable on obtaining a contract); and
 - b) the costs are expected to be recovered.
- G23.167 If an NPO is unable to identify whether costs to obtain a contract meet the criteria in paragraph G23.166 without undue cost or effort, the NPO shall recognise such costs as an expense when incurred.
- G23.168 Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.
- G23.169 An NPO may recognise the costs to obtain a contract that meet the criteria in paragraph G23.166 as an expense when incurred if the amortisation period of the assets that the NPO otherwise would have recognised is one year or less.

Costs of fulfilling a contract

- G23.170 An NPO shall account for the costs incurred in fulfilling a contract with a customer in accordance with the relevant Section of INPAG for those costs (for example, Section 13 *Inventories*, Section 17 *Property, Plant and Equipment*, Section 18 *Intangible Assets other than Goodwill*).

- G23.171 If the costs incurred in fulfilling a contract are not within the scope of another Section of INPAG, an NPO shall recognise those costs as an asset if:
- a) the costs relate directly to a contract or to an anticipated contract that the NPO can specifically identify (for example, direct costs of a specific anticipated contract);
 - b) the costs generate or enhance resources of the NPO that will be used in satisfying (or in continuing to satisfy) promises in the future; and
 - c) the costs are expected to be recovered.
- G23.172 An asset recognised in accordance with paragraph G23.171 gives rise to resources that the NPO will use to satisfy future promises in the contract. Conversely, costs that relate to promises that are satisfied (or partially satisfied) shall be recognised as expenses when incurred, as those costs relate to past performance.

Measurement after recognition

- G23.173 After initial recognition, an NPO shall measure assets recognised in accordance with paragraph G23.166 or G23.171 at cost less accumulated amortisation and any accumulated impairment losses.
- G23.174 An asset recognised in accordance with paragraph G23.166 or G23.171 shall be amortised in accordance with the pattern of transfer and revenue recognition of the goods or services to which the asset relates.
- G23.175 If an asset has been recognised in accordance with paragraph G23.166 or G23.171, an NPO shall follow Section 27 *Impairment of Assets* for recognising and measuring the impairment of the asset. However, an NPO shall apply paragraph G23.176 instead of paragraphs 27.11–27.20 to estimate the recoverable amount of such an asset.
- G23.176 The recoverable amount of an asset recognised in accordance with paragraph G23.166 or G23.171 is:
- a) the remaining amount of consideration that the NPO expects to receive in exchange for the goods or services to which the asset relates; less
 - b) the costs that relate directly to providing those goods or services and that have not been recognised as expenses.
- G23.177 In applying paragraph G23.176 a), an NPO shall determine the amount of consideration that the NPO expects to receive by adjusting the transaction price for any consideration received to date and the effects of the customer's credit risk.

Contract balances

- G23.178 When either party to a contract has performed, an NPO shall present the contract in the Statement of Financial Position as a contract asset or a contract liability, depending on the relationship between:

- a) the NPO's performance in transferring goods or services to the customer; and
- b) the customer's payment.

G23.179 If an NPO has received consideration (or consideration is due) from the customer before the NPO transfers a good or service to the customer, the NPO shall recognise a contract liability when the payment is made or the payment is due (whichever is earlier). A contract liability is an NPO's obligation to transfer goods or services to a customer for which the NPO has received consideration (or the amount is due) from the customer. When (or as) the NPO transfers those goods or services to the customer, the NPO shall derecognise the contract liability (or part of a contract liability) and recognise revenue, in accordance with paragraphs G23.139–G23.157.

G23.180 If an NPO transfers a good or service to a customer before the customer pays consideration (or before payment is due), the NPO shall recognise a contract asset, excluding any amounts presented as a receivable. A contract asset is an NPO's right to consideration in exchange for goods or services that the NPO has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the NPO transferring other goods or services promised in the contract). When the customer pays the consideration (or the consideration becomes due), the NPO shall derecognise the contract asset. An NPO shall assess a contract asset for impairment, and recognise any impairment loss, in accordance with Section 11.

G23.181 A receivable is an NPO's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an NPO would recognise a receivable if it has a present right to payment even though that amount may be subject to refund in the future.

G23.182 An NPO shall present contract assets and receivables separately.

Customers' unexercised rights

G23.183 When an NPO receives an upfront non-refundable payment that gives the customer a right to receive a good or service in the future (for example, a gift card), this gives rise to a contract liability. However, customers might not exercise all of their contractual rights. Those unexercised rights are often referred to as breakage.

G23.184 If an NPO expects to be entitled to a breakage amount in a contract liability, the NPO shall recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer when those future goods or services are transferred. If an NPO does not expect to be entitled to a breakage amount, the NPO shall recognise the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote.

Disclosures

G23.185 An NPO shall disclose the revenue it recognised from contracts with customers disaggregated into categories, showing separately, at a minimum, revenue arising from:

- a) the sale of goods;
- b) the rendering of services;
- c) royalties;
- d) commissions; and
- e) any other significant types of revenue from contracts with customers.

G23.186 Unless the amounts are presented separately in the **Statement of Income and Expenses** by applying other Sections of **INPAG**, an **NPO** shall disclose the amount of impairment losses recognised (by applying Section 11) for the reporting period on any receivables or contract assets arising from an **NPO's** contracts with customers, which the **NPO** shall disclose separately from impairment losses from other contracts for the reporting period.

G23.187 An **NPO** shall disclose:

- a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;
- b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and
- c) revenue recognised in the reporting period from promises satisfied or partially satisfied in previous periods (for example, changes in estimates of variable consideration).

G23.188 An **NPO** shall disclose information about its promises in contracts with customers, including a description of:

- a) when the **NPO** typically satisfies its promises (for example, upon shipment, upon delivery, as services are rendered or upon completion of service);
- b) the significant payment terms (for example, when payment is typically due, whether the contract includes a financing transaction, and whether the consideration amount is variable);
- c) obligations for returns, refunds and other similar obligations; and
- d) types of warranties and related obligations.

G23.189 For promises that an **NPO** satisfies over time, the **NPO** shall disclose the methods it used to recognise revenue—for example, a description of the output methods or input methods used and how those methods are applied.

G23.190 An **NPO** shall provide a quantitative or qualitative explanation of the significance of unsatisfied promises and when they are expected to be satisfied. However, an **NPO** need not disclose such information for a promise if either of the following conditions is met:

- a) the promise is part of a contract that has an original expected duration of one year or less; or
- b) the NPO recognises revenue from the satisfaction of the promise in accordance with paragraph G23.157.

G23.191 An NPO shall disclose:

- a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraphs G23.166 and G23.171), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and set-up costs); and
- b) the amount of amortisation and any impairment losses recognised in the reporting period.

G23.192 If an NPO elects to use the options in paragraph G23.123 (making no adjustment for the time value of money) or paragraph G23.169 (costs of obtaining a contract), the NPO shall disclose that fact.

G23.193 If an NPO recognises the costs to obtain a contract as expenses when incurred because it is unable to identify whether those costs meet the criteria in paragraph G23.166 without undue cost or effort, the NPO shall disclose that fact and the reasons why identifying the costs that meet the criteria in paragraph G23.166 would involve undue cost or effort.

Application Guidance: Section 23 – Revenue

Scope of this Section

Which Part to apply?

AG23.1 Whether to use Part I – *Grants and donations* or Part II – *Revenue from contracts with customers* depends on the economic substance of each revenue transaction (see Figure AG23.1). Where, for example, an organisation provides an NPO with cash to support its provision of services, and

- the NPO has control of the economic resources transferred because it has discretion over how the cash is utilised without requiring further authorisation from the cash providing organisation and
- the cash providing organisation does not receive directly cash, a service, good or other asset in return by NPO

the economic substance of this transaction means that the NPO should apply Part I for accounting for revenue from grants, donations and similar transfers.

AG23.2 In contrast where, for example, an organisation asks an NPO to provide it with a service for a fee, the economic substance of this transaction involves the NPO directly providing a service to the organisation in exchange for consideration, and means that the NPO should apply Part II for accounting for revenue from contracts with customers.

Economic substance of transactions the amounts given and received are not of approximately equal value

NPO provides services, goods or other assets and receives an amount of cash, services, goods or other assets that is not of approximately equivalent value

AG23.3 An NPO may receive an amount that is either higher or lower than the value of the services, goods, or other assets provided by the NPO. Where this is the case, the NPO shall determine how best to account for the substance of the transaction in accordance with paragraphs AG23.4–AG23.9.

Value received is below approximately equivalent value

AG23.4 Where the amount received by an NPO is below approximately equivalent value, the NPO shall determine whether the lower amount is because the NPO has provided a commercial discount or has provided a grant or donation to the other party, by considering the substance of the transaction.

AG23.5 Where the goods, services, or other assets are being provided at a commercial discount, the NPO shall apply Part II *Revenue from Contracts with Customers* in accounting for the transaction.

AG23.6 When the NPO is providing a grant or donation along with the services, goods, or other assets, the NPO shall

- a) Apply Part II *Revenue from Contracts with Customers* in accounting for the revenue; and
- b) Present or disclose the amount of grants or donations in accordance with Section 24 Part I *Expenses on grants and donations*. The grant or donation is the difference between the fair value of the services, goods or other assets provided or to be provided, and the amount received or receivable.

AG23.7 An NPO may elect not to reflect the intention to make a donation or grant where the difference is not material or the cost of identifying the donation or grant exceeds the likely benefit to users of the financial statements.

Value received is above approximately equivalent value

AG23.8 When the amount received by an NPO is above approximately equivalent value, the NPO is, in substance, receiving a grant or donation in addition to the payment it receives for providing services, goods, or other assets. The NPO shall therefore recognise the fair value of the services or goods to be provided in accordance with Part II *Revenue from Contracts with Customers* and the remainder (the grant or donation received) in accordance with Part I *Revenue from Grants and Donations*.

AG23.9 An NPO may elect not to separately account for the amount of the grant or donation in accordance with Part II where the cumulative effect of not accounting for such grants and donations is not material, or the cost of identifying the grants and donations exceeds the likely benefit to users of the financial statements.

NPO acquires services, goods or other assets in exchange for an amount of cash, services, goods or other assets below approximately equivalent value

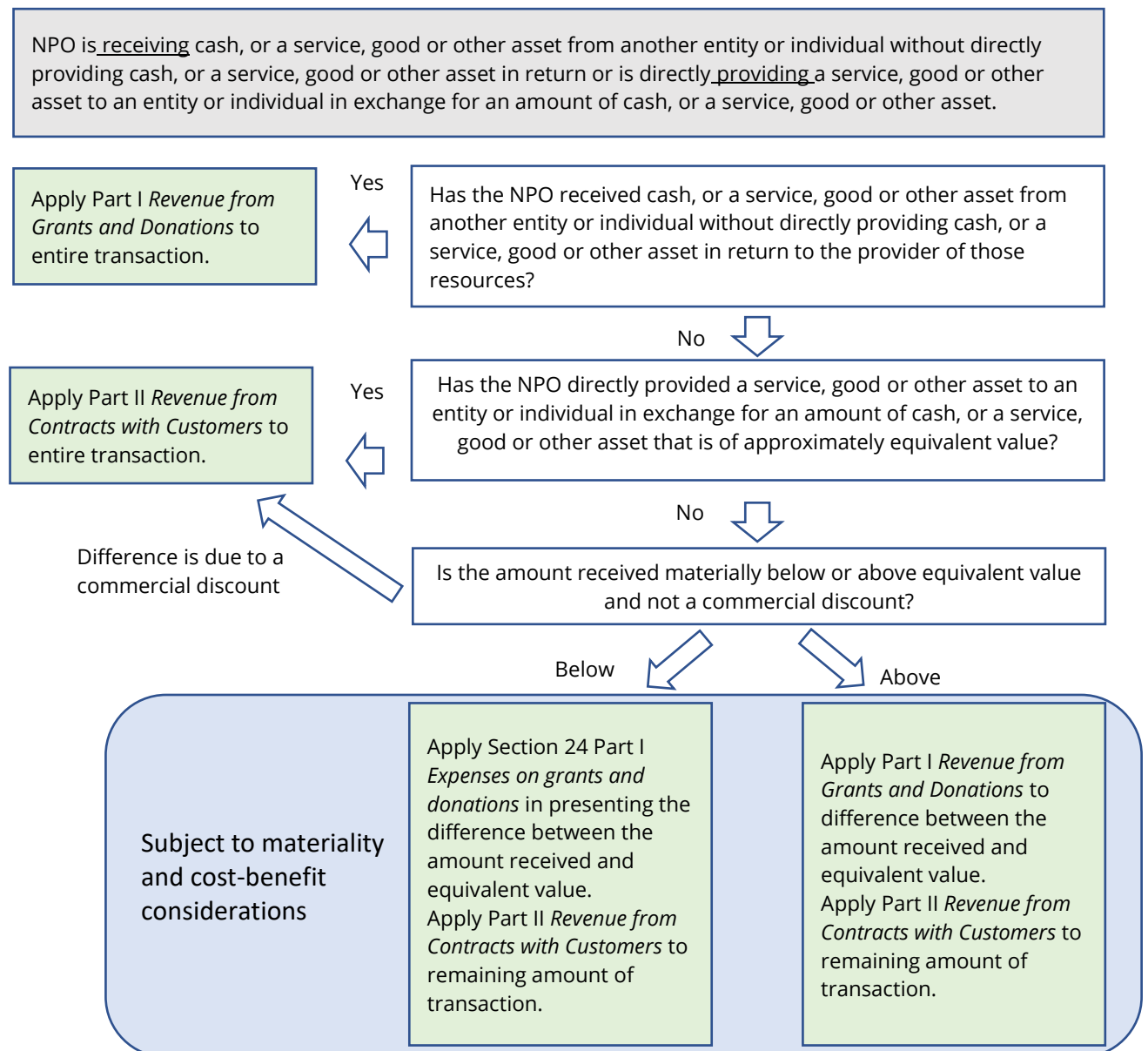
AG23.10 An NPO may acquire goods or services for an amount that is less than the fair value of the goods or services to be received. The NPO shall determine whether it has received a commercial discount or a grant or donation by considering the substance of the transaction. (An NPO that acquires goods or services for more than the fair value of the goods or services is in substance providing a grant to the other entity and shall apply Part I of Section 24 in accounting for that grant).

AG23.11 When the substance of the transaction is that the NPO has received a commercial discount, the NPO shall account for the acquisition of the services, goods, or other assets in accordance with the relevant section of INPAG.

AG23.12 When the substance of the transaction is that the NPO has received a grant or donation, the grant or donation shall be recognised in accordance with Part I *Revenue from Grants and Donations*. The NPO shall recognise the receipt of a grant or donation for the difference between the fair value of the services and goods received and the amount transferred. The NPO shall account for the element that relates to the acquisition of the services, goods, or other assets in accordance with the relevant section of INPAG.

AG23.13 An NPO may elect not to reflect the grant or donation received where the difference is not material or the cost of identifying the grant or donation exceeds the likely benefit to users of the financial statements.

Figure AG23.1: Decision trees illustrating which Part to apply to a revenue transaction



NPO is acquiring services, goods or other assets in exchange for an amount of cash, services, goods other assets

Has the NPO acquired services, goods or other assets for an amount that is materially **less** than the fair value of the services and goods received?

Yes

No

Is the difference due to the NPO receiving a commercial discount?

No

Yes

Apply Part I *Revenue from Grants and Donations* for difference between fair value and amount paid and other Sections for remaining amount of transaction.

Apply other Sections relevant to the transaction

Has the NPO acquired services, goods or other assets for an amount that is materially **more** than the fair value of the services and goods received?

Yes

No

Not within the scope of Section 23
Apply other Sections

Apply Section 24 Part I *Expenses on grant and donations* to difference between the amount paid and the fair value of the services, goods or other assets acquired

Apply other Sections relevant to the transaction to the remaining amount (fair value) of the transaction.

Apply other Sections relevant to the transaction.

Part I – Revenue from grants and donations

Terminology

- AG23.14 NPOs may receive funds in the form of grants, donations, and similar income. Part I of Section 23 uses the terms grant to encompass any cash, service, good or other asset that is transferred by a grant provider to an NPO without the NPO directly providing any cash, service, good or other asset in return. A grant may therefore arise not only from items commonly described as grants but also items that may otherwise be described as donations, gifts, and similar transfers of resources.
- AG23.15 In Part I of Section 23, the term resource includes goods, services, and other assets, which may encompass cash or non-current assets. References to goods and services or goods or services are to be read as incorporating references to cash and non-current assets.

Identifying whether an enforceable grant arrangement exists

Enforceability

- AG23.16 Enforceable grant arrangements can be evidenced in several ways (see paragraphs G23.23–G23.29). An enforceable grant arrangement can be written, oral or implied by an NPO's customary practices. The practices and processes for establishing enforceable grant arrangements vary across legal jurisdictions, sectors and entities. In addition, they may vary within an NPO (for example, they may depend on the class of the grant provider or the nature of the NPO's promise in the enforceable grant arrangement).

Enforceability through legal or equivalent means

- AG23.17 For a grant arrangement to be enforceable, it must be enforceable through legal or equivalent means. In determining whether a grant arrangement is enforceable, the NPO considers the substance rather than the legal form of the arrangement. Whether a grant arrangement is enforceable is based on an NPO's assessment of the ability to enforce the specified terms and conditions of the grant arrangement and the satisfaction of the other parties' stated obligations.
- AG23.18 Enforceability can arise from various mechanisms. While these may be through legal systems there may also be alternative processes that have equivalent effect depending on the parties involved in the enforceable grant arrangement and the jurisdictions in which they are based.
- AG23.19 For example, in some jurisdictions NPOs may be subject to a form of regulatory oversight which regardless of the legal basis of an individual agreement require NPOs to act in accordance with defined rules and directives or potentially face censure. This broader regulatory oversight may provide the parties to a grant arrangement with the effective means to enforce the arrangement through appeal to a regulator even if the specific agreement is not legally enforceable.
- AG23.20 Generally, the ability of a grant provider to reduce or withhold future funding will not on its own be a valid enforcement mechanism. This is because there is no

present obligation on the grant-provider to provide this future funding, and the NPO has no right to receive future funding.

- AG23.21 However, if the grant recipient is presently entitled to future funding through another enforceable grant arrangement, and the terms of this other arrangement specifically allow the grant provider to reduce future funding if other enforceable grant arrangements are breached, this could be a valid enforcement mechanism. This will require the NPO to apply judgement based on the facts and circumstances, including any past history of funding being reduced where a grant provider had the right to do so.
- AG23.22 In some jurisdictions, public sector entities are not legally able to enter into agreements in their own name, but only that of the government. Alternative processes with equivalent effect to legal arrangements such as executive orders or ministerial directives are in place to ensure that agreed-upon obligations in an arrangement are enforceable. Where both the grant providing NPO and grant-receiving NPO are public sector entities, they may be able to rely on the alternative processes for enforceability of a grant arrangement.
- AG23.23 Since enforceability can arise from various mechanisms, an NPO should objectively assess all relevant factors at the transaction date to determine whether an arrangement is enforceable. For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required. This enforcement mechanism should:
- a) establish the right of the grant provider to obligate the NPO to complete the agreed obligation or be subject to remedies for non-completion; and
 - b) establish the right of the NPO to obligate the grant provider to pay the agreed consideration.

Enforceability as a result of rights and obligations

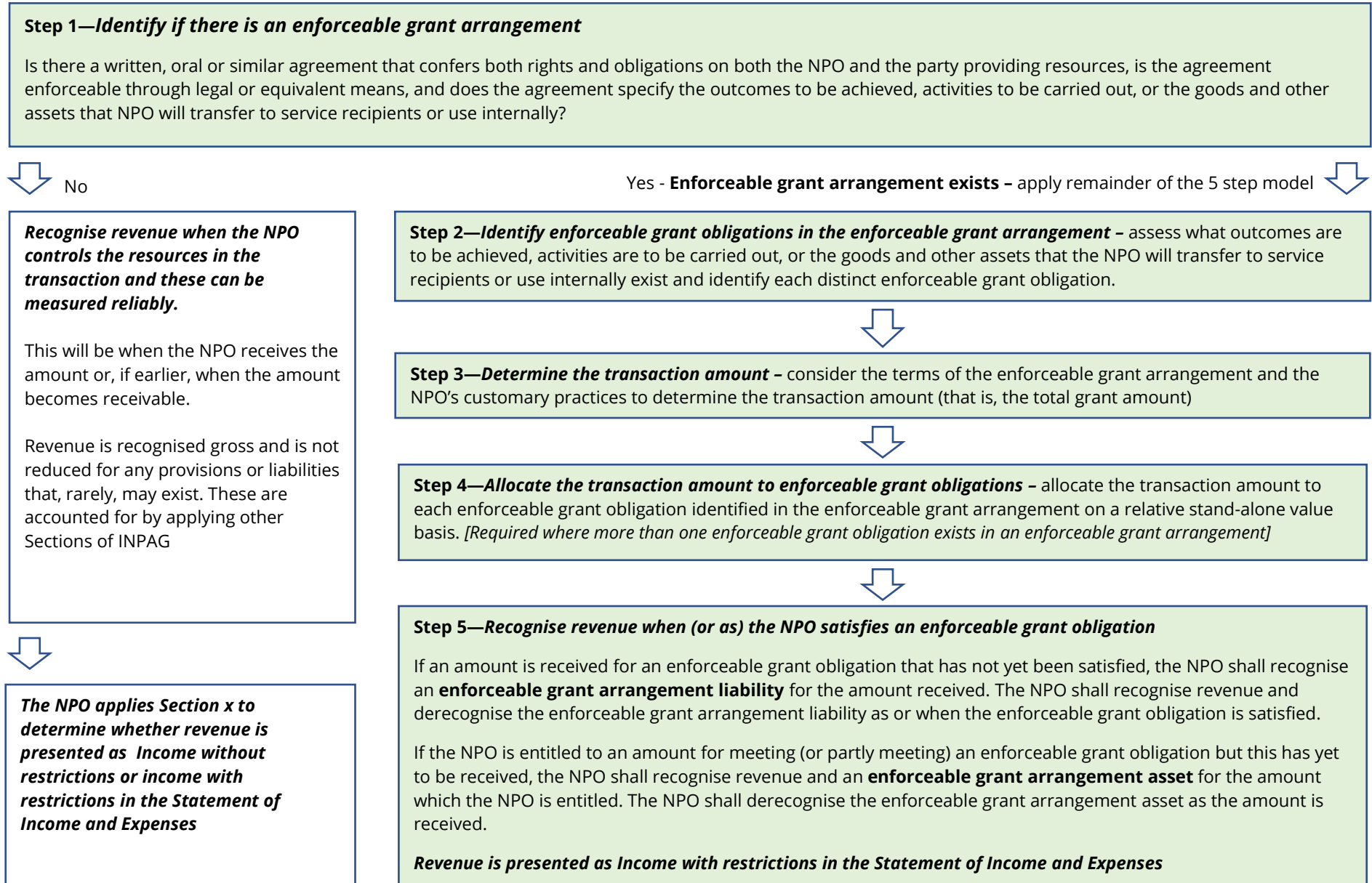
- AG23.24 An enforceable grant arrangement includes both rights and obligations that are enforceable for both parties. Each party's enforceable right(s) and obligation(s) within the grant arrangement are interdependent and inseparable. This means that the grant provider has the ability to obligate the NPO recipient to complete the agreed obligation or be subject to remedies for not doing so, and the NPO is able to obligate the grant provider to pay the agreed grant amount even if these are rarely, if ever, exercised.
- AG23.25 For a grant arrangement to be enforceable, the grant provider must be able to determine whether the NPO has complied with its obligations. If the obligations imposed on the NPO are not sufficiently specific, the grant provider will not be able to make this determination, and the grant agreement will not be an enforceable grant agreement.
- AG23.26 For an NPO's obligations to be sufficiently specific for the grant arrangement to be enforceable, the terms of the agreement will refer to the outcomes the NPO has undertaken to achieve, the activities the NPO is required to carry out or the goods or services that the NPO will either transfer to service recipients or use internally.

- AG23.27 A general statement of intent by a grant provider that it may transfer cash, or deliver goods, services or other assets in a certain way is not usually in and of itself an enforceable arrangement. As the declaration is a general statement of intent it will not create an enforceable grant arrangement between a grant provider and an NPO under which both parties have rights and obligations.
- AG23.28 The NPO's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.
- AG23.29 An arrangement is enforceable if the agreement includes:
- a) Clearly specified rights and obligations for each involved party; and
 - b) Remedies for non-completion by each involved party which can be enforced through the identified enforcement mechanisms.

Accounting for grant arrangements

- AG23.30 An NPO will apply the recognition and measurement criteria in Part I of Section 23 of INPAG as follows:
- a) Grant revenue from transactions without enforceable grant arrangements (whether a funding agreement is in place or not) is accounted for by applying paragraphs G23.31–G23.39; and
 - b) Grant revenue from transactions with enforceable grant arrangements is accounted for by applying paragraphs G23.40–G23.60.
- AG23.31 Figure AG23.2 below summarises the process for determining how to apply Part I of this Section.

Figure AG23.2: Decision tree illustrating how to apply Part I



Revenue from transactions without enforceable grant arrangements

AG23.32 In circumstances where a funding agreement is required before resources can be transferred, an NPO will not identify the resources as controlled until such time as the NPO's has a right to those resources. This is because the NPO cannot exclude or regulate the access of the grant provider to the resources to be transferred. The NPO will need to establish that it has control of the resources before it can recognise them as an asset.

Recognising revenue when a transaction without an enforceable grant arrangement becomes receivable

AG23.33 An NPO recognises revenue from a transaction without an enforceable grant arrangement when the grant is received or receivable, whichever is earlier. In most cases, this will be when the grant is received, as the NPO will usually not have a right to the grant prior to that point.

AG23.34 However, where a funding agreement is in place, it is possible that this will give the NPO the right to the grant at an earlier point. This right may enable the NPO to recognise revenue even if it has not already received the grant.

Revenue from transactions with enforceable grant arrangements

Applying guidance in Part II to enforceable grant arrangements

AG23.35 Part I and Part II of Section 23 both use the same five-step model, Part I specifies the requirements for a simplified version of the five-step model that is expected to apply to most enforceable grant arrangements. When an enforceable grant arrangement includes more complex arrangements, the NPO will apply the relevant guidance from Part II (see paragraph G23.40).

AG23.36 Different terminology is used in Part I and Part II when applying the five-step model as set out in paragraph G23.11. Other key differences are:

- a) the five-step model only applies to grants with an enforceable grant arrangement, but applies to all contracts with customers; and
- b) the term 'enforceable grant obligations' (in enforceable grant arrangements) has a wider meaning than the term 'promises' (in a contract with customers). A promise in a contract with a customer always involves the NPO transferring goods and services to the purchaser (or an entity or individual specified by the purchaser). An enforceable grant obligation might involve an NPO transferring goods or services, but can also involve objectives to be achieved or activities to be carried out by the NPO that do not involve the transfer of goods or services to another party.

AG23.37 In applying the requirements of Part II to an enforceable grant arrangement:

- a) references to the 'contract' are to be read as the 'enforceable grant arrangement';
- b) references to 'promises' are to be read as 'enforceable grant obligations';

- c) references to 'goods or services [transferred / to be transferred]' are to be read as 'enforceable grant obligations [satisfied / to be satisfied]';
- d) references to 'customer' are to be read as 'grant-provider';
- e) references to 'transaction price' are to be read as 'transaction amount'; and
- f) references to 'consideration' are to be read as the 'grant' or 'grant amount'.

AG23.38 The following table provides additional guidance on how the Part II requirements should be applied to a Part I enforceable grant arrangement.

Topic	Application to enforceable grant arrangements
Criteria to be met before accounting for an enforceable grant arrangement (paragraphs G23.74–G23.79)	<p>These paragraphs specify criteria that can be applied to determine if an enforceable grant agreement is within the scope of Part I if the NPO is uncertain about this.</p> <p>In applying the guidance, references to 'commercial substance' are to be read as 'economic substance'. NPOs should assume that the enforceable grant arrangement will have economic substance as the risk, timing or amount of the NPO's future cash flows is expected to change as a result of the enforceable grant arrangement.</p>
Combination of enforceable grant arrangements (paragraph G23.80)	<p>If an NPO has entered into two or more enforceable grant arrangements with the same grant provider at or near the same time, an NPO may apply this paragraph in determining if the enforceable grant arrangements should be combined.</p> <p>In applying this guidance, the reference to 'price' should be read as a the 'grant in respect of an enforceable grant arrangement'.</p>
Modifications to enforceable grant arrangements (paragraphs G23.81–G23.83)	<p>An NPO shall apply these paragraphs if the terms of the enforceable grant agreement are changed.</p> <p>In applying this guidance, the reference to 'stand-alone selling price' shall be read as the 'stand-alone value'.</p>
Variable grant amounts (paragraphs G23.107–G23.111)	<p>An NPO shall apply these paragraphs if the amount of the grant contains a variable element (for example, if an NPO receives a grant to carry out a vaccination programme, and an additional amount will be paid if the number of people vaccinated exceeds a threshold set in the enforceable grant agreement).</p>
Time value of money (paragraphs G23.122–G23.123)	<p>An NPO shall apply these paragraphs where the time difference between the grant being paid and</p>

Topic	Application to enforceable grant arrangements
	<p>the enforceable grant obligation being satisfied is more than one year.</p> <p>In applying this guidance, an NPO shall allow for grants being paid in advance as well as after the enforceable obligation is satisfied, which can give rise to an interest expense.</p>
<p>Non-cash grant amounts (paragraph G23.124)</p>	<p>An NPO shall apply this paragraph in measuring any non-cash grant amounts it receives under an enforceable grant arrangement.</p> <p>Where an NPO cannot reasonably estimate the fair value of the non-cash item, it shall measure the grant amount indirectly by reference to the estimated cost of satisfying the enforceable grant obligation(s) for which the non-cash grant amount has been provided.</p>
<p>Allocation of variable grant amounts (paragraphs G23.134–G23.135)</p>	<p>Where an NPO has identified variable grant amounts by applying the guidance in paragraphs G23.107–G23.111), it shall apply these paragraphs in allocating the variable grant amounts to enforceable grant obligations.</p>
<p>Changes in transaction amount (paragraphs G23.136–G23.138)</p>	<p>An NPO shall apply these paragraphs where its estimate of the total grant amount changes, for example where its estimate of variable grant amounts changes.</p>
<p>Enforceable grant obligations satisfied over time or at a point in time (paragraphs G23.140–G23.151)</p>	<p>Guidance in determining whether an enforceable grant obligation is satisfied over time or at a point in time can be found in G23.141–G23.152. This guidance is most likely to be relevant to enforceable grant obligations that require the NPO to transfer services or goods to service recipients.</p> <p>Additional guidance for other types of enforceable grant obligation can be found in paragraphs AG23.48–AG23.49.</p>
<p>Measuring progress towards complete satisfaction of an enforceable grant obligation (paragraphs G23.152–G23.157)</p>	<p>For enforceable grant obligations satisfied over time, an NPO may apply the guidance in these paragraphs in selecting an appropriate method of measuring progress towards complete satisfaction of an enforceable grant obligation.</p> <p>In applying these paragraphs, references to ‘value to the customer’ are to be read as ‘proportion of the activities undertaken’ or ‘cost of the goods or services provided’ as appropriate.</p> <p>Additional guidance is provided in paragraphs AG23.50–AG23.59.</p>

Multi-year grants

- AG23.39 Multi-year arrangements, generally involve the provision of resources over multiple years for a specific purpose or project. Funding may occur at multiple dates throughout a year and/or across multiple years. Multi-year arrangements can exist where there is an enforceable grant arrangement or where there is a funding agreement.
- AG23.40 While such grant arrangements are longer term, the NPO shall consider whether an inflow, or a right to a future inflow, of resources gives rise to an asset, applying the same principles for an enforceable grant arrangement that covers a single period. Revenue recognition is assessed independently from the timing of funding.
- AG23.41 In accordance with paragraph G23.12, when an enforceable grant arrangement is wholly unsatisfied, an NPO shall not recognise any asset, liability or revenue associated with the enforceable grant arrangement.
- AG23.42 Similarly, where parts of the enforceable grant arrangement remain equally unsatisfied, the NPO shall not recognise any asset, liability or revenue for the equally unperformed parts of the enforceable grant arrangement. Such equally unsatisfied parts of the enforceable grant arrangement continue to constitute a single asset or liability that is measured at zero.
- AG23.43 In considering whether any expected inflow of resources in subsequent years meets the definition of an asset, the NPO shall consider whether that part of an enforceable grant arrangement relating to the subsequent years is equally unsatisfied. Where this is the case, the NPO shall not recognise any asset, liability or revenue for the equally unperformed parts of the enforceable grant arrangement.

Capital grants

- AG23.44 A capital grant arises when a grant provider transfers or is obligated to transfer cash or another asset to an NPO that requires the NPO to acquire or constructs a non-current asset that the NPO will then control.
- AG23.45 An NPO shall follow the same approach to recognising revenue involving a capital grant as with any other revenue.
- AG23.46 Capital grants typically include substantial details about the various stages in the project (e.g., conception and planning, design, procurement, construction, etc.). These details are likely to mean that the capital grant is part of an enforceable grant arrangement and can provide a basis for identifying the enforceable grant obligations.
- AG23.47 An NPO shall identify the individual enforceable grant obligations, and determine for each the appropriate measure of progress. Revenue recognition is independent for each enforceable grant obligation of the timing of the receipt of resources from the grant provider.

Enforceable grant obligations over time or at a point in time

AG23.48 Enforceable grant obligations to achieve an objective or carry out an activity may be satisfied over time or at a point in time. An enforceable grant obligation is satisfied over time if the NPO is entitled to grant revenue for the activities it has carried out to date; otherwise the enforceable grant obligation is satisfied at a point in time.

AG23.49 For example, an NPO may have an obligation to deliver 1,000 vaccinations by the end of the project:

- a) If the NPO is entitled to grant revenue for the vaccinations it has delivered, even if this is fewer than the agreed number, the NPO is entitled to grant revenue for the activities carried out to date, and the enforceable grant obligation is satisfied over time.
- b) If the NPO is only entitled to grant revenue if the full 1,000 vaccinations are delivered, and the NPO is not entitled to revenue if fewer vaccinations are delivered, the NPO is not entitled to grant revenue for the activities carried out to date, and the enforceable grant obligation is satisfied at a point in time, as the final vaccination is delivered.

Methods for measuring progress towards complete satisfaction of an enforceable grant obligation

Output Methods

AG23.50 Output methods recognise revenue on the basis of direct measurements of the proportion of the specified objectives achieved or specified activities carried out. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, and units produced or units delivered.

AG23.51 A specified activity is a particular action, stated in an enforceable grant arrangement, that the NPO must perform and which the grant provider can compel the NPO to perform.

AG23.52 When an NPO evaluates whether to apply an output method to measure its progress, the NPO shall consider whether the output selected would faithfully depict the NPO's performance towards complete satisfaction of the enforceable grant obligation. An output method would not provide a faithful depiction of the NPO's performance if the output selected would fail to measure some of the promises to use resources in the specified manner. For example, output methods based on activity would not faithfully depict an NPO's performance in satisfying an enforceable grant obligation if the expected cost of delivering remaining activity is significantly higher than that of the activity delivered to date.

AG23.53 Where an NPO is required to transfer a distinct good or service to a service recipient, and the NPO has a right to grant revenue that corresponds directly with the value of the enforceable grant obligations completed the NPO may recognise revenue in the amount to which it has an entitlement.

AG23.54 The disadvantages of output methods are that the outputs used to measure progress may not be directly observable and the information required to apply them may not be available to an NPO without undue cost. Therefore, an input method may be necessary.

Input Methods

AG23.55 Input methods recognise revenue on the basis of the NPO's efforts or inputs to the satisfaction of an enforceable grant obligation (for example, resources consumed, labour hours expended, eligible expenditures incurred, or time elapsed) relative to the total expected inputs required to satisfy that enforceable grant obligation. If the NPO's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the NPO to recognise revenue on a straight-line basis.

AG23.56 The grant provider needs to be able to confirm that the NPO's enforceable grant obligations in the enforceable arrangement have been satisfied in the specified manner. The NPO needs to keep appropriate documentation which may include records of eligible expenditures incurred by the NPO that directly relate to the NPO's satisfaction of the enforceable grant obligations in the specified manner. The records on eligible expenditures will show the cost of the inputs required to satisfy the enforceable grant obligations.

AG23.57 A shortcoming of input methods is that there may not be a direct relationship between an NPO's inputs and the satisfaction of its enforceable grant obligations. Therefore, an NPO shall exclude from an input method the effects of any inputs that do not affect the NPO's performance in satisfying its enforceable grant obligations. This is because there may not be a direct relationship between an NPO's inputs and the satisfaction of its enforceable grant obligations. For instance, a cost-based input method may require an adjustment to the measure of progress in the following circumstances:

- a) When a cost incurred does not contribute to an NPO's progress in satisfying the enforceable grant obligation. For example, an NPO would not recognize revenue on the basis of costs that include impairments as a result of damage to assets being used to meet the enforceable grant obligation.
- b) When a cost incurred is not proportionate to the NPO's progress in satisfying the enforceable grant obligation. In those circumstances, the best depiction of the NPO's performance may be to adjust the input method to recognise revenue only to the extent of that cost incurred. For example, a faithful depiction of an NPO's performance might be to recognise revenue proportionate to the cost of the goods used to satisfy an enforceable grant obligation where the costs of the goods are major cost of satisfying the enforceable grant obligation.

Donor, reporting, assurance or audit requirements

AG23.58 Reporting, assurance or audit requirements may allow a grant provider to cancel an enforceable grant arrangement or require an NPO to take remedial action if the NPO does not comply with the requirements of the enforceable grant arrangement. If an enforceable grant arrangement includes reporting, assurance or audit

requirements, an NPO shall consider the effect of the requirements when evaluating when an enforceable grant obligation is satisfied.

AG23.59 If an NPO can objectively determine (that is, determine based on information available to the NPO) that the enforceable grant obligation has been satisfied in accordance with the terms of the enforceable grant arrangement, then the reporting, assurance or audit requirements are a formality that would not affect the NPO's determination of when the enforceable compliance obligation has been satisfied. However, if an NPO cannot objectively determine that the enforceable grant obligation has been satisfied in accordance with the terms of the enforceable grant arrangement, then the NPO would not be able to conclude that the enforceable grant obligation has been satisfied until the NPO receives the grant provider's confirmation that the requirements have been met. An NPO only recognises revenue when an enforceable grant obligation has been satisfied.

Part II – Revenue from Contracts with Customers

Applying the revenue recognition model to simpler transactions

AG23.60 Part II establishes the revenue recognition model for all revenue from contracts with customers, and as a consequence includes requirements for many complex features of revenue transactions that are not relevant for many NPO revenue transactions. For complex transactions, NPOs will need to apply all of the requirements in this Section. For simpler transactions, NPOs need only apply the relevant requirements. The following table provides guidance on when certain requirements will not be relevant to simpler transactions.

Paragraphs	Guidance
<i>Step 1—Identify the contract(s) with a customer</i>	
G23.74–G23.83	For many simpler transactions, the contract will be the sale to the customer and no further analysis is required for Step 1. For more complex transactions, reference should be made to the detailed requirements. Some paragraphs (shown below) relate to specific circumstances and need only be applied where relevant.
G23.80	Combination of contracts – consider only where two or more contracts are entered into at or near the same time with the same customer (or a related party).
G23.81–G23.83	Contract modification – only applies where the original contract has been amended.
<i>Step 2—Identify the promises in the contract</i>	
G23.84–G23.104	For many simpler transactions, the contract will include a single promise (for example, to transfer to goods to a customer), and no further analysis is required for Step 2. For more complex transactions, reference should be made to the detailed requirements. Some paragraphs (shown below) relate to specific circumstances and need only be applied where relevant.
G23.93–G23.96	Warranties – requirements are only relevant when the contract includes a warranty.
G23.97–G23.99	Non-refundable upfront fees – requirements are only relevant when the NPO charges non-refundable upfront fees, for example joining fees in respect of memberships.
G23.100–G23.104	Customer options for additional goods or services – requirements only apply where the original contract gives the customer the option to acquire additional goods or services for free or at a discount.

Paragraphs	Guidance
<i>Step 3—Determine the transaction price</i>	
G23.105–G23.124	The transaction price is the total amount expected to be received under the contract. For many simpler transactions, the transaction price will be the amount paid at the time of the sale, and no further analysis is required for Step 3. For more complex transactions, especially those transactions that include variable consideration, reference should be made to the detailed requirements. Some paragraphs (shown below) relate to specific circumstances and need only be applied where relevant.
G23.112	Only relevant when the contract includes sales-based or usage-based royalties.
G23.113–G23.114	Only relevant when the contract includes refund liabilities (for example, where the terms of a fixed-price service contract require a customer to pay upfront and provide the customer with a full refund of the amount paid if the customer is dissatisfied with the service at any time).
G23.115–G23.121	Only relevant when the contract gives the customer a right to return purchased goods for a full or partial refund, a credit, or other goods in exchange.
<i>Step 4—Allocate the transaction price to the promises in the contract</i>	
G23.125–G23.138	For many simpler transactions, the contract will include a single promise (for example, to transfer goods to a customer), and the full transaction price is allocated to that one promise. No further analysis is required for Step 4. For more complex transactions, reference should be made to the detailed requirements. Some paragraphs (shown below) relate to specific circumstances and need only be applied where relevant.
G23.132–G23.133	Only relevant where the contract includes a discount and more than one promise.
G23.134–G23.135	Only relevant where the contract includes variable consideration and more than one promise.
G23.136–G23.138	Only relevant where there is a change in the transaction price, for example a revised estimate of variable consideration between the commencement and completion of the contract, and as such this will not affect many simpler transactions such as sales in shops.

Paragraphs	Guidance
<i>Step 5—Recognise revenue when (or as) the NPO satisfies a promise</i>	
G23.139–G23.165	For many simpler transactions, revenue will be recognised at a point in time, and the more complex requirements relating to recognition of revenue over time will not be relevant.

Comparison of Section 23 with the *IFRS for SMEs Accounting Standard*

Section 23 comprises two parts with a preface that explains the structure of the section and contains content that is common to both parts. Part I is new material for NPOs that has been informed by IPSAS 47 *Revenue*. Part II is based on the *IFRS for SMEs Accounting Standard*. The main differences between Section 23 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 23 Part II of INPAG are as follows:

- INPAG Section 23 Part II uses different terminology, referring specifically to NPOs rather than entities more generally.
- The scope section has been relocated to the preface as the scope applies to both Part I and Part II.
- The overview of the 5 step revenue recognition model has been moved to the preface, as the 5 step model is also being used to recognise enforceable grant arrangements that have characteristics in common with contracts with customers.
- The accounting for principal-agent arrangements has been relocated to the preface as it shares principles in common with revenue from grants and donations.
- INPAG Section 23 Part II provides simplified guidance where a contract with a customer contains only one promise, to simplify applications by NPOs.
- Section 24 of the *IFRS for SMEs Accounting Standard* (covering government grants) is not included in INPAG, as government grants are covered by Section 23 Part I of INPAG, which covers a wider range of non-exchange revenue. The recognition and measurement principles are included in the preface.

Comparison of Section 23 with IPSAS 47

Section 23 comprises two parts with a preface that explains the structure of the section and contains content that is common to both parts. Part II is based on the *IFRS for SMEs Accounting Standard*. Part I is new material for NPOs that has been informed by IPSAS 47 *Revenue*. The main differences to IPSAS 47 are as follows:

- INPAG Section 23 Part I uses different terminology, referring specifically to NPOs rather than entities more generally.
- INPAG Section 23 Part I uses the term enforceable grant arrangement, which is drawn from the broader type of arrangement in IPSAS 47 (binding arrangement), except that an enforceable grant arrangement specifically excludes contracts with customers.
- INPAG Section 23 Part I uses the term enforceable grant obligation, which is similar to a compliance obligation in IPSAS 47, except that it does not apply to requirements to transfer goods or services to a customer. The definition of an enforceable grant obligation specifically mentions outcomes and activities and makes less reference to goods and services than the definition of a compliance obligation in IPSAS 47.
- INPAG Section 23 Part I includes permitted exceptions for gifts in-kind. It allows certain types of donated inventory to not be recognised until it is sold or to not be recognised until it has been distributed to service recipients. These permitted exceptions provide pragmatic relief for NPOs in recognising and measuring these kinds of inventories.
- INPAG Section 23 Part I requires services in-kind that are critical to an NPO's mission to be recognised, where this is not required by IPSAS 47.
- The disclosure requirements in INPAG Section 23 Part I are reduced from those in IPSAS 47. The disclosure requirements included in Part I of Section 23 are based on those in the *IFRS for SMEs Accounting Standard Exposure Draft*. These have been adapted for the NPO context and the fact that Part I is dealing with grants. Additional disclosures have been included where there is no equivalent requirement in the *IFRS for SMEs Accounting Standard*, for example funding agreements.

Basis for Conclusions

Consultation Paper – issues identified and approaches

- BC23.1 The recognition and measurement of revenue, and in particular non-exchange revenue, was identified as a specific issue for non-profit organisations in the IFR4NPO Consultation Paper with a number of financial reporting challenges highlighted. These included:
- the need to identify overarching principles for the recognition and measurement of incoming resources from ‘non-exchange’ transactions;
 - the recognition and measurement process associated with the receipt of donations that are used to fulfil requirements in subsequent periods;
 - when donations to purchase a capital asset should be recognised; and
 - when services and gifts in-kind should be recognised and how they should be measured.
- BC23.2 The Consultation Paper also noted that accounting for bequests and endowments would not be covered in the initial INPAG but would rather be considered in a later phase.
- BC23.3 Respondents were supportive of the description of the issue, and also provided some additional considerations that needed to be considered in developing the guidance. These included:
- the need to place greater emphasis on how to distinguish between exchange and non-exchange revenue;
 - the inclusion of greater detail in cases where goods and services are provided by an NPO at subsidised prices;
 - the importance of capital grants; and
 - grants that are only received once the activities funded by the grant have been carried out.
- BC23.4 The Consultation Paper proposed four alternative financial reporting treatments for developing guidance. The first was to require all non-exchange revenue to be recognised in accordance with the *IFRS for SMEs* Accounting Standard with additional NPO-specific guidance provided. The second would require non-exchange revenue to be recognised by using the principles in *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance* to extend the treatment of government grants to other non-exchange transactions (i.e., to recognise revenue on a systematic basis over the periods that the entity recognises as expenses the related costs). The third was to require non-exchange revenue to be accounted for using the principles in *IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)* (that is, revenue is usually recognised when an NPO controls the assets but is deferred where there are conditions). The final alternative would require non-exchange revenue to be accounted for using the principles in *IPSAS*, but in addition, exceptions drawn from various national standards would be considered for inclusion as part of NPO-specific guidance. Using these exceptions would simplify the accounting for gifts in-kind and services in-kind.

- BC23.5 A significant majority of respondents favoured alternatives that used a performance approach where revenue is recognised as performance conditions were satisfied rather than deferring revenue to match expenditure. A performance type of approach was used in the *IFRS for SMEs Accounting Standard* for government grants (as well as for commercial revenue) and in the approach being taken by the IPSASB in updating its revenue standards.
- BC23.6 The need for additional guidance was also raised. Respondents proposed that this guidance should cover:
- non-performance conditions (that is, terms of the agreement that did not relate to an NPO's performance but to other factors such as time);
 - the distinction between 'conditions' and 'restrictions' (that is, the distinction between terms of the agreement that require an NPO to undertake something specific and terms of the agreement that do not require a specific activity to be carried out, but limit the use to which the funds can be put); and
 - the need to ensure consistency of treatment between a grantor of resources and the recipient of those resources.
- BC23.7 Respondents also supported the inclusion of exceptions where NPOs would face practical difficulties in applying the alternatives. This was particularly relevant for gifts in-kind and services in-kind, due to the difficulties some NPOs would experience in measurement.
- BC23.8 Finally, one respondent indicated that it may be preferable to distinguish between revenue with performance conditions and other revenue rather than between exchange and non-exchange revenue. This would be useful for those transactions that had both an exchange and non-exchange element, and was the approach the IPSASB was proposing to take in its draft IPSAS Standards.

Changes to the IFRS for SMEs Accounting Standard and IPSAS Standards and proposal for a two Section approach

- BC23.9 Following the publication of the Consultation Paper there were significant developments in the *IFRS for SMEs Accounting Standard* and IPSAS approach to revenue.
- BC23.10 The IASB issued an exposure draft of the third edition of the *IFRS for SMEs Accounting Standard* which proposes basing Section 23 *Revenue from contracts with customers* on the principles in IFRS 15 *Revenue from Contracts with Customers*. The revised section is longer and more detailed than most other sections of the *IFRS for SMEs Accounting Standard*. In the *IFRS for SMEs Accounting Standard*, Section 24 *Government grants* deals with the accounting for some non-exchange transactions. Only minor redrafting was included in Section 24.
- BC23.11 Meanwhile, the IPSASB continued to develop its approach to revenue, and in May 2023 it issued IPSAS 47 *Revenue*, which replaces its previous revenue standards and covers all revenue transactions.
- BC23.12 The initial focus of the accounting model for revenue adopted in IPSAS 47 is based on whether it arises from a transaction with an enforceable arrangement or without an enforceable arrangement. For revenue from transactions without enforceable

arrangements, the recognition of revenue is consistent with Section 24 of the *IFRS for SMEs* Accounting Standard. For revenue from transactions with enforceable arrangements, the five-step revenue recognition model in IFRS 15 is adapted to apply to a wider range of obligations. This approach is also consistent with Section 24 of the *IFRS for SMEs* Accounting Standard.

- BC23.13 The proposed amendments to the *IFRS for SMEs* Accounting Standard and the issuing of IPSAS 47 results in a similar underlying set of principles in accounting for revenue across all three international frameworks. As a result, the Secretariat proposed that INPAG should also adopt these principles in accounting for revenue.
- BC23.14 The next issue faced by the INPAG Secretariat related to the structure of the guidance for revenue. While the underlying principles are similar across the international frameworks, different structures are used. The *IFRS for SMEs* Accounting Standard provides revenue accounting guidance across two Sections whereas the IPSAS 47 includes all revenue guidance in one IPSAS Standard, removing the need to distinguish between exchange revenue and non-exchange revenue..
- BC23.15 Extensive discussion was held with the Technical Advisory Group (TAG) and Practitioner Advisory Group (PAG) as to whether a single INPAG Section for revenue or separate INPAG Sections for revenue from contracts with customers and revenue from grants and donations would be more appropriate in the NPO context. A single INPAG Section would be based on IPSAS 47, adjusted and simplified as required to suit the NPO context. Separate Sections would see the retention of the new Section 23 *Revenue from contracts with customers* with minor changes for terminology and a new section for non-exchange revenue developed.
- BC23.16 The primary advantages of a single section covering all revenue were identified by the Secretariat to be that it would be a shorter, simpler set of guidance with the avoidance of duplication and without the requirement for NPOs to first determine whether a transaction is revenue from a contract with customers or a grant or donation. By contrast, the primary advantages of separate sections for revenue from customers and revenue from grants and donations were deemed to be ease of application for NPOs that only receive grants and donations, shorter individual sections that would be easier to use and the maintenance of the link with the *IFRS for SMEs* Accounting Standard as the basis of INPAG.
- BC23.17 Both the TAG and the PAG had mixed views, with some members stressing that covering all types of revenue in one section would be preferable while others felt a distinction between 'self-generated' revenue and 'grants and donations' would align itself better to how the sector thinks and talks about revenue.
- BC23.18 In the light of these views, the Secretariat developed a third approach, with all revenue covered in a single section with two Parts, one covering grants and donations and one covering revenue from contracts with customers. Section 23 of INPAG therefore covers all revenue transactions, including those covered by Section 24 of the *IFRS for SMEs* Accounting Standard. Both the TAG and the PAG agreed with this approach.

Section 23 Revenue - Preface

- BC23.19 As revenue from grants and donations and revenue from contracts with customers are covered in separate parts of Section 23, guidance is required to help NPOs determine whether a transaction should be accounted for as revenue from grants and donations or revenue from contracts with customers.
- BC23.20 Section 23 begins with a Preface that provides this guidance. The Preface notes that the substance of a revenue transaction depends on whether an NPO receives consideration in exchange for the direct transfer of services, goods or other assets to another entity or individual (a customer). If the transaction involves the NPO directly providing a service, good or other to a customer in exchange for consideration then it should apply the model for accounting for revenue from contracts with customers. If the transaction involves the NPO receiving cash, a service, good or other asset from an entity without it directly providing cash, a service, good or other asset in return then it should apply the model for accounting for revenue from grants, donations and similar income. Guidance is also provided to assist NPOs determine the appropriate accounting for transactions where the amount of the grant received and the value of services or goods provided are not of approximately equal value.
- BC23.21 The Secretariat also agreed to take steps to reduce the potential duplication required by a two Part approach by placing common content in the Preface. The Preface covers the scope and structure of Section 23, the principles of revenue recognition and measurement (including the initial recognition of grants with enforceable grant agreements and contracts with customers and the five-step revenue recognition model) and revenue in foreign currencies. While the principles can be found elsewhere in INPAG (Section 2 *Concepts and pervasive principles* and Section 30 *Foreign currency translation*), applying these concepts to revenue may be more challenging for NPOs.

Principal versus agent considerations

- BC23.22 NPOs acting on behalf of other entities, was a topic that was included in the IFR4NPO Consultation Paper. Distinguishing between transactions where an NPO acts as an agent for other entities or is acting in its own right (as a principal) is important to understand the accountability of an NPO, to provide transparency over its operating income and its expenditure. An NPO that is an agent will account for a revenue transaction differently than an NPO that is a principal, so including guidance on the topic in Section 23 was considered important. Responses to the Consultation Paper supported the inclusion of principal versus agent considerations in INPAG.
- BC23.23 The proposed changes to the *IFRS for SMEs* Accounting Standard introduce a control-based approach to the principal-agent distinction, rather than a risks and rewards approach, which is consistent with IPSAS 47. It was agreed with the TAG that a control-based approach to principal-agent issues would be proposed in INPAG.
- BC23.24 This control-based approach focuses on the extent to which an NPO has control over an economic resource, which requires it to have the present ability to direct the use of the economic resource and obtain the economic benefits or service potential that may flow from it.

- BC23.25 To be a principal therefore requires the NPO to obtain economic benefits or service potential from an economic resource in order to further its own purpose and achieve its own objectives, and to be able to do so without requiring authorisation from another entity. An NPO that is a principal will account for the economic benefits or service potential it receives (which may be revenue from a grant or donation or revenue from a contract with a customer).
- BC23.26 An NPO is acting as an agent when it does not control the economic resources in an arrangement. This is the case when the NPO is acting for another entity's purpose and objectives, acts in accordance with the instructions or directions of the other entity, and has no discretion about the use to which the resources received are put. An NPO acting as an agent would only account for any management or administration charge, fee or commission it received.
- BC23.27 It was agreed with the TAG that guidance would be integrated into those sections where guidance on principal-agent relationships is required. Section 23 Revenue is one such section.

Part I – Revenue from grants and donations

- BC23.28 The INPAG Secretariat and the TAG considered what approach should underpin the requirements for accounting for grants and donations. Given the strong support for the use of a performance approach from respondents to the Consultation Paper (see paragraph BC23.5) the Secretariat considered the international standards that had adopted (or were adopting) a performance approach to grants and donations (that is, non-exchange revenue). The Secretariat considered adapting Section 24 of the *IFRS for SMEs Accounting Standard*, but concluded that while the principles were appropriate for INPAG, there was insufficient detail to provide the required level of guidance for NPOs.
- BC23.29 The Secretariat therefore looked to IPSAS 47. The principles adopted in IPSAS 47 were consistent with those in Section 24 of the *IFRS for SMEs Accounting Standard*, and included sufficient detail to assist NPOs,
- BC23.30 The Secretariat and the TAG agreed to base Part I of Section 23 of INPAG on IPSAS 47. As IPSAS 47 covers both grants and donations and contracts with customers in a single section, changes were made to the terminology, including removing any references to purchasers and contracts to focus only on grants and donations. The text of the IPSAS 47 was also simplified where possible, with some paragraphs that are unlikely to apply to grants and donations (for example, warranties) being omitted.
- BC23.31 The same five-step revenue recognition model underpins both IPSAS 47 and Section 23 of the *IFRS for SMEs Accounting Standard ED*. Consequently, the Secretariat and the TAG agreed that aspects of the model that would only rarely be relevant to grants and donations need not be covered in Part I. Instead, it was agreed that INPAG would include guidance on how the guidance in Part II of INPAG could be applied to grants and donations, where the guidance in Part I is insufficient. This approach was adopted to enable Part I to be further simplified, making it more usable for the majority of NPOs.

Identifying whether an enforceable grant arrangement exists

- BC23.32 An essential element of the model for recognising revenue from grants and donations is the use of enforceable grant arrangements. An enforceable grant arrangement is defined as “a grant arrangement where both a donor and grant recipient have both rights and obligations, enforceable through legal or equivalent means. A grant recipient’s obligations or undertakings under an enforceable grant arrangement are enforceable grant obligations.” The term ‘undertaking’ has been used to avoid using the term ‘promise’ which is used in Part II with a more specific meaning. In addition, some PAG members were of the view that this better describes how NPOs operate. Use of this term does not imply that an undertaking cannot be enforced by the grant provider, and the term is used in a similar manner as promise is used in Part II.
- BC23.33 This definition of an enforceable grant arrangement is narrower than that of a grant arrangement, as it requires both parties to have enforceable rights and obligations. This allows the rights and obligations to be used as the basis of recognition for both revenue from grants and donations and for expenses on grants and donations (for those NPOs that provide grants to other entities or individuals).
- BC23.34 Feedback from some PAG members and attendees at focus groups discussing the proposals for Section 23 raised concerns about whether in practice legally constructed grant agreements are legally enforceable. Concerns about the imbalance of power between grant-providers and grant recipients were cited along with the likelihood of legal action being taken. The proposed text confirms the proposal that it is the ability to legally enforce a grant arrangement that is important to the existence of an enforceable grant arrangement, and not the likelihood of those rights being exercised. In some jurisdictions, agreements may be enforceable because of possible intervention by the regulator in the event of non-compliance.
- BC23.35 However, a grant agreement that gives an NPO the right to receive a grant without having any obligations would not meet the definition of an enforceable grant arrangement. Such agreements are referred to as funding agreements. The INPAG Secretariat considered that this was appropriate, as such a funding agreement would not give rise to liabilities or assets that could affect the timing of revenue recognition. Consequently, Part I provides guidance separately for grants and donations without enforceable grant arrangements (including funding agreements) and those with enforceable grant arrangements.
- BC23.36 The potential for an enforceable grant arrangement to exist as a result of oral agreements and customary practices has been retained from the IPSAS definition of an enforceable arrangement. In some jurisdictions oral agreements have the same force in law as written agreements subject to certain factors being in place so it was deemed appropriate by the Secretariat for these to have the same standing.

Recognition and measurement principles where there are no enforceable grant arrangements

- BC23.37 Where there are no enforceable grant arrangements, revenue is usually recognised immediately. This approach is consistent with both IPSAS 47 and Section 24 of the *IFRS for SMEs* Accounting Standard. The TAG and the PAG agreed with the Secretariat that an announcement by a potential grant provider of an intention to transfer

resources to an NPO is not of itself sufficient to give the NPO control of those resources.

- BC23.38 The use of fund accounting in the financial statements (see Sections 3–7) will affect the presentation of grants and donations. The Secretariat considered whether to include guidance on such presentation in Section 23, but concluded that a separate, new, section covering fund accounting would better meet NPOs' needs. This new section will be included in ED3.
- BC23.39 Given stakeholders' views when responding to the Consultation Paper (see paragraph BC23.7), additional guidance, including exceptions to the general recognition and measurement principles, has been provided on gifts in-kind and services in-kind. The Consultation Paper identified gifts in-kind and services in-kind as giving rise to potential difficult practical application issues for NPOs, primarily with respect to measurement, and responses confirmed this view.
- BC23.40 The Secretariat, TAG and PAG agreed that the general recognition principles applicable to revenue from grants and donations should apply to gift in-kind and services in-kind where possible, with measurement at recognition at fair value. However, given the practical difficulties that had been identified, NPOs would be permitted to apply permitted exceptions to certain categories of gifts in-kind and services in-kind.:
- Low value items for resale – NPOs are permitted to not recognise assets or revenue when the items are received but only when the items are sold, measured at the amount of consideration received. For these items, the costs of reliably measuring the value of the items on receipt may exceed the value of the information to users of the financial statements.
 - Items for distribution to beneficiaries or for its own use – NPOs are permitted to recognise revenue for these gifts in-kind only when the items are distributed or used. For these items, the costs of reliably measuring the value of the items on receipt may exceed the value of the information to users of the financial statements, especially as the NPO may not be able to use all the items.
 - Services in-kind other than those that are critical to the NPO's mission and where the value of the services can be reliably measured – NPOs are not required to recognise revenue, expenses or assets from services in-kind unless they are critical to the NPO's mission and their value can be measured reliably. Additional disclosures are required for services in-kind that are critical to the NPO's mission but that cannot be reliably measured. For services in-kind, the practical difficulties with measurement were the primary reason for providing an exception. Given these practical difficulties, some advisory group members thought it would be appropriate to extend the exception to all services in-kind. However, some advisory group members think it is important for services in-kind to be recognised, particularly where an NPO is dependent on these services in-kind.

Revenue from transactions with enforceable grant arrangements

- BC23.41 The requirements for accounting for revenue from transactions with enforceable grant arrangements are based on those in IPSAS 47 for the reasons set out in

paragraphs BC23.9–BC23.18. Revenue is recognised as or when enforceable grant obligations (the undertakings made by the NPO in the enforceable grant arrangement) are satisfied. This is consistent with stakeholder’s preference for a performance approach to revenue recognition as seen in the responses to the Consultation Paper (see paragraph BC23.5).

BC23.42 As noted in paragraph BC23.31, Part I adopts a slightly simplified version of the five-step revenue recognition model that is expected to cover all aspects of most enforceable grant arrangements. Guidance for more complex enforceable grant arrangements (which are expected to be rare) has been provided through additional guidance to apply the requirements in Part II . Examples of where additional guidance may be required include modification of agreements and the treatment of variable grant amounts.

BC23.43 The TAG also considered that navigating the guidance might be more complex than necessary for NPOs with simple arrangements that only have a single enforceable grant obligation. Consequently, the Secretariat has included specific guidance for these simpler transactions, which will allow NPOs to identify the requirements without the need to reference the whole of the guidance. This additional guidance does not introduce any alternative requirements, but simply provides summarised guidance for transactions where this is all that is required.

BC23.44 The Secretariat did not identify any other areas where additional guidance was required. However, some topics are particularly relevant to NPOs, and this is reflected in the guidance and examples provided. Some of these areas are discussed below.

Multi-year grants

BC23.45 A key question for NPOs is when grants that are intended to be used over a number of reporting periods should be recognised as revenue. The Secretariat has included Application Guidance and an example to address this issue. The answer to the question will depend on a number of factors. These include:

- the terms of the agreement and the nature of the enforceable grant obligations; and
- whether the agreement is capable of being separated into parts, some of which will be executory and therefore not recognised until one party performs.

BC23.46 The Application Guidance and example cover these issues, allowing NPOs to determine the correct accounting treatment for their circumstances. The TAG was of the view that time on its own is not a performance condition that would create an enforceable grant obligation.

Capital grants

BC23.47 Capital grant arise where an NPO is given a grant to purchase or construct a non-current asset. The general recognition and measurement principles apply to capital grants. However, NPOs will need to carefully identify the enforceable grant obligations in the enforceable grant arrangement as these will affect the timing of

revenue recognition. Application Guidance and an example are provided to assist NPOs in this matter.

Enforceable grant arrangement assets and enforceable grant arrangement liabilities

- BC23.48 An enforceable grant arrangement confers enforceable rights and obligations on the parties to the arrangement. This means that if the NPO fulfils its enforceable grant obligations to the grant-provider it has a right to receive the amount of grant that is due to it from the grant provider. Likewise, the grant-provider has rights that require the NPO to meet the enforceable grant obligations.
- BC23.49 Revenue is recognised by an NPO when it has met its enforceable grant obligations. Timing differences related to the transfer of resources may mean, however, that the transfer of resources occurs either before or after the revenue has been recognised.
- BC23.50 If consideration is received from a grant provider prior to the NPO meeting enforceable grant obligations related to that inflow of resources, a liability will be recognised by the NPO. The term 'enforceable grant arrangement liability' is used to distinguish these liabilities from other liabilities.
- BC23.51 Similarly, if the enforceable grant obligations are met prior to the transfer of resources by the grant provider, an enforceable grant arrangement asset will be recognised. Again, the term 'enforceable grant arrangement asset' is used to distinguish these assets from other assets.

Disclosures

- BC23.52 IPSAS 47 (on which Part I is based) has extensive disclosures (consistent with IFRS 15) which the Secretariat does not consider to be appropriate for INPAG. Other Sections of INPAG have a reduced level of disclosure requirements compared to their full *IFRS Accounting Standards* equivalents. Consequently, the disclosure requirements included in Part I of Section 23 are based on those in the *IFRS for SMEs Accounting Standard Exposure Draft*. These have been adapted for the NPO context and the fact that Part I is dealing with grants. Additional disclosures have been included where there is no equivalent requirement in the *IFRS for SMEs Accounting Standard*, for example funding agreements.

Part II – Revenue from contracts with customers

- BC23.53 No NPO-specific issues have been identified in respect of exchange revenue and exchange revenue was not discussed in detail in the Consultation Paper. As such, the INPAG amendments to the new *IFRS for SMEs Accounting Standard Section 23 Revenue from contracts with customers* are primarily limited to changes to terminology for the NPO-context and the relocation of a small amount of material to the Preface to Section 23 where this helps reduce duplication.
- BC23.54 The only significant change to the authoritative guidance is the inclusion of specific guidance relevant to NPO's for simpler transactions. This highlights to NPOs which requirements of the model are not relevant for simpler transactions and improves the ease of use of what is otherwise a relatively complex Section.

Implementation Guidance: Section 23 – Revenue

Identifying the revenue transaction

Enforceability

What should an NPO consider in assessing enforceability?

- IG23.1 Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires judgment. This assessment is integral to identifying whether an NPO has:
- a) an enforceable grant arrangement (that is, with both enforceable rights and enforceable obligations);
 - b) only enforceable rights (in which case the NPO may have a funding agreement because it has a grant without an enforceable grant arrangement); or
 - c) only enforceable obligations, through legal or equivalent means (in which case the NPO should consider whether it is required to recognise a provision in accordance with Section 21 *Provisions and Contingencies*).
- IG23.2 At inception, an NPO will need to use its judgement and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations. In other words the NPO will need to determine what can be enforced. It will need to consider the implicit or explicit consequences of not satisfying those rights and/or not satisfying those obligations. Relevant factors include, but are not limited to:
- a) The substance (practical effects), rather than the legal form, of the arrangement;
 - b) Terms that are written, oral, or implied by an NPO's customary practices;
 - c) Whether it is enforceable through legal means (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence), or compliance through equivalent means (for example, by arbitration, action taken by a regulator);
 - d) Implicit or explicit consequences of not satisfying the obligations in the arrangement;
 - e) The specific jurisdiction, sector, and operating environment; and
 - f) Past experience with the other parties in the arrangement.

Revenue from transactions with enforceable grant arrangements

- IG23.3 Enforceable grant arrangements in the non-profit sector vary substantially. Some enforceable grant arrangements may require the NPO, as the grant recipient, to achieve a specific wholistic service objective, while other enforceable grant arrangements may impose requirements related to specific goods and services

How does an NPO determine the individual enforceable grant obligations in an enforceable grant arrangement in order to appropriately apply the account for transactions with enforceable grant arrangements?

- IG23.4 An NPO must use judgement as it applies paragraphs G23.45–G23.50 to determine the individual enforceable grant obligations in its enforceable grant arrangement. An enforceable grant arrangement has to have at least one enforceable grant obligation.
- IG23.5 An NPO should first identify all of the undertakings it has given in its enforceable grant arrangement that require it to use resources in a specific manner. Undertakings may be explicit or implicit in the enforceable grant arrangement. An undertaking may require the NPO to achieve a specific outcome, to carry out specific activities, to use resources internally for a good or service, or to transfer a good or service to a service recipient. A thorough assessment is necessary to identify all undertakings (paragraphs G23.48–G23.50).
- IG23.6 Enforceable grant obligations are likely to be subject to monitoring by the grant-providing NPO to determine if, when and how the enforceable grant obligation has been met. Generally, monitoring on its own, is not, however, sufficient to create an enforceable grant obligation. The features of agreements such as not funding terrorism or money laundering that are not specific to a distinct outcome, activity, good or service are not enforceable grant obligations (see also paragraphs AG23.58–AG23.59).
- IG23.7 An NPO then considers each identified undertaking to determine if an undertaking is individually an enforceable grant obligation, or whether it should be grouped with other undertakings, which collectively make up a single enforceable grant obligation. An enforceable grant arrangement is separate and distinct if both of the following criteria are met:
- a) an outcome, activity or deliverable (which may be the transfer of goods or services to service recipients) is separate from other outcomes or activities or deliverables in the enforceable grant arrangement; and
 - b) the resources (including goods or services) required to complete the outcome, activity or deliverable by the enforceable grant arrangement are separate from other resources required by the enforceable grant arrangement.
- IG23.8 Whether an undertaking is capable of being distinct is generally based on the characteristics of the undertaking. However, determining whether the undertaking is distinct within the context of the enforceable grant arrangement will require judgement. This judgement is needed to ensure that the grouping of undertakings, and thus identification of individual enforceable grant obligations, will meaningfully represent the nature of the NPO's transaction with the grant provider and provide a useful depiction of the NPO's performance.
- IG23.9 Any distinct undertaking, or distinct group of undertakings, identified by the NPO through this analysis would be an individual enforceable grant obligation. In many cases, an NPO will need to report progress on individual enforceable grant obligations to its grant provider.

Satisfaction of enforceable grant obligations: methods of measuring progress

When an NPO satisfies an enforceable grant obligation over time, how does it determine a measure of progress that depicts the NPO's performance to satisfy its enforceable grant obligation?

- IG23.10 After the NPO identifies its enforceable grant obligations, the NPO will need to consider the nature of each promise and the specific terms of the enforceable grant arrangement to determine the appropriate method of measuring progress. Methods of measuring progress include output methods and input methods (see paragraphs AG23.50–AG23.57).
- IG23.11 Firstly, all observable and available information associated with satisfying the enforceable grant obligation should be considered. This information will be useful for all parties in the enforceable grant arrangement to confirm whether its terms are being met. Observable and available information may be explicitly required in the enforceable grant arrangement and includes, but is not limited to:
- a) the achievement of specified outcomes;
 - b) the performance of specified activities;
 - c) the incurrence of eligible expenditures;
 - d) the requirement to track progress towards achieving outlined milestones;
 - e) the production or delivery of specific quantities of goods or services; and
 - f) the volume of resources consumed (e.g., labour, materials, machine hours, etc.).
- IG23.12 Some types of information are considered output methods. Output methods are based on the outputs and outcomes from the satisfaction of the enforceable grant obligation. Other types of information are considered input methods. Input methods are based on the NPO's efforts or inputs into the satisfaction of the enforceable grant obligation.
- IG23.13 The NPO should use professional judgement to determine what information most faithfully depicts the NPO's performance towards complete satisfaction of the enforceable grant obligation. In making this assessment, the NPO should also consider which method of measuring progress:
- a) better reflects the nature and intent of the NPO's promise in the enforceable arrangement;
 - b) more clearly captures the relationship with, and communicates the progress toward, the satisfaction of the enforceable grant obligation;
 - c) uses information that is more reliable and directly observable;
 - d) reflects all relevant performance associated with satisfying the enforceable grant obligation; and
 - e) provides benefits that outweigh the costs of obtaining and tracking the necessary information.

IG23.14 There may be situations where resources are passed through a series of NPOs or other entities before outcomes are achieved, activities carried out or services and goods are received by the ultimate service recipients. Where the NPO is one of multiple parties involved in the arrangement, the NPO will need to consider whether the nature of its promise and whether satisfaction of its enforceable grant obligation depends on other parties in the enforceable grant arrangement. This will inform revenue recognition as a principal or agent. For example, the NPO will be a principal where it is primarily responsible for fulfilling the enforceable grant obligation, for example by selecting partner organisations that deliver services to service recipients, and ensuring that these services meet the agreed specification. The NPO will be an agent if the partner organisations have been selected by the grant provider, and the NPO does not control the services provided by those organisations.

Allocation Based on Stand-Alone Values

IG23.15 An NPO is required to allocate the transaction amount to each enforceable grant obligation on a relative stand-alone value basis. However, stand-alone value is not always directly observable, and must then be estimated.

How should an NPO determine the suitable method for estimating the stand-alone value of an enforceable grant obligation?

IG23.16 The stand-alone value is the cost (including costs such as employee costs) the NPO expects to incur to satisfy an enforceable grant obligation.

IG23.17 In some cases, a grant provider may contribute towards part of the costs of an enforceable grant obligation. In such cases, the stand-alone value should reflect the proportion of the enforceable grant obligation covered by the grant provider's contribution.

IG23.18 The stand-alone value of an enforceable grant obligation may differ from the amount of grant the NPO expects to receive for that obligation. Consequently, the amounts of grant to be received that are specified in the enforceable grant arrangement should not be assumed to be a reliable measure of the stand-alone values.

IG23.19 Where the preparation of the enforceable grant arrangement has involved the preparation of budgets for each enforceable grant obligation, these budgets will generally be a reliable measure of the stand alone value of each enforceable grant obligation. This assumes that no changes that have taken place between the preparation of the budgets and the making of the agreement; where this is the case, the stand-alone value should be reassessed as at the date the agreement was made.

IG23.20 The estimated costs used in determining the stand-alone value of an enforceable grant obligation should be based on observable information wherever possible. Observable information will include the market price of any goods or services that are to be purchased and known staffing costs where the NPO's staff will carry out the activities needed to satisfy the enforceable grant agreement.

IG23.21 Based on the reasonably available information, the NPO will then determine which method to use for estimating the stand-alone value. The method chosen should

most faithfully represent the value of the goods or services promised in the enforceable grant arrangement.

- IG23.22 The stand-alone values of enforceable grant obligations are determined at the inception of the enforceable grant arrangement and, unless the arrangement is subsequently modified, the stand-alone values are not changed to reflect changes in circumstances.
- IG23.23 The transaction amount (the total amount of the grant) is allocated to enforceable grant obligations on based on their relative stand-alone amounts. For example, if the stand-alone value of one enforceable grant objective is CU60,000 and the stand-alone value of another objective is CU40,000, 60% of the transaction amount is allocated to the first enforceable grant obligation, and 40% to the second enforceable grant obligation. The amount allocated to each enforceable grant obligation will only be the same as the stand-alone value if the transaction amount is exactly CU100,000.

Illustrative Examples: Section 23 – Revenue

Determining which Part of Section 23 applies

Revenue transactions are classified as revenue from grants or donations (covered in Part I of Section 23) or revenue from contracts with customers (covered in Part II of Section 23). The different economic substance of revenue transactions can be highlighted as follows.

Example 1

NPO A has the primary objective of improving the healthcare of mothers and children under the age of five. It aims to achieve this mainly through providing free primary care to mothers and children in its own network of healthcare facilities. It has also recently begun to provide consultancy and training services aimed at other healthcare providers for which it charges fees.

A philanthropic organisation provides NPO A with CU1m in cash to support its provision of primary care services. NPO A has control of the economic resources transferred because although it is required to use the cash to provide primary care services and give the philanthropic organisation information on how the cash has been used, it has discretion over how the cash is utilised without requiring further authorisation from the philanthropic organisation. As the philanthropic organisation does not receive directly cash, a service, good or other asset in return by NPO A (it is those that are receiving the primary care services that benefit), the economic substance of this transaction means that NPO A should apply Part I for accounting for revenue from grants, donations and similar transfers.

In addition to the transaction involving the CU1m transfer of cash, the philanthropic organisation asks NPO A to provide it with a series of training courses. These training courses are attended by other healthcare organisations that the philanthropic organisation supports. The overall aim of the courses is to ensure that the philanthropic organisation's grants to these healthcare organisations are more effectively utilised. As part of the agreement, the philanthropic organisation determines who the organisations are that NPO A will deliver the training courses to and has the overall responsibility for approving the content of the training to ensure it achieves its aim. NPO A and the philanthropic organisation agree a fixed fee of CU10k for each course to be delivered. NPO A is not required to provide the philanthropic organisation with any further information on how that fee is being used to deliver the training. The economic substance of this transaction, as it involves NPO A directly providing a service to the philanthropic organisation in exchange for consideration, means that NPO A should apply Part II for accounting for revenue from contracts with customers.

In both of the transactions NPO A controls the economic resources provided to it by the philanthropic organisation. This control arises because NPO A has the present ability to direct the use of the economic resources and obtain the economic benefits or service potential that may flow from it. In situations such as these an NPO is deemed to be acting as a principal.

Example 2

NPO B a non-profit school (NPO B) has a primary objective of providing free education to disadvantaged children, but also provides some training courses to companies on a commercial basis. A company (the Company) enters into an agreement with NPO B where the Company will pay NPO B CU500,000 to both provide a training course for its employees and to fund additional places at the school. The usual price of the training course is CU300,000.

NPO B considers the economic substance of the transaction to determine the appropriate accounting treatment. NPO B concludes that the agreement with the Company includes two transactions – a contract with a customer for the provision of the training course and a grant to provide additional places for disadvantaged children at the school.

NPO B will need to allocate the total amount payable under the agreement to the two transactions. As there is a known price for the training course, NPO B uses this to determine the allocation of the total amount.

NPO B accounts for a grant of CU200,000 (under Part I of Section 23) and a contract with a customer of CU300,000 for the training course (under Part II of Section 23).

Accounting for grants and donations

Identify the revenue transaction

Examples 3–5 illustrate the requirements in paragraphs AG23.16–AG23.31 and [Figure AG23.2](#) on the determination of whether an NPO has entered into a revenue transaction with an enforceable grant arrangement.

Example 3 – Existence of rights and obligations

Case A – No obligations, no specified time period, and no reporting to the grant provider

NPO C (an environmental organisation) receives funding of CU510,000 from a grant provider (Donor A) to fund environmental programmes. The agreement requires funding to be spent on programmes with the goal of improving biodiversity in the region. If NPO C incurs expenses to improve biodiversity in the region, it is able to enforce its right to receive funding from Donor A. The agreement does not specify the time period in which the funds are to be spent, any requirement to fund specific biodiversity programmes, nor how Donor A will receive or verify information on how the funds were spent.

Analysis

Enforceable right - NPO C has an enforceable right to resources from Donor A if it incurs eligible expenses.

Enforceable grant obligation – NPO C does not have an enforceable grant obligation because Donor A does not have the ability to enforce how NPO C uses funds in a specific way (for example, specific programmes) or within a specific time period.

Conclusion

NPO C concludes that the grant is a funding agreement and not an enforceable grant arrangement. Although NPO C has an enforceable right to resources, the funding agreement does not include an enforceable grant obligation for NPO C as Donor A has no realistic way to enforce the requirement to spend all of the funds. As a result, NPO C accounts for the revenue as revenue from a transaction without an enforceable grant arrangement.

Case B – Specified time period to spend funds

The same facts as in Case A apply to Case B, except the agreement specifies that the funds are to be spent within a five-year period.

Analysis

Enforceable right - NPO C has an enforceable right to resources from Donor A if it incurs eligible expenses, and this is not changed by the requirements to spend the funding within five years.

Enforceable grant obligation – The requirement to spend the CU510,000 within five years does not change NPO C's conclusion that it has a funding agreement and it does not have an enforceable grant obligation. This is because Donor A is not able to confirm if and when NPO C spends the funds as stated in the agreement.

Conclusion

NPO C concludes that the funding agreement is not an enforceable grant arrangement. Although NPO C has an enforceable right to resources, the funding agreement does not have an enforceable grant obligation. Donor A has no realistic way to enforce the requirement to spend all of the funds. As a result, NPO C accounts for the revenue as revenue from a transaction without an enforceable grant arrangement.

Case C – Specified time period to spend funds and specific reporting to the donor is required

The same facts as in Case B apply to Case C, except the agreement also specifies how NPO C is to report its spending to Donor A, and that any misused or unused funds are to be returned to Donor A. NPO C continues to have full discretion over how to use the funds, as long as the funds are spent within five years on activities that reasonably relate to improving biodiversity in the region, **Error! Reference source not found.** which NPO C considers could apply to almost all its activities.

Analysis

Enforceable right - NPO C has an enforceable right to resources from Donor A if it incurs eligible expenses, and this is not changed by the additional requirements in the enforceable grant arrangement.

Enforceable grant obligation – NPO C does not have an enforceable grant obligation. In accordance with paragraphs AG23.58–AG23.59, the reporting requirements are a formality and not a separate enforceable grant arrangement. The wording of the enforceable grant arrangement does not identify specific outcomes, activities or resources to be used internally, and therefore does not give rise to enforceable grant obligations. While the requirement to return unused funds would normally give rise to an enforceable grant obligation, it does not do so in this case as, because the requirement is not specific, almost all NPO C's activities would meet the definition and NPO C will always be able to identify relevant spending.

Conclusion

NPO C concludes that the funding agreement is not an enforceable grant arrangement. Although NPO C has an enforceable right to resources and is required to report its spending to Donor A, the funding agreement does not have an enforceable grant obligation. Because no specific

objectives, activities or resources are identified, Donor A has no realistic way to identify the resources spent separately from any other expenses of NPO C. As a result, NPO C accounts for the revenue as revenue from a transaction without an enforceable grant arrangement.

Case D – Specified time period to spend funds, specific reporting to the donor and donor assessment of suitability is required

The same facts as in Case C apply to Case D, except that the agreement also specifies that NPO C is to report its activities and a series of metrics measuring the changes in biodiversity in the region. Donor A is entitled to a full or partial refund if it does not receive this report or if it considers that the report shows that NPC C has not employed best endeavours to implement additional activities that have had an impact on biodiversity. In accordance with paragraphs AG23.58–AG23.59, NPO C concludes that the reporting requirements have substance because satisfaction of its enforceable grant obligation cannot be certain until it receives Donor A's confirmation that Donor A considers best endeavours have been employed.

Conclusion

NPO C concludes that it has an enforceable grant arrangement because both the donor and the grant recipient have an enforceable right and enforceable obligation. NPO C accounts for the revenue as revenue from a transaction with an enforceable grant arrangement. Because Donor A does not have the ability to enforce how NPO C uses funds in a specific way (for example, use resources for specific programmes), it is probable that NPO C has a single enforceable grant obligation and can therefore apply the simplified procedures in paragraphs G23.42–G23.43. **Error! Reference source not found..**

Example 4 – Research grant arising from an enforceable grant arrangement

NPO D has a research lab that enters into an arrangement and receives CU10 million from the government (the Government) to conduct research into a potential cure for a widespread disease. This research project is expected to result in the development of intellectual property that consists of a drug formula and manufacturing know-how. The agreement contains specific and measurable milestones that must be met by NPO D. If these milestones are not met, NPO D is required to return all, or a portion, of the funds to the Government. Once the research is complete, there is no requirement in the agreement for NPO D to transfer the findings or any resulting intellectual property to the Government. NPO D is also able to ensure that payment is received from the Government for research work planned or completed.

Based on these terms, NPO D has concluded that the agreement is an enforceable grant arrangement, as it has an enforceable grant obligation to conduct the research project in accordance with the specified milestones in order to retain the funds, and an enforceable right to payment of the grant for conducting this research project. NPO D shall apply the accounting principles in paragraphs G23.40–G23.60 to account for this revenue from a transaction with an enforceable grant arrangement.

Example 5 – Online donations

NPO E is an aid organisation that provides emergency aid internationally issues an online appeal to raise funds to provide support to those affected by a natural disaster.

Case A – No promises in the appeal

Although the appeal refers to the specific natural disaster and the work of NPO E in supporting those affected, the appeal does not specify that all donations will be directed to this work.

Analysis

Resources – NPO E gains control of the resources when it receives online donations.

Enforceable grant obligation – NPO E does not have an enforceable grant obligation because the wording of the appeal does not require the Aid Organisation to use the funds in support of any particular activities.

Conclusion

NPO E concludes that the appeal is not an enforceable grant arrangement as it does not have an enforceable grant obligation. As a result, NPO E accounts for the revenue as revenue from a transaction without an enforceable grant arrangement.

Case B – The appeal includes specific promises

The appeal includes a promise that all donations will be used to support those affected by the specific natural disaster.

Analysis

Resources – NPO E gains control of the resources when it receives online donations.

Enforceable grant obligation – NPO E does not have an enforceable grant obligation. Although the appeal includes a statement that all donations will be used to support those affected by the specific natural disaster, the individual online donors have no way of enforcing this, and cannot tell if their specific funding has been used as promised.

Conclusion

NPO E concludes that the appeal is not an enforceable grant arrangement as it does not have an enforceable grant obligation. As a result, NPO E accounts for the revenue as revenue from a transaction without an enforceable grant arrangement.

Example 6 – Requirement to raise match funding

NPO F (a heritage organisation) is seeking funding to permit it to restore a local historic building. NPO F enters into an agreement with a foundation (the Foundation) whereby the Foundation will provide half of the funding required provided that NPO F is able to raise the balance of the funding required by an agreed date. If NPO F fails to raise the balance of the funding required by the agreed date, the Foundation will provide no funding. The Foundation requires periodic reports on the match funding raised by NPO F.

The agreement also requires NPO F to use the funding provided by the Foundation to restore the local building within three years of the funding being provided. The agreement specifies the various stages of restoration to be completed, based on the technical report provided by NPO F. If the work is incomplete after three years, the Foundation is entitled to reclaim an amount of

the grant proportional to the amount of work that is incomplete, and requires periodic reports on progress to be submitted.

Analysis

Enforceable right – NPO F has an enforceable right to resources from the Foundation if it incurs raises match funding and completes the restoration work.

Enforceable grant obligation – NPO F has enforceable grant obligations to complete the restoration work, because the Foundation has the ability to enforce use to which NPO F puts the funds within a specified period and periodic reporting provides the Foundation with the ability to enforce the obligations.

Conclusion

NPO F concludes that the agreement with the Foundation is an enforceable grant arrangement as it has both an enforceable right and an enforceable grant obligation. As a result, NPO F accounts for the revenue as revenue from a transaction with an enforceable grant arrangement (see Example 9 for details).

An NPO only recognises an enforceable grant arrangement if it is probable that it will collect the grant amount to which it will be entitled for satisfying its enforceable grant obligations. Prior to the match funding being received, the Heritage Organisation will only recognise revenue if it is probable that the match funding will be received (see paragraph G23.74 e)).

Recognition of revenue transactions without an enforceable grant arrangement

Example 7 – Gifts in-kind

A business (Business A) is relocating, and donates office furniture and office supplies to NPO G (a community centre).

NPO G has no use for the office furniture, but has agreed with Business A that it can sell the furniture and use the proceeds for its general purposes. It arranges to sell the furniture by auction and receives the proceeds of CU2,000 one month later.

NPO G uses the office supplies in running its day-to-day operations. The office supplies are the type of consumables that it would normally purchase. NPO G estimates it would have paid CU500 to purchase the supplies received from Business A

INPAG permits an NPO to apply a permitted exception to both items donated for resale and for use (see paragraphs G23.36 a) and G23.36 b)). Consequently, NPO G:

- Does not recognise revenue or inventory when it receives the office furniture and office supplies;
- Recognises cash and revenue of CU2,000 when it sells the office furniture; and
- Recognises revenue and an expense of CU500 as it uses the office supplies.

In practice, NPO G may not recognise revenue and an expense in respect of the office supplies if the amounts are not material.

Also, although not the case in this example, NPO G may not recognise a revenue and expense in respect of the office supplies if it is not able to reliably measure the gifts in-kind (for example, because the goods are not readily available on the market and are not regularly used by NPO G) (see paragraph G23.38).

Example 8 – Services in-kind

A cleaning business (Business B) provides services in-kind to NPO H (a community centre) by professionally cleaning its public areas once a month. The usual cost of each clean would be CU500. As the usual price of each clean is known, it can be reliably measured.

NPO H considers whether the cleans are critical to its mission and concludes they are not, as its mission relates to the services it provides, and it has other arrangements for cleaning its public spaces between the professional cleans.

NPO H can elect to either:

- Apply the permitted exception and recognise no revenue or expense in relation to the cleaning (see paragraph G23.36 c)); or
- Apply the general recognition and measurement principles, and recognise revenue and an expense of CU500 each month as it receives the cleaning services.

Recognition of revenue transactions with an enforceable grant arrangement

Example 9 – Allocating the transaction consideration to enforceable grant obligations

The facts are the same as in Example 6

Having concluded that it has an enforceable grant arrangement, NPO F is required to allocate the transaction amount to its various enforceable grant obligations.

NPO F considers the terms of the enforceable grant arrangement to determine its enforceable grant obligations and whether these are satisfied over time or at a point in time.

Assuming the match funding has been raised, NPO F is entitled to payment for work done to date (as any refund is based on the work that has not been carried out). It therefore concludes that its obligation or obligations are satisfied over time. NPO F considers all the circumstances to determine if it has a single enforceable grant obligation for the whole restoration work, or a series of enforceable grant obligations for each stage of the work. In this example, it is assumed there are a number of enforceable grant obligations.

NPO F uses the estimates of work required (set out in its technical report) to allocate the grant between the enforceable grant obligations for the various stages of restoration work required.

NPO F considers what amount of the grant, if any, should be allocated to the obligation to raise match funding. It concludes that no amount should be allocated to this obligation as raising the match funding does not, of itself, entitle NPO F to revenue. Consequently, the obligation to raise match funding is not an enforceable grant obligation.

NPO F therefore concludes that the transaction amount should be allocated to the various stages of restoration work.

Once the match funding has been raised, NPO F will recognise revenue as each stage of restoration work is completed.

Example 10 – NPO simultaneously receives and consumes the economic benefits or service potential

Case A – Satisfaction of enforceable grant obligation to use resources for goods or services internally

An international organisation (the Organisation) enters an enforceable grant arrangement to provide CU1.2 million to NPO I (a hospital) . The Organisation requires NPO I to use the CU1.2 million in the operation of its x-ray department.

The use of funds in the x-ray department is a single enforceable grant obligation in accordance with paragraph G23.45. The enforceable grant obligation is satisfied over time because NPO I becomes entitled to the resources received as it operates the x-ray department over time. This is equivalent to a customer (under Part II) receiving and consuming the benefits of an NPO's actions at the same time (see paragraph G23.142 a), reading the reference to 'customer' an NPO) NPO I recognizes revenue over time by measuring its progress towards complete satisfaction of that enforceable grant obligation in accordance with paragraphs AG23.50–AG23.57.

Case B – satisfaction of enforceable grant obligation to transfer goods or services to service recipient

NPO J enters into an enforceable grant arrangement with a grant provider (Donor B) to provide monthly training to a group of newly-established NPOs (the Service Recipients) for one year.

The promised training services are accounted for as a single enforceable grant obligation in accordance with paragraph G23.46.

The enforceable grant obligation is satisfied over time in accordance with paragraph G23.142 b) (reading the reference to the 'promise to the customer' as the 'enforceable grant arrangement') because the Service Recipients simultaneously receive and consume the economic benefits or service potential of NPO J's performance in delivering each training session as and when each session is delivered.

The fact that another entity would not need to re-perform training for the sessions that NPO J has provided to date also demonstrates that the Service Recipients simultaneously receive and consume the economic benefits or service potential of NPO J's performance as NPO J performs.

NPO J recognizes revenue over time by measuring its progress towards complete satisfaction of that enforceable grant obligation in accordance with paragraphs AG23.50–AG23.57.

Example 11: NPO is party to an enforceable grant arrangement with payments of grant over multiple years

A regional government (the Region) provides budget support to NPO K to help them meet essential administrative costs. By receiving budget support, NPO K is then able to direct the resources it receives from other sources towards costs associated with programmes, projects and activities rather than administration.

NPO K has signed an agreement with the Region to expand a number of programmes that aim to protect environmental habitats while also providing employment for indigenous communities. The agreement between NPO K and the Region provides the NPO K with CU2 million of budget

support each year for five years provided that NPO K funds the agreed programmes over five years.

The agreement between NPO K and the Region is an enforceable grant arrangement. The Region has agreed to provide a total of CU10 million to NPO K provided that NPO K's Board funds the agreed programmes over the five year. NPO K has subsequently agreed a five year budget that dedicates CU10 million to these projects based on receiving the same amount in budget support over that period.

Case A – NPO K has a single enforceable grant obligation (the agreement of the five year budget)

As there are no further enforceable grant obligations placed on NPO K, the Region is unable to realistically avoid the transfer of resources, and NPO K is able to enforce the payment of the CU2 million each year.

Although the arrangement spans five years, with the transfer of CU2 million due each year, the recognition of revenue must be considered independently from the timing of when the resources are transferred. For the recognition of revenue, NPO K must consider whether it has performed under the terms of the enforceable grant arrangement and met its enforceable grant obligation. As it has done so for the entire amount that the Region is obliged to transfer, NPO K will therefore recognise revenue and matching enforceable grant arrangement asset of CU10 million once the five year budget has been agreed by NPO K's Board.

This enforceable grant arrangement asset will be reduced by CU2 million each year as the resources are transferred from the Region to NPO K. Any amounts that become payable under the enforceable grant arrangement prior to the resources being transferred will be recognised as a receivable, with an equivalent reduction in the enforceable grant arrangement asset.

Case B – the enforceable grant arrangement contains multiple enforceable grant obligations

NPO K is required to reconfirm the budget agreement every year. Consequently, it has a series of enforceable grant obligations (to reconfirm the budget annually), and the Region has a series of enforceable grant obligations (to pay CU2 million annually). NPO K considers paragraphs AG23.39–AG23.43 in determining whether parts of the enforceable grant arrangement remain equally unsatisfied, and whether NPO K should not recognise any asset, liability or revenue for the equally unperformed parts of the enforceable grant arrangement.

NPO K concludes that each year of the enforceable grant arrangement is a separate part, as NPO K will not have reconfirmed the budget for those years and the Region will not have made payment for those years. Consequently, NPO K does not recognise any revenue for future years, but recognises CU2 million at the inception of the arrangement. It will subsequently recognise CU2 million for each future year as the budget is reconfirmed.

Example 12: NPO is party to an enforceable grant arrangement with a capital grant

A fund set up to support local sports organisations (the Fund) has signed an agreement with NPO L (a community athletics organisation) to upgrade its facilities. This provides NPO L with CU5 million of upfront funding for major building work including a new changing facility, a small grandstand for spectators, and the installation of an all-weather running track. Under the agreement any unspent funds are to be returned to the Fund.

The agreement between NPO L and the Fund is an enforceable grant arrangement involving a capital grant. The terms of the enforceable grant arrangement require NPO L to construct a number of specified non-financial assets, namely the changing facility, the grandstand, and the all-weather running track in exchange for the transfer of resources. In the event that not all assets are constructed, NPO L is entitled to payment for the work that has been undertaken.

As NPO L is entitled to payment for work completed to date, it recognises revenue as the assets are being built. NPO L measures its performance based on percentage of completion. This measures progress based on costs incurred against the overall projected costs of the building work.

The Fund has provided the full expected cost of the project as a transfer to NPO L at the commencement of the enforceable grant agreement. NPO L therefore recognises an enforceable grant arrangement liability for the amount received, which represents the value of its obligations under the enforceable grant arrangement. NPO L will recognise revenue and derecognise the enforceable grant arrangement liability over time based on the percentage of costs incurred to date.

The enforceable grant arrangement liability will be fully derecognised once the project is completed. If overall costs are lower than the initial transfer of resources received by NPO L, NPO L will recognise a payable for the amount of the unused grant. The payable will be derecognised once the unused funds are reimbursed.

Example 13: NPO is party to an enforceable grant arrangement with a capital grant including gifts in-kind

The facts are the same as in Example 12 except that the Fund provides cash of CU4.5 million along with plant that is required to be installed. The plant is delivered at the commencement of the enforceable grant arrangement.

The process for recognising revenue and the arrangements for reimbursing unused funds are the same as in Example 12. The only difference is in the recognition of the non-cash item. NPO L applies paragraph G23.124, reading the references to:

- Transaction price as transaction amount;
- Contract with a customer as enforceable grant arrangement;
- Consideration as grant amount;
- Stand-alone selling price as stand-alone value; and
- Goods or services promised to the customer as enforceable grant arrangements.

NPO L therefore:

- Recognises as an asset both the cash received and the plant, measured at its fair value;
- Recognises an enforceable grant arrangement liability; and
- Recognises revenue and derecognises the enforceable grant arrangement liability as it completes the construction.

Measurement of revenue transactions with an enforceable grant arrangement

Variable consideration

Example 14 – Estimating Variable Consideration

The facts are the same as in Example 6, except that the amount of the grant will be adjusted depending on the timing of completion of the construction work as the enforceable grant arrangement includes a penalty for delayed completion and an incentive for early completion. Specifically, for each week after March 31, 20X7 that the work is incomplete, the promised consideration is reduced by CU10,000 and for each week before March 31, 20X7 that the construction work is complete, the promised consideration increases by CU10,000.

In addition, upon completion of the construction work, a third party will inspect the facilities and assign a quality rating based on metrics that are defined in the enforceable grant arrangement. If the facilities receive an 'excellent' rating, NPO F will be entitled to an incentive bonus of CU50,000.

In accounting for the variable amount, NPO F applies paragraphs G23.107–G23.111, reading the references to:

- Consideration as grant amount;
- Contract with a customer as enforceable grant arrangement; and
- Transaction price as transaction amount.

NPO F determines that the consideration promised in the enforceable grant arrangement includes a variable amount, and estimates the amount of consideration it is entitled to. In determining the transaction consideration, NPO F prepares a separate estimate for each element of variable consideration to which NPO F will be entitled using an estimation method:

- NPO F decides to use the expected value method to estimate the variable consideration associated with the weekly penalty or incentive. This is because it is the method that NPO F expects to better predict the amount of consideration to which it will be entitled.
- NPO F decides to use the most likely amount to estimate the variable consideration associated with the quality incentive. This is because there are only two possible outcomes (CU50,000 or CU0) and it is the method that NPO F expects to better predict the amount of consideration to which it will be entitled.

Significant financing component

Example 15 – Advance receipt and assessment of discount rate

NPO M will hold an international conference in two years and needs to pay for a number of services ahead of the event taking place. Donor C enters into an enforceable grant arrangement, and agrees to pay NPO M a grant of CU100,000 immediately. The terms of the enforceable grant arrangement entitle Donor C to a full refund if the conference does not take place.

NPO M concludes that the enforceable arrangement contains a significant financing component because of the length of time between it receives the grant and when it delivers the conference.

NPO M determines that the rate that should be used in adjusting the promised consideration is five percent, which is the rate at which NPO M could have borrowed the funds on the market at the inception of the enforceable grant arrangement.

In accounting for the significant financing component, NPO M applies paragraphs G23.122–G23.123, adjusted to allow for the grant being paid in advance of the enforceable obligation being satisfied, which gives rise to an interest expense (see paragraph AG23.38). NPO M applies this guidance reading the references to:

- Consideration as grant amount;
- Contract with a customer as enforceable grant arrangement; and
- Customer as grant provider.

The following journal entries illustrate how NPO M would account for the significant financing component:

- a) Recognise an enforceable grant arrangement liability for the CU100,000 payment received at inception of the enforceable grant arrangement:

Cash CU100,000

Enforceable arrangement liability CU100,000

- b) During the two years from inception of the enforceable arrangement until the delivery of the conference, NPO M adjusts the promised amount of consideration and builds up the enforceable arrangement liability by recognising interest on CU100,000 at five percent for two years:

Year 1 – interest of CU5,000 (enforceable grant arrangement liability of CU100,000 x 5%)

Interest expense CU5,000

Enforceable arrangement liability CU5,000

Year 2 – interest of CU5,250 (enforceable grant arrangement liability of CU105,000 x 5%)

Interest expense CU5,250

Enforceable arrangement liability CU5,250

- c) Recognise revenue when the conference is delivered:

Enforceable arrangement liability CU110,250

Revenue CU110,250

Terms for the Glossary

Enforceable grant arrangement - a grant arrangement where both a donor and grant recipient have both rights and obligations, enforceable through legal or equivalent means. A grant recipient's undertakings under an enforceable grant arrangement are enforceable grant obligations.

Enforceable grant arrangement asset - an NPO's right to a grant amount for satisfying its enforceable grant obligations in an enforceable grant arrangement prior to the grant provider transferring resources.

Enforceable grant arrangement liability - an NPO's obligation to satisfy its enforceable grant obligation in an enforceable grant arrangement for which the NPO has received consideration (or the amount is due) from the grant provider.

Capital grant - an inflow that arises from an enforceable grant arrangement of cash or another asset with a specification that the NPO acquires or constructs a non-financial asset that will be controlled by the NPO.

Enforceable grant obligation - a grant recipient's undertaking in an enforceable grant arrangement to achieve a specified outcome, to carry out a specified activity, to use distinct services, goods or other assets internally for a specified purpose or to transfer distinct services, goods, cash or other assets to a service recipient.

Grant provider - the party that provides a resource to the NPO.

Service recipient - an entity, household or individual who will benefit from a transaction made between other parties by receiving resources.

Stand-alone value (of a good or service) - the price of a good or service that is used internally, or provided separately to a service recipient.

Transaction consideration - the amount of resources to which an NPO expects to be entitled.

Contract - An agreement between two or more parties that creates enforceable rights and obligations.

Contract asset - An NPO's right to consideration in exchange for goods or services that the NPO has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the NPO's future performance).

Contract liability - An NPO's obligation to transfer goods or services to a customer for which the NPO has received consideration (or the amount is due) from the customer.

Customer - A party that has contracted with an NPO to obtain goods or services that are an output of the NPO's ordinary activities in exchange for consideration.

Revenue - Income arising in the course of an NPO's ordinary activities.