

Copyright and disclaimers

Notice

The International Non-Profit Accounting Guidance contain copyright material of IFAC® in respect of which all rights are reserved.

Reproduced and distributed by the Chartered Institute of Public Finance and Accountancy (CIPFA) with the permission of IFAC. No rights granted to third parties other than as permitted by the Terms of Use without the prior written permission of CIPFA and IFAC.

The International Non-Profit Accounting Guidance are issued by CIPFA and have not been prepared or endorsed by the International Public Sector Accounting Standards Board.

The 'International Public Sector Accounting Standards Board', 'International Public Sector Accounting Standards', 'Recommended Practice Guidelines', 'International Federation of Accountants', 'IPSASB', 'IPSAS', 'RPG', 'IFAC', the IPSASB logo, and IFAC logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

Section 24 – Expenses

(New)

Section 24 of the IFRS for SMEs Accounting Standard has been removed, with the equivalent guidance in Section 23 Part 1 Grants and donations. A new Section 24 has been developed to address NPO specific issues related to expenses.

G24.0 This Section provides guidance on the accounting for expenses incurred by NPOs on operating activities. It comprises three parts:

Part I *Expenses on grants and donations*

Part II *Classification of expenses*

Part III *Fundraising costs*

Part I - Expenses on grants and donations

Scope

G24.1 This section specifies the accounting for expenses on grants, donations and similar transfers (hereafter called **grant expenses**) by **grant-providing NPOs**. It does not relate to the receipt of grants, donations and similar transfers that it has received from another entity as a **grant recipient**, which is specified in Section 23 *Revenue Part I*.

G24.2 A grant expense is an expense arising from a transaction in which a grant-providing NPO provides, or is obliged to provide, assistance to a **grant recipient** (which may be an entity or individual) by transferring cash or a service, good or other asset to that grant recipient without directly receiving any cash, service, good or other asset in return.

Enforceable grant arrangements

G24.3 An **enforceable grant arrangement** is a grant arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on both the parties to the grant arrangement. This could be through a written grant agreement, but could also be through an oral agreement or implied by a grant-providing NPO's or a sector's customary practices. In determining whether a grant arrangement is enforceable, a grant-providing NPO must consider the substance rather than the legal form of the grant arrangement. This will require the consideration of the grant-providing NPO's, the grant recipient's and the sector's customary practices.

G24.4 An enforceable grant arrangement must specify the outcome that the grant recipient undertakes to achieve with the transferred resources, the activities that the grant recipient undertakes to carry out with the transferred resources, or the distinct services, goods and other assets the grant recipient undertakes to use the resources for, either internally or to transfer externally. These requirements on the use of the resources create an **enforceable grant obligation**.

G24.5 An arrangement with a grant recipient that is not enforceable through legal or equivalent means and does not give both parties rights is a **funding agreement**. A funding agreement may be a written grant agreement, an oral agreement or implied by customary practices. A funding agreement also includes those situations where a grant-providing NPO transfers resources to a grant recipient without there being any agreed

or implied arrangement in place. A funding agreement may still constrain the grant recipient's use of the resources, but this will not be sufficient to create an enforceable grant obligation. This is because a funding agreement does not confer both rights and obligations, enforceable through legal or equivalent means, on both the parties to the arrangement.

G24.6 Grant expenses may therefore arise from transactions involving:

- (a) funding agreements; and
- (b) enforceable grant arrangements.

Grant expenses from transactions that are funding agreements

Recognition and measurement

G24.7 For funding agreements that do not contain an obligation, but where the grant-providing NPO nevertheless transfers resources to the grant-recipient, a grant expense shall only be recognised when the grant-providing NPO transfers the resources to the grant-recipient and no longer controls the resources in the transaction.

G24.8 Where there is an obligation established by legal or similar means (hereafter a legal obligation) to transfer resources that results in the recognition of a liability, or there is a constructive obligation to transfer resources that results in the recognition of a provision in accordance with paragraph G21.4 of Section 21 *Provisions and Contingencies*, a grant expense shall be recognised at the same time as the liability or provision. The subsequent transfer of resources will settle the recognised liability or provision.

G24.9 Where a grant-providing NPO recognises a grant expense because it has ceased to control the resources in the transaction, the grant expense shall be measured at the carrying amount of the previously controlled resources.

G24.10 Where a grant-providing NPO recognises a grant expense because a legal or constructive obligation has been established, the grant expense and liability shall be initially and subsequently measured at the amount of the resources that the grant-providing NPO is obliged to transfer to the grant recipient. The provision shall be initially and subsequently measured in accordance with paragraphs G21.8-G21.12.

G24.11 Any requirements that constrain the use of the resources provided to the grant recipient may give rise to an asset for the grant-providing NPO if at a future date the grant recipient does not satisfy those requirements. For example, if a grant recipient fails to use a grant within the timeframe specified in the funding agreement, an obligation to refund all or part of the grant may arise at the end of the specified time period. The grant-providing NPO will only recognise an asset where the failure to satisfy the requirements creates a present obligation for the grant recipient.

G24.12 After the inception of a funding agreement, a grant-providing NPO shall account for any financial asset that arises as a result of a grant recipient's failure to comply with a requirement that constrains the use of resources in accordance with Section 11 *Financial Instruments* as at the date at which the failure to meet the requirement is confirmed. If not a financial asset, the asset shall be accounted for in accordance with the relevant

Section of INPAG and shall subsequently be assessed for impairment in accordance with Section 27 *Impairment of assets*.

Grant expenses from transactions with enforceable grant arrangements

Recognition and measurement

- G24.13 Where there is an enforceable grant arrangement, a grant-providing NPO shall consider its rights in the enforceable grant arrangement. The grant-providing NPO shall identify each distinct **grant fulfilment right** (or series of grant fulfilment rights that have substantially similar characteristics) that creates an **enforceable grant obligation** for the grant recipient.
- G24.14 The substance of the enforceable grant arrangement may mean that effectively there is only one grant fulfilment right and one enforceable grant obligation.
- G24.15 The grant-providing NPO will need to consider the terms of the enforceable grant arrangement to determine the **stand-alone amount** that it is obliged to pay the grant recipient for meeting each distinct grant fulfilment right. If there is only one grant fulfilment right this will be the total amount of the grant.
- G24.16 An enforceable grant arrangement will be wholly unsatisfied if the grant-providing NPO has not yet transferred and is not yet obligated to transfer an amount to the grant recipient and the grant recipient has not yet met any of its stated enforceable grant obligations in the enforceable grant arrangement. This is similar to an executory contract in which neither party has fulfilled any of its obligations. If an enforceable grant arrangement is wholly unsatisfied the grant-providing NPO does not recognise any expense, asset or liability associated with the enforceable grant arrangement. Only as one or both parties begin to fulfil their obligations will the grant-providing NPO begin to recognise transactions associated with the enforceable grant arrangement.
- G24.17 The grant-providing NPO should consider carefully whether there are requirements attached to enforceable grant obligations that enable it to realistically avoid the transfer of resources.
- G24.18 If the grant-providing NPO concludes that realistically it cannot avoid the transfer of resources, the grant-providing NPO shall recognise a liability and a grant expense measured at the stand-alone amount of the distinct grant fulfilment right associated with the enforceable grant obligation.
- G24.19 If the grant-providing NPO concludes that there are requirements attached to enforceable grant obligations that enable it to realistically avoid the transfer of resources, the recognition of assets, liabilities, and expenses will commence only when one party to the enforceable grant arrangement starts to meet the requirements related to their obligations under the arrangement.
- G24.20 A grant expense is recognised by the grant-providing NPO when a grant fulfilment right is met. The grant expense is measured at the stand-alone amount of the grant fulfilment right that has been met.

- G24.21 If a grant-providing NPO transfers resources prior to the grant recipient meeting its enforceable grant obligation, the grant-providing NPO recognises a prepayment asset and derecognises the transferred resources. The prepayment asset is measured at the total carrying amount of the resources which have been transferred. A grant-providing NPO shall recognise the grant expense when the grant recipient meets the enforceable grant obligation to which the grant fulfilment right relates and derecognise the prepayment asset.
- G24.22 Conversely, when a grant recipient meets an enforceable grant obligation prior to the grant-providing NPO transferring resources, the grant-providing NPO shall recognise a liability and an expense. The grant-providing NPO shall measure the liability and grant expense at the total carrying amount of the resources that the grant-providing NPO is obligated to transfer to the grant recipient for meeting its grant fulfilment right. Where the obligation is to transfer cash, this will be a financial liability measured at amortised cost in accordance with paragraph G11.20 of Section 11 *Financial Instruments*.

Variable consideration

- G24.23 The amount that the grant-providing NPO is obliged to transfer to the grant recipient may vary for items such as incentives, penalties, or other similar items. It may also vary if the grant-providing NPO's obligation to provide the resources is contingent on the occurrence or non-occurrence of a future event. For example, an additional amount of funds may become payable to the grant recipient if it meets its enforceable grant obligations in the enforceable grant arrangement within a specified period. This is known as **variable consideration**.
- G24.24 Variable consideration in an enforceable grant arrangement may result in a liability of uncertain timing or amount that meets the definition of a provision in Section 21 *Provisions and Contingencies*. If the grant-providing NPO has determined that it is more likely than not that a present obligation exists for the payment of variable consideration, the grant-providing NPO shall estimate an amount of variable consideration that is initially and subsequently measured in accordance with paragraphs G21.8-G21.12 of Section 21 *Provisions and Contingencies*.

Changes to the amount that the grant-providing NPO is obligated to transfer and modification to the enforceable grant arrangement

- G24.25 After the inception of the enforceable grant arrangement, the amount that a grant-providing NPO is obligated to transfer to the grant recipient in the enforceable grant arrangement can change for various reasons, including the resolution of uncertain events or other changes in circumstances. Any changes to the amounts allocated to a grant fulfilment right that was previously met shall be recognised as an additional expense, or as a reduction of an expense, in the period in which the amount that the grant-providing NPO is obligated to transfer changes.
- G24.26 An enforceable grant arrangement may also be modified through a change in the rights and obligations that are approved by the parties to the arrangement. The grant-providing NPO shall determine the accumulated grant expense to be recognised as at the date of the modification by revising its estimates of the amount it is obliged to transfer for each grant fulfilment right met. The grant-providing NPO shall also determine the amount

allocated to met and unmet grant fulfilment rights. The difference between the accumulated grant expense determined as at the date of the modification and the accumulated grant expense previously recognised shall be recognised in surplus or deficit as at the date of the modification.

Reclassification and impairment of a prepayment asset

- G24.27 After the recognition of a prepayment asset, the grant recipient may become unable or unwilling to satisfy its enforceable grant obligations under the enforceable grant arrangement. Where the grant-providing NPO has an enforceable and unconditional right to a refund or return of the previously transferred resources arising from the terms of the enforceable grant arrangement, the grant-providing NPO shall reclassify the prepayment asset to a financial asset. Subsequent to its reclassification, the grant-providing NPO shall measure the financial asset in accordance with Section 11 *Financial Instruments*.
- G24.28 If the grant prepayment asset is not reclassified to a financial asset as set out in paragraph G24.25 because the terms of the enforceable grant arrangement, the legal system in the jurisdiction, and/or other circumstances do not support the recognition of a financial asset, the grant-providing NPO shall assess the prepayment asset for impairment in accordance with Section 27 *Impairment of assets*.

Principal versus agent considerations

- G24.29 An important question for the recognition and measurement of grant expenses is whether the grant-providing NPO controls the economic resources that are transferred to the grant recipient. A grant-providing NPO controls the economic resources by having the present ability to direct the use of the economic resources and to obtain the economic benefits or service potential that may flow from them. If the grant-providing NPO controls the economic resources, it will be a principal in the transaction and the recognition and measurement requirements of paragraphs G24.7-G24.26 will apply to grant expenses. This is the case even if the grant-providing NPO is subject to an enforceable grant arrangement with the grant recipient that imposes obligations upon the grant-providing NPO. This is because as a principal the grant-providing NPO will ultimately have discretion over the amounts and timing of the transaction, the identity of the grant recipient, and the requirements under which the transaction is to occur.
- G24.30 Where a grant-providing NPO does not control the economic resources it is likely to be acting as an agent for another entity. This situation may occur, for example, when a grant-providing NPO operates in a jurisdiction where another entity does not. By agreement the grant-providing NPO may administer the other entity's funds on its behalf and transfer the other entity's funds to a grant recipient. As an agent the grant-providing NPO will be acting for the other entity's purpose and objectives, in accordance with the instructions or directions of the other entity, and will have no discretion about the use to which the resources are put.
- G24.31 Where a grant-providing NPO is acting as an agent and is transferring cash or other assets to a grant recipient on behalf of another entity, a grant expense is not recognised in accordance with the recognition and measurement requirements of paragraphs G24.7-G24.26. The costs incurred in the administration of the agency arrangement by the grant-providing NPO will be recognised as an expense. Similarly any assets related to the

agency arrangement such as funding provided to the grant-providing NPO by the other entity do not form part of the grant-providing NPO's assets or income. Any income due to the grant-providing NPO for administering the agency arrangement will be recognised in accordance with Section 23 *Revenue*. Any funds that the grant-providing NPO is holding as an agent will be presented and disclosed in accordance with paragraph G24.41.

Disclosures

- G24.32 A grant-providing NPO shall disclose sufficient information to enable the users of the general purpose financial reports to understand the nature, amount, timing and uncertainty arising from grant expenses. This will include a description of the purpose of the material enforceable grant arrangements or funding agreements that have led to the recognition of grant expenses, the existence and potential consequences of variable consideration, significant payment terms, and the nature of the resources that have been or will be transferred.
- G24.33 A grant-providing NPO shall not disclose sensitive information about grant expenses. A disclosure is sensitive if it would compromise the safety or wellbeing of individuals working/volunteering for and with the grant-providing NPO, or those to whom it provides cash, goods, services and other assets and/or could prejudice the ability of the grant-providing NPO or grant recipient to deliver its mission or purpose. Sensitive information may include but is not limited to the name of grant recipients, the geographic locations in which they operate, and the third parties to whom they provide services and goods and other assets.
- G24.34 A grant-providing NPO will remain in compliance with the requirements of INPAG where this exception is utilised. When a sensitive information exception is used, the grant-providing NPO should disclose that its note related to grant expenses has been prepared in accordance with the requirement of this paragraph but is not required to provide any information that would have the effect of highlighting the nature of the sensitive information.
- G24.35 A grant-providing NPO shall present information related to grant expenses that does not result in sensitive information. The exception to not disclose sensitive information cannot be used by a grant-providing to avoid disclosures that might identify failures in organisational governance, performance or financial management that could for example have a negative impact on its ability to fundraise its operations.

Analysis of grant expenses

- G24.36 A grant-providing NPO shall disclose the amount recognised in the Statement of Income and Expenses as grant expenses and provide an analysis of grant expenses in accordance with Section 24 Part II *Classification of expenses* [to be provided in ED 3].

Grant expense from revenue classified to funds with restrictions

- G24.37 Where a grant-providing NPO has financed a grant expense with revenue provided to it that has been classified to **funds with restrictions**, the grant expense will be presented as a restricted expense in the Statement of Income and Expenses in accordance with Section XX – Fund accounting.

Prepayment assets and financial assets

- G24.38 Where a grant-providing NPO has recognised prepayment assets in accordance with paragraph G24.21 this shall be presented separately in the Statement of Financial Position. The grant-providing NPO shall disclose information that enables users to understand significant judgements, and changes in significant judgements, that the grant-providing NPO has made regarding the recognition of prepayment assets related to grants and any significant risks and uncertainties relating to their realisation.
- G24.39 Where a grant prepayment asset has been reclassified to a financial asset in accordance with paragraph G24.27, the grant-providing NPO shall provide disclosure in accordance with paragraphs G11.51 – G11.53 of Section 11 *Financial Instruments*.

Liabilities and provisions

- G24.38 Where a grant-providing NPO has recognised liabilities in accordance with paragraph G24.23, these will be presented in the Statement of Financial Position. If the liability is an obligation to transfer cash, the disclosure requirements of paragraphs G11.51 – G11.53 Section 11 *Financial Instruments* for payables are applicable. If not an obligation to transfer cash, the grant-providing NPO will need to provide users with information on the nature of the obligation and the resources that will need to be transferred to satisfy the obligation relevant to the non-cash liability.
- G24.39 If variable consideration in an enforceable grant arrangement has resulted in the recognition of a provision in accordance with paragraph G24.24, or there is a funding agreement and a grant payment provision is recognised for a constructive obligation in accordance with paragraph G24.8 and G24.10, then the disclosure requirements of G21.15 in Section 21 *Provisions and Contingencies* are applicable.

Contingent liabilities

- G24.40 A grant-providing NPO shall disclose the existence of commitments to provide grant funding that are not recognised as liabilities or provisions when it is sufficiently clear that a payment is possible but not probable. These grant funding commitments will be disclosed as a contingent liability in accordance with the requirements of G21.15 of Section 21 *Provisions and Contingencies*.

Principal versus agent considerations

- G24.41 Where a grant-providing NPO has acted as an agent during the reporting period, it must disclose in a note to the accounts:
- (i) an analysis of funds received and paid by the grant-providing NPO as an agent;
 - (ii) details of any balances held as an agent at the reporting date;
 - (iii) the name and objects of the entity on whose behalf the balances are held and why the grant-providing NPO is acting as an agent on their behalf;
 - (iv) details of any balances outstanding between any participating consortium members for which the grant-providing NPO is administratively responsible;
 - (v) where funds have been held as agent for related parties the grant-providing NPO must make the required disclosures for related parties; and

- (vi) details of the arrangements for safe custody and segregation of funds and other assets from the grant-providing NPO's own assets.

Part II Classification of expenses (to be provided as part of ED3)

Part III Fundraising costs (to be provided as part of ED3)

Application Guidance

(New)

Part I Expenses on grants and donations

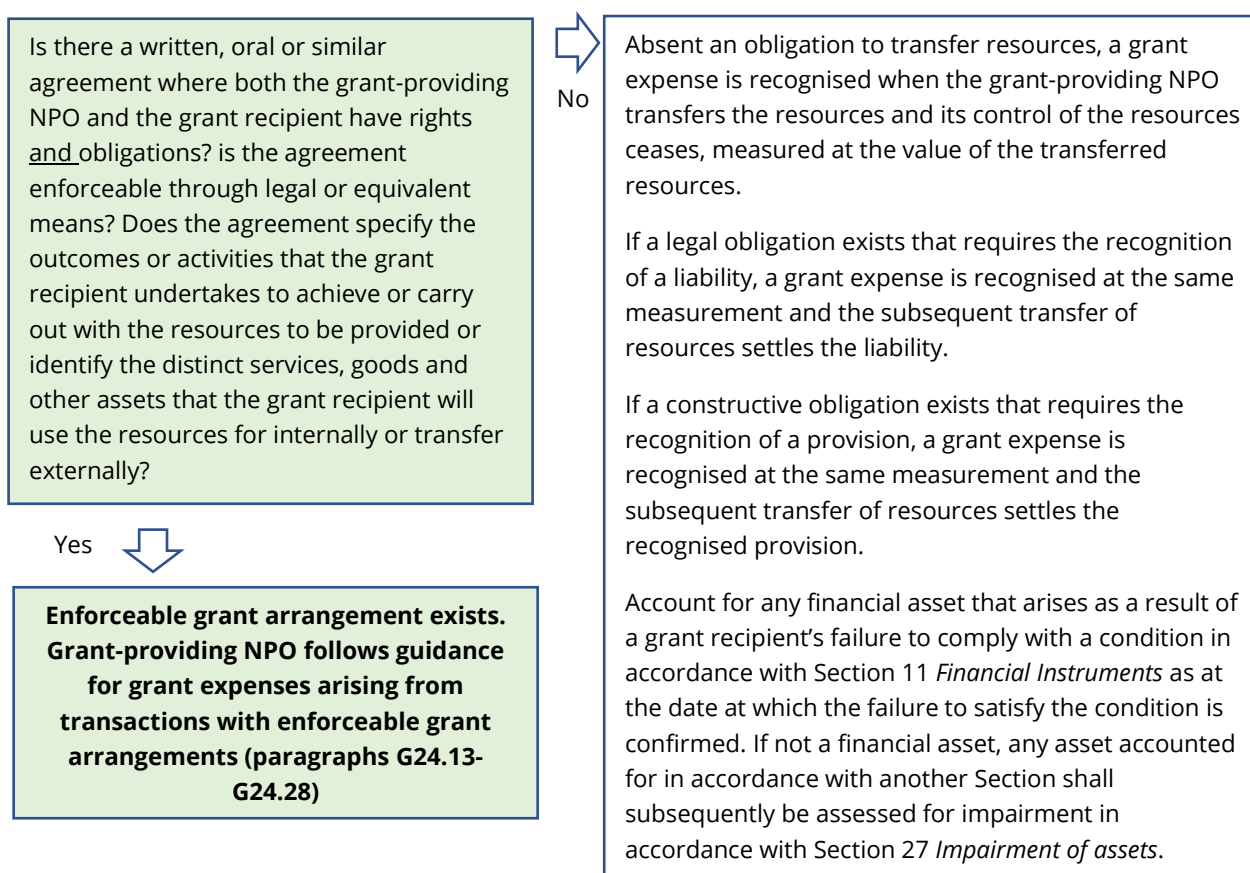
Grant expenses and procurement of services, goods and other assets

- AG24.1 A grant expense is recognised when a grant-providing NPO does not directly receive any cash, service, good or other asset in return from a grant recipient as a result of the transfer of cash, service, good or other asset that it has, or is obliged, to make. A grant expense for a grant-providing NPO 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. These transactions may also be commonly referred to as non-exchange, non-reciprocal, or non-required transfers and expenses.
- AG24.2 Where a grant-providing NPO directly receives cash, services, goods or other assets from a grant recipient as a consequence of the transfer of resources, then this may indicate a procurement relationship and a purchase.
- AG24.3 There may be situations where the services, goods, or other assets directly received by the grant-providing NPO are not of equivalent value to the resources it transferred to the grant recipient. This could range from a nominal amount to an amount that is only just below equivalent value. Where this is the case the grant-providing NPO must determine how best to reflect the substance of the transaction. Where material this may involve recognising part of the transaction as a grant expense and part as the procurement of services, goods or other assets. Additional guidance can be found in Section 23 *Revenue* AG23.3 to AG23.13.

Recognition and measurement of grant expenses

- AG24.4 The recognition and measurement principles for grant expenses are based on whether a transaction is from an enforceable grant arrangement or a funding agreement. As noted in G24.3 an enforceable grant arrangement is a grant arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on both the parties to the grant arrangement, i.e. the grant-providing NPO and the grant recipient. By contrast as noted in G24.5 an arrangement with a grant recipient that is not enforceable through legal or equivalent means and does not give both parties both rights and obligations and is a funding agreement. Figure 24.1 can be used by grant-providing NPOs to determine which recognition and measurement principles apply.

Figure 24.1 The recognition and measurement of grant expenses



Issues related to funding agreements

Constructive obligations

- AG24.5 A constructive obligation is an obligation that can arise from an NPO's customary practices, published policies or specific statements if the NPO has no practical ability to act in a manner inconsistent with those practices, policies or statements (see paragraph G2.61 in Section 2 *Concepts and Pervasive Principles*).

Constraints

- AG24.6 There may be requirements that place constraints on the grant recipient's ability to use resources provided to it as part of a grant arrangement. Some constraints will be very specific and be part of an enforceable grant arrangement that creates rights and obligations for both the grant-providing NPO and the grant recipient (see G24.4). Constraints that do not meet these requirements and are part of a funding agreement will not give rise to a present obligation for the grant recipient when resources are transferred to it. If the grant recipient does not subsequently satisfy a requirement that places constraints on the use of resources these may give rise to an obligation to the grant recipient and a potential asset for the grant-provider at a future date.

Issues related to enforceable grant arrangements

Enforceability in an enforceable grant arrangement

- AG24.7 To be an enforceable grant arrangement, the interdependent rights and obligations in the grant arrangement must be enforceable. This means that the grant-providing NPO is able to obligate the grant recipient to complete the agreed undertakings or be subject to remedies for not doing so, and the grant recipient is able to obligate the grant-providing NPO to transfer the amount agreed. A grant arrangement will be an enforceable grant arrangement if there is the ability to exercise these rights, even if in practice they are never or rarely utilised.
- AG24.8 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.
- AG24.9 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.
- AG24.10 It is also the case that in some jurisdictions, public sector entities are not permitted to contract in their own name, but 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. A grant-providing NPO may not therefore be able to enter into a legally enforceable arrangement with a public sector entity that is a grant recipient, but the alternative processes will provide for enforceability of the enforceable grant arrangement.

The ability to reduce or withhold future funding as an enforcement mechanism

- AG24.11 A key issue for grant-providing NPOs is whether the ability to reduce or withhold future funding from a grant recipient can be considered an enforcement mechanism. Generally, the ability to reduce or withhold future funding will not on its own be a valid enforcement mechanism for an enforceable grant arrangement because there is no present obligation on the grant-providing NPO to provide this future funding.
- AG24.12 However, if there is interdependency with other enforceable grant arrangements with the grant recipient, the potential for the grant-providing NPO to reduce future funding could be a valid enforcement mechanism. For example, if the grant recipient is presently entitled to funding in the future through another enforceable grant arrangement, and the terms of this other enforceable grant arrangement specifically allow for a reduction in funding if other enforceable grant arrangements are breached, then the potential reduction in funding could be a valid enforcement mechanism. This will require the grant-providing NPO to apply judgement based on the facts and circumstances, including any past history of reducing funding where it has had the right to do so.

Customary practices

- AG24.13 A further key issue is the extent to which In some circumstances enforceability may arise from a grant-providing NPO's, a grant recipient's, or a sector's customary practices.
- AG24.14 In the public sector, particularly in those jurisdictions where the law of legitimate expectations has been developed, enforceability may arise because public bodies through long-established policies and practices have provided recipients of services and goods with a legitimate expectation of how they will behave. Ultimately, however, these legitimate expectations will usually be enforceable through legal mechanisms, such as a court ruling, that mean a public body will be required to act in a certain way.
- AG24.15 For NPOs, the customary practices may be that all parties to the agreement will abide by the undertakings they have made in the agreement. However, these expectations may not ultimately be legally enforceable as the parties may not be subject to court rulings to uphold such expectations. Enforceability in such circumstances will be dependent on the existence of equivalent means such as an appeal to a regulator or withholding or reducing future funding through a linked enforceable grant arrangement.

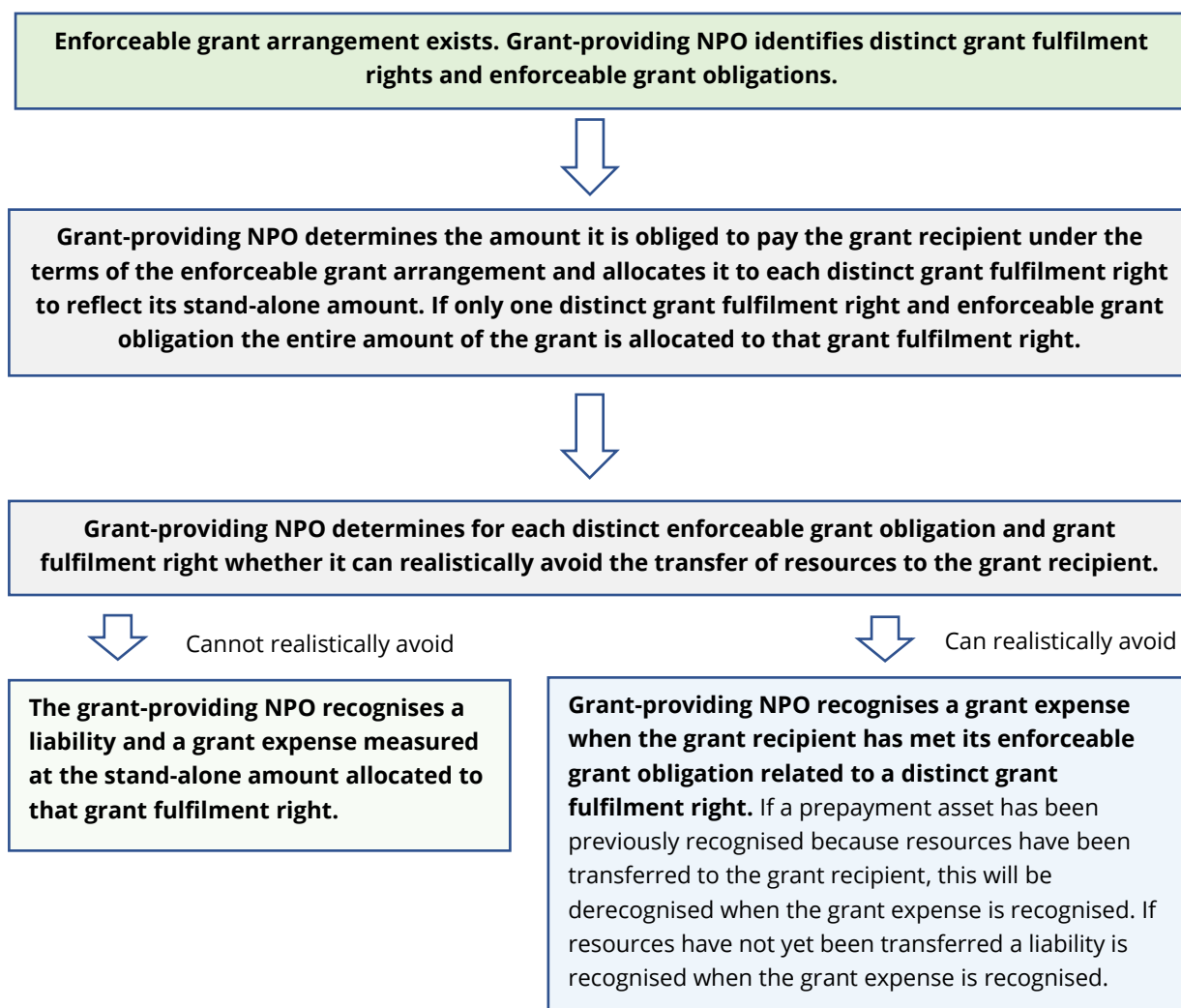
General statements of intent and oral agreements

- AG24.16 A general statement of intent by a grant-providing NPO 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-providing NPO and a grant recipient under which both parties have rights and obligations. It may, however, give rise to a constructive obligation in accordance with G21.4 of Section 21 *Provisions and Contingencies*.
- AG24.17 This general statement of intent differs from an oral agreement between a grant-providing NPO and grant recipient. Oral agreements will arise from serious discussions between the parties where an offer has been made by the grant-providing NPO to transfer cash, goods, services or another asset to a grant recipient, who has accepted the requirement to meet an obligation. Depending on the substance of the agreement, an oral agreement may be sufficient to create an enforceable grant arrangement, particularly in those jurisdictions where oral agreements can be legally binding.

Grant fulfilment rights and enforceable grant obligations in enforceable grant arrangements

- AG24.18 Figure 24.2 provides an overview of the recognition and measurement principles for grant expenses from transactions with enforceable grant arrangements. As highlighted identifying grant fulfilment rights and enforceable grant obligations, determining their stand-alone amounts and understanding when they have been met are key issues where an enforceable grant arrangement exists.

Figure 24.2 The recognition and measurement of grant expenses from transactions with enforceable grant arrangements



Grant fulfilment rights, enforceable grant obligations and other constraints

AG24.19 An enforceable grant arrangement must have at least one grant fulfilment right held by the grant-providing NPO and one enforceable grant obligation required of the grant recipient. A grant fulfilment right is an enforceable right to have the grant recipient satisfy its obligations in the enforceable grant arrangement. It arises when the grant-providing NPO has transferred resources to the grant recipient prior to the grant recipient satisfying its enforceable grant obligations within the enforceable grant arrangement.

AG24.20 Enforceable grant obligations are distinct undertakings by the grant recipient to achieve a specified outcome, carry out a specified activity, or use resources internally for distinct services, goods or other assets or to transfer distinct services, goods, cash or other assets to a purchaser or third-party recipient in order that the grant-providing NPOs grant fulfilment right is met. For example, an entity whose purpose is to improve educational outcomes amongst a community may have an enforceable grant obligation of supporting a named group of children with their annual school fees by paying those school fees on

behalf of those children with funds provided by the grant-providing NPO. Or an individual in receipt of financial support may have an enforceable grant obligation to spend cash provided to them by the grant-providing NPO only on purchasing food products.

- AG24.21 It may not always be easy to determine distinct grant fulfilment rights and enforceable grant obligations within an enforceable grant arrangement. A grant fulfilment right is a distinct right that can be enforced separately from other rights in the enforceable grant arrangement. Where a right is not distinct the grant-providing NPO may aggregate related rights until this produces a distinct grant fulfilment right that can be enforced separately. This may result in the enforceable grant arrangement having only one grant fulfilment right and one enforceable grant obligation.
- AG24.22 Requirements that constrain the use of resources by the grant recipient to its overall or a general purpose but do not specify separate outcomes, activities or distinct services, goods and other assets will usually be insufficient to create an enforceable grant obligation for the grant recipient. As these requirements do not give rise to a present obligation for the grant recipient when resources are transferred they do not result in a distinct grant fulfilment right for the grant-providing NPO.
- AG24.23 For example, if the grant recipient is the entity in paragraph AG24.20 that exists to improve educational outcomes in a society, a grant-providing NPO may include a requirement that cash provided to the grant recipient must be spent on the broad promotion of education. Or if the grant recipient is the individual in paragraph AG24.20, a grant-providing NPO may include a requirement that cash provided to them must be spent on improving their family's welfare. In these cases, the outcomes, activities and the collective set of services, goods or other assets for internal use or external transfer will not be distinct, even if they will be incremental to what would have been available without the resource transfer from the grant-providing NPO. Requirements that impose constraints that do not lead to distinct grant fulfilment rights and enforceable grant obligations and hence are not part of an enforceable grant arrangement shall be accounted for in accordance with paragraphs G24.11-G24.12, being a constraint within a funding agreement rather than an enforceable grant arrangement.

Payment of grants over more than one financial year

- AG24.24 Even where an enforceable grant arrangement is payable over a period of more than one year, a liability and grant expense must be recognised by the grant-providing NPO for the total amount of the resources that must be transferred under the enforceable grant arrangement to the grant recipient for the obligations it has met. The requirement to recognise the liability and the grant expense only exists where the grant-providing NPO has a present obligation to transfer resources at the reporting date.
- AG24.25 Where payments for later years are subject to the grant recipient meeting obligations that have not yet been met, the grant-providing NPO may under the terms of the enforceable grant arrangement be able to not transfer resources. In other words the grant-providing NPO does not have a present obligation to transfer resources at the reporting date. In this situation a liability and grant expense should not be recognised.
- AG24.26 Where the enforceable grant arrangement provides the grant-providing NPO with the discretion to avoid grant expenditure a liability should not be recognised because the grant-providing NPO does not have a present obligation to transfer the resources. For

example, a grant-providing NPO may have made a commitment to provide grant funding over a number of years, but have the right to terminate the enforceable grant arrangement. If the real possibility of termination is clear, then a constructive liability is unlikely to arise for payments related to periods after the review date.

AG24.27 Alternatively, if there are no requirements in the enforceable grant arrangement that enable the grant-providing NPO to realistically avoid the transfer of resources, a grant payment liability and grant expense must be recognised for the present value of the full grant payment amount even if payment will occur over a number of financial years. The present value of the full grant payment need only be recorded where the amount is material.

Grant recipient obligations

AG24.28 Enforceable grant arrangements may contain rights and obligations that are outside of the control of the grant-providing NPO. For example, a transfer of resources by a grant-providing NPO may be subject to the grant recipient obtaining match funding. Where obligations are outside the control of the grant-providing NPO, it should assess whether or not the transfer of resources is probable. For example, if the grant recipient has notified the grant-providing NPO that it is in advanced stages with another entity to secure match funding, this may mean that the requirement to transfer resources is likely to occur. Where the grant-providing NPO determines that the transfer of resources is probable it should follow the requirements of paragraph G21.4 of Section 21 *Provisions and Contingencies*, with any grant payment provision initially and subsequently measured in accordance with paragraphs G21.8-G21.12.

Performance-related rights and obligations

AG24.29 Enforceable grant arrangements may contain performance-related rights and obligations, such as payment being conditional on a specific level of service or varying depending on units of output. Where this results in variable consideration, this can result in a liability of uncertain timing or amount for the grant-providing NPO. Such a liability meets the definition of a provision and shall initially and subsequently be measured in accordance with paragraphs G21.8-G21.12 of Section 21 *Provisions and Contingencies*.

Capital grants

AG24.30 An enforceable grant arrangement that requires the grant recipient to acquire or constructs a non-current asset that the grant recipient will then control is a capital grant.

AG24.31 The same approach to recognising a grant expense involving a capital grant is followed as with any other grant expense. A transfer of cash from a grant-providing NPO to a grant recipient to acquire or construct a non-current asset results in the grant-providing NPO derecognising cash and recognising a prepayment asset. This prepayment asset represents the grant-providing NPO's enforceable right to have the grant recipient satisfy its obligation to purchase or acquire the non-current asset. This prepayment asset is derecognised and a grant expense recognised when the grant fulfilment rights are met in accordance with the terms of the enforceable grant arrangement. The grant-providing NPO would therefore derecognise the prepayment asset and recognise a grant expense as the non-current asset is constructed or acquired by the grant recipient.

- AG24.32 Where the grant recipient constructs a non-current asset, the grant fulfilment right will be met as the asset is being built, with a grant expense recognised by the grant-providing NPO based on an agreed methodology for the measurement of progress made by the grant recipient.
- AG24.33 If the grant recipient acquires or constructs the asset prior to the transfer of resources from the grant-providing NPO, the grant-providing NPO will recognise a liability and a grant expense for its obligation to transfer resources. This could be for the full amount (if the asset is acquired) or based on the extent of progress towards the construction of the asset. The liability will be derecognised once the transfer of resources is made from the grant-providing NPO to the grant recipient.
- AG24.34 If the grant recipient subsequently disposes of an acquired asset or constructed asset against the terms of the enforceable grant arrangement, the grant-providing NPO shall consider whether it has an enforceable unconditional right to a refund of the value of transferred resources and apply paragraphs G24.27- G24.28).
- AG24.35 Where this right exists, the grant-providing NPO shall recognise and measure a financial asset in accordance with Section 11 *Financial Instruments* and revenue in accordance with Section 23 *Revenue*. Note, however, that such a right might indicate an agency relationship if the grant-providing NPO had retained control of the asset. In this case no grant expense should have been initially recognised by the grant-providing NPO and instead the grant-providing NPO should have recognised the construction or purchase of its own non-current asset.

Modifications to an enforceable grant arrangement

- AG24.36 A modification to an enforceable grant arrangement may be so significant that it requires the grant-providing NPO to account for the modification as a separate enforceable grant arrangement. A grant-providing NPO shall account for a modification to an enforceable grant arrangement as a separate enforceable grant arrangement if both of the following factors are present:
- (a) The scope of the enforceable grant arrangement increases, providing the grant-providing NPO with one or more additional grant fulfilment rights, because the grant recipient accepts one or more additional enforceable grant obligations, or an increase in one or more existing enforceable grant obligations; and
 - (b) The grant payment consideration increases by an amount that is intended to reflect the value of the additional grant fulfilment rights by compensating the grant recipient for the additional or increased enforceable grant obligations assumed.

Foreign exchange gains and losses

- AG24.37 Depending on the terms of an arrangement, a grant-providing NPO may be required to recognise assets or liabilities that need to be denominated in a foreign currency.
- AG24.38 Non-monetary items, such as prepayments related to unmet enforceable grant obligations, that are denominated in a foreign currency shall be measured in the reporting currency at their historical cost using the exchange rate at the date of the

transaction in accordance with paragraphs G30.9-G30.10 of Section 30 *Foreign Currency Translations*.

AG24.39 Monetary items, such as grant payables, denominated in a foreign currency shall be restated into the reporting currency using the applicable exchange rates as at the reporting date in accordance with G30.10.

AG24.40 Any exchange differences arising on the settlement of assets or liabilities denominated in a foreign currency during the reporting period or on their restatement at the reporting date should be recognised in accordance with paragraph G30.11-G30.13.

Principal versus agent considerations

AG24.41 A formal agreement between the grant-providing NPO and another entity or entities will usually provide clarity as to whether the grant-providing NPO is acting as a principal or as an agent on behalf of another entity. In the absence of a formal agreement, or in more complex arrangements such as partnerships, consortia or sub-contractor relationships this may be more difficult to determine.

AG24.42 A consortium or similar arrangement involves a grant-providing NPO cooperating with other entities. Such arrangements may include:

- formal joint venture arrangements;
- the creation of a formal joint venture entity;
- a grant-providing NPO that is a principal entering into contracting arrangements and then sub-contracting with other parties to deliver parts of the contract;
- a grant-providing NPO acting as an agent for the consortium members by administering contractual arrangements on behalf of all other members.

AG24.43 A lead NPO that acts as agent for members of a consortium by administering contractual arrangements on behalf of all other members such as invoicing and making payments does not take over the contractual obligations and rights of other members.

AG24.44 A lead NPO that is subcontracting work to third parties, including other NPOs, in order to satisfy its contractual obligations is likely to be the principal because of the contract arrangements rather than an agent of other members.

Comparison of Section 24 Part I with IPSAS 48

Section 24 Part I is new material for NPOs that has been informed by IPSAS 48 *Transfer Expenses*. The main differences to IPSAS 48 are as follows:

- INPAG Section 24 Part I uses different terminology, referring specifically to grants rather than transfers and grant-providing NPOs rather than entities more generally.
- INPAG Section 24 Part I also uses the terms enforceable grant arrangement and enforceable grant obligation rather than binding arrangement and compliance obligations. These permit the concept of a grant recipient making an undertaking within the arrangement rather than a promise as used in IPSAS 48, and also the possibility that this undertaking can be to deliver a specific outcome or activity in addition to using resources for distinct services, goods and other assets.

- Guidance on the enforceability of an arrangement has been adapted for INPAG Section 24 Part I to the non-profit sector, including the addition of content on regulatory oversight, customary practices and general statements of intent.
- INPAG Section 24 Part I includes guidance on principal versus agent considerations consistent with the approach of INPAG to include this guidance in each Section where relevant.
- The disclosure requirements in INPAG Section 24 Part I have been adapted to the nature of NPOs and grant arrangements, including the introduction of a sensitive information exemption.

Basis for Conclusions

Consultation Paper – issues identified and approaches

- BC24.1 The recognition and measurement of grant expenses 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:
- that grant expenses are not currently explicitly covered in international accounting standards;
 - that significant judgement may be required to determine what has been promised to a grant recipient, what commitments have been created, the identification of obligating events, and when a grant expense should be recognised; and
 - how and when to recognise accruals, assets and/or provisions.
- BC24.2 Respondents were supportive of the description of the issue, and also provided some additional considerations including the need to ensure that any guidance covered in-kind transfers and that grant arrangements were properly distinguished from procurement.
- BC24.3 The Consultation Paper proposed two alternative financial reporting treatments for developing guidance. The first was to base the guidance on the *IFRS for SMEs* Accounting Standard but to provide additional guidance on NPO-specific issues, and the second was to build on the first alternative but to also include additional guidance based on the principles proposed in IPSAS ED 72 Transfer Expenses.
- BC24.4 Respondents again provided some additional considerations that they did not believe were adequately covered by the alternatives. These included issues related to:
- constraints not based on performance such as time in multi-year grants; and
 - detail on when a donor would have an obligation to make a payment to a recipient and recognise an expense in jurisdictions where grant arrangements included ‘termination for convenience’ clauses that allowed the donor to terminate an agreement at any time without there being a breach of the agreement.
- BC24.5 The majority of respondents supported the alternative that incorporated the principles contained in IPSAS ED 72. While more complex, they noted that it would provide better and clearer guidance on key issues such as performance obligations and multi-year grants and may also bring broader financial management improvements.
- BC24.6 Following the publication of the Consultation Paper and analysis of responses, the IPSASB further developed the proposals of IPSAS ED 72 to produce a draft Transfer Expenses standard. Following discussion with the Technical Advisory Group (TAG), the Secretariat determined that the proposed guidance would be based on this draft IPSAS Standard, mindful of the need to keep in mind the cost/benefit of the proposals for NPOs, especially with respect to any additional monitoring or reporting requirements that may be required. The TAG also noted that it would be necessary to ensure that there was a common approach taken to terms used in guidance for both expenses and revenues. IPSAS 48 *Transfer Expenses* has subsequently been approved by the IPSASB.

Adaptation of the IPSAS Standard

- BC24.7 The first essential concept requiring adaptation of the IPSAS Standard relates to the definition of grant expenses. The IPSAS Standard establishes principles for transfer expenses. INPAG Section 24 Part 1 *Expenses on grants and donations* takes a similar conceptual approach but transfer expenses are redefined as grant expenses, grant recipient is defined, and an explicit reference is made to cash transfers. It is also clarified in the definition, as requested by the project's Practitioner Advisory Group (PAG), that an expense can arise from an obligation to transfer resources and not just when resources are transferred.
- BC24.8 Under the definition of grant expense, it was agreed with the TAG and the PAG that the term 'grant' encompasses any cash, service, good or other asset that is transferred by the grant-providing NPO to a grant recipient without the grant-providing NPO directly receiving any cash, service, good or other asset in return. This therefore incorporates items that may otherwise be described as donations, gifts, and similar transfers of resources as well as grants. The authoritative guidance was also updated to include common terminology by which such types of transaction may be known non-exchange, non-reciprocal, or non-required transfers and expenses.
- BC24.9 By making explicit reference to the fact that the grant-providing NPO will not directly receive any cash, service, good or other asset in return for the transfer, this also makes a clear distinction between an NPO's grant providing activities and those that relate to procurement.
- BC24.10 The second essential concept is the use of binding arrangements from the IPSAS Standard, redefined here as enforceable grant arrangements. Enforceable grant arrangements are important conceptually because the enforceable rights and obligations they contain enables the NPO to assess whether it has the right to require a grant recipient to meet an obligation in exchange for an agreed transfer of resources.
- BC24.11 The Secretariat initially considered an adaptation of the IPSAS Standard, to make a distinction between general and specific grant fulfilment rights and general obligations and specific compliance obligations.
- BC24.12 It was considered that a general grant fulfilment right and general obligation would relate to the overall purpose of the grant recipient. In this case, the grant recipient's activities supported by the transfer of resources would comprise a collective set of services, goods or other assets for internal use or external transfer which, under the terms of the enforceable grant arrangement, may not individually be distinct. Collectively, however, these services, goods or other assets would usually be incremental to the services, goods or other assets that would have been available to the grant recipient without the resource transfer. It was considered that this may be sufficient for an enforceable grant arrangement to exist.
- BC24.13 Specific grant fulfilment rights and specific enforceable grant obligations would move beyond the overall purpose of the grant recipient and focus more specifically on individual programmes, projects and activities. They would involve an undertaking by the grant recipient to use resources internally for distinct services, goods or other assets or to transfer distinct services, goods, cash or other assets to a purchaser or third-party beneficiary

BC24.14 Following extensive debate, and mindful of the need to ensure consistency with the proposals for Section 23 *Revenue* that also draws on the concept of an enforceable grant arrangement, the distinction between general obligations and specific enforceable grant obligations was removed. Instead enforceable grant obligations are defined as a grant recipient's undertaking in an enforceable grant arrangement to achieve a specified outcome, 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 externally.

BC24.15 General obligations instead were deemed to fall under the recognition and measurement principles for grant expenses arising from transactions with funding agreements. This is because while these obligations do place constraints on the use of transferred resources by the grant recipient, they are not sufficient to give rise to a present obligation for the grant recipient when resources are transferred.

Identifying whether an enforceable grant arrangement exists

BC24.16 An essential element of the model for recognising expenses on 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 Section 23 *Revenue* Part II, where it has a specific meaning (BC23.32).

BC24.17 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 expenses on grants and donations and for revenue from grants and (for those NPOs that receive grants from other entities or individuals).

BC24.18 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.

BC24.19 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 a binding 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. The inclusion of customary practices as being sufficient for an enforceable grant arrangement to exist is more open to debate as this is primarily based on the law of legitimate expectations that is applicable in some jurisdictions but which is usually more associated with public bodies. It has been retained but such legitimate expectations would need to be capable of being upheld by either a legal or equivalent mechanism.

Recognition and measurement principles where there are funding agreements

BC24.20 Recognition and measurement principles where enforceable grant arrangements do not exist have been defined as funding agreements and follow the same conceptual basis as the IPSAS Standard. As well as written and oral agreements, funding agreements also encompass those implied by customary practices and those situations where a grant-providing NPO transfers resources to a grant recipient without there being any agreed or implied arrangement in place. The TAG and the PAG were both supportive of the requirement put forward by the Secretariat that a constructive obligation to transfer resources that results in the recognition of a provision would require the recognition of a grant expense by the grant-providing NPO, but that additional guidance was necessary around general statements of intent to provide resources and how this interacted with binding grant arrangements. This has been provided in Application Guidance and Implementation Guidance and illustrative examples.

Recognition and measurement where there are enforceable grant arrangements

BC24.21 Enforceable grant arrangements may vary significantly in complexity but there are common principles that will be applicable to all. The Secretariat has made clear that an enforceable grant arrangement will be wholly unsatisfied if the grant-providing NPO has not yet transferred and is not yet obligated to transfer and amount of resources to the grant recipient, and the grant recipient has not yet met any of its stated enforceable grant obligations in the enforceable grant arrangement. Where this is the case nothing will be recognised, although the disclosure requirements will still apply.

BC24.22 A key requirement will be for the grant-providing NPO, at the inception of the enforceable binding grant arrangement, to determine its distinct grant fulfilment right(s) to have the grant recipient meet an enforceable grant obligation(s), and the amount of resources consideration that it is required to transfer (in cash, services, goods or another asset) to the grant recipient for meeting each right. It is the nature of these grant fulfilment rights that dictates subsequent recognition and measurement.

BC24.23 The Secretariat recognises that NPOs may face difficulties in:

- determining if a grant agreement includes one or more enforceable grant obligations and hence is an enforceable grant arrangement;
- deciding on suitable methods for estimating stand-alone amounts; and
- understanding when the grant recipient has met its obligations meaning that grant fulfilment rights have been met.

While these will vary depending on the substance of each transaction, additional guidance has been provided in the Implementation Guidance and illustrative examples.

BC24.24 Authoritative guidance has also been provided for the following circumstances:

- Payments of grant over more than one financial year;
- Variable consideration;
- Capital grants; and
- Rights and obligations that are outside of the control of the grant-providing NPO

Payments of grant over more than one financial year

BC24.25 The impact on the timing of the recognition of grant expenses was a significant issue raised through the consultation paper, particularly where the donor makes a grant payment in advance that covers multiple time periods.

BC24.26 This Section requires that a grant expense be recognised by the grant-providing NPO for the total amount of the resources that must be transferred under the enforceable grant arrangement to the grant recipient for the obligations it has met. This is regardless of the timing of the transfer of the resources from the grant-providing NPO.

BC24.26 As noted in BC24.21, where neither party has met any obligations under the enforceable grant arrangement, the grant-providing NPO will not recognise any transactions associated with the enforceable grant arrangement.

BC24.27 Where an obligation has been met by the grant recipient prior to the transfer of resources by the grant-providing NPO, the grant-providing NPO must recognise a liability with the grant expense. Where resources have been transferred by the grant-providing NPO to the grant recipient prior to the grant recipient meeting its obligation a prepayment asset will have previously been recognised. This will be derecognised when or as the grant expense is recognised.

BC24.28 This reflects the view of the Secretariat that a grant expense will not be recognised where grant payments for later years are subject to the grant recipient satisfying obligations that have not yet been met. This is because under the terms of the enforceable grant arrangement the grant-providing NPO may be able to avoid the transfer of resources.

Capital grants

BC24.29 Capital grants was another area of concern raised by consultation respondents. A capital grant arises from an enforceable grant arrangement in which a grant-providing NPO transfers cash or another asset to a grant recipient with a requirement that the grant recipient acquires or constructs a non-current asset that the grant recipient will then control.

BC24.30 Although there is a requirement for the grant recipient to acquire or construct an asset, from the perspective of the grant-providing NPO the recognition of a grant expense for an enforceable grant arrangement involving a capital grant is the same as for any other grant expense.

BC24.31 Complications may arise in recognising the grant expense where the grant fulfilment rights will be met as the asset is being built. The grant expense will need to be recognised by the grant-providing NPO based on an agreed methodology for the measurement of progress made by the grant recipient. While no methodologies are included in the authoritative guidance, the implementation examples include one possibility that was discussed with the PAG.

BC24.32 Constraints in an enforceable grant arrangement may prevent the grant recipient from disposing of the acquired or constructed asset or using it for purposes other than those specified by the grant-providing NPO. Such constraints may mean that the grant recipient does not control the capital asset. This is a complex area that will depend on the individual circumstances of each enforceable grant arrangement and the application of professional judgement. The Secretariat considers that additional guidance, particularly guidance that requires the grant-providing NPO to consider whether the grant recipient was acting as its agent is sufficient to address this issue.

Variable consideration

BC24.33 Variable consideration can arise where the amount that the grant-providing NPO is obliged to transfer to the grant recipient varies for items such as incentives, penalties, or other similar items, or if the grant-providing NPO's obligation to provide the resources is contingent on the occurrence or non-occurrence of a future event.

BC24.34 If the grant-providing NPO determines that it is more likely than not that a present obligation exists for the payment of variable consideration, then a liability of uncertain timing or amount will need to be recognised. The Secretariat is of the view that paragraphs G21.8-G21.12 of Section 21 *Provisions and Contingencies* are appropriate for the grant-providing NPO to estimate an amount of variable consideration .

Rights and obligations that are outside of the control of the grant-providing NPO

BC24.35 The same conceptual recognition principles as variable consideration apply where enforceable grant arrangements contain rights and obligations that are outside of the control of the grant-providing NPO. As discussed with the TAG, this can include factors such as a requirement for a grant recipient to find match funding.

BC24.36 In such circumstances the Secretariat's view is that if a present obligation exists and the transfer of resources is probable, the grant-providing NPO should follow the requirements of Section 21 *Provisions and Contingencies*. The probable existence of an obligation may depart from existing practice in some jurisdictions where, for example, in an arrangement that requires matched funding, a liability would not be recognised until it was certain that the match funding had been secured.

Prepayment assets and liabilities

BC24.37 A grant expense is recognised when the grant recipient has met its enforceable grant obligations. Timing differences related to the transfer of resources may mean that the transfer of resources occurs either before or after the grant expense has been recognised.

BC24.38 The concept of a liability when the grant expense is recognised before the transfer of resources occurs is uncontroversial. However, the nature of a prepayment asset that is recognised when the transfer of resources is made to the grant recipient before a grant expense is recognised requires consideration.

BC24.39 The prepayment asset reflects the grant-providing NPO's right to require the grant recipient to meet its enforceable grant obligations given that the grant-providing NPO has already met its own obligation to transfer resources. As such, it is not a financial asset. It may subsequently be reclassified to a financial asset if the grant recipient is unable or unwilling to meet its obligations and the grant-providing NPO has the right to receive cash back from the grant recipient.

Principal agent considerations

BC24.40 NPOs acting on behalf of other entities was a topic that was included in the IFR4NPO Consultation Paper. It was included because distinguishing between where an NPO acts as an agent for other entities or acts in its own right (as a principal), is important to

understand the accountability of an NPO, to provide transparency over its operating income and expenditure and to understand an NPO's operating model.

BC24.41 The proposed changes to the *IFRS for SMEs* Accounting Standard introduce a control-based approach to the principal-agent distinction, rather than risks and rewards approach. It was agreed with the TAG that a control-based approach to principal agent issues would be introduced into INPAG.

BC24.42 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.

BC24.43 To be a principal an NPO is required 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. Where a grant-providing NPO controls the economic resources that are transferred to the grant recipient it is proposed that the grant-providing NPO will be a principal in the transaction and the recognition, measurement, presentation and disclosure requirements of INPAG Section 24 Part I relating to grant expenses will apply.

BC24.44 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. Where a grant-providing NPO does not control the economic resources, it is likely to be acting as an agent for another entity. In this situation it is proposed that the grant-providing NPO will follow the requirements in Section 24 Part I for NPOs acting as an agent and will only recognise in expenses the costs incurred in the administration of the agency arrangement.

BC24.45 In addition to these overall principles it was agreed with the TAG that guidance would be integrated into those sections where guidance on principal-agent relationships is required. Section 24 Part I *Expenses on grants and donations* is one such Section.

Disclosures

BC24.46 Disclosure requirements are driven by user needs and their ability to understand the nature, amount, timing and any uncertainty arising from grant expenses. Quantitative disclosures for grant expenses and associated assets and liabilities are proposed as well as narrative-based disclosures. These are focused on describing the purpose of material arrangements and the features of these material arrangements that are useful to users for accountability and decision-making purposes. This includes variable consideration, payment terms or resources to be transferred. Additional disclosures are also required where there are grant transactions arising from principal agent arrangements.

BC24.47 Following review of the first draft of the authoritative guidance, a TAG member noted that permission to not disclose 'sensitive information' as has been proposed for Section 35 *Narrative Reporting* may also be required in relation to aspects of grant expenses disclosures. The Secretariat agrees with this position and a sensitive information disclosure exemption has been included in the authoritative guidance. An NPO may

utilise this permission to not disclose when this would compromise the safety or wellbeing of individuals working/volunteering for and with the grant-providing NPO, or those to whom it provides cash, goods, services and other assets, because the information is sensitive and/or could prejudice the ability of the grant-providing NPO to deliver its mission.

BC24.48 A grant-providing NPO is required to disclose information related to grant expenses that does not result in sensitive information. This includes disclosures that might identify failures in organisational governance, performance or financial management that could for example have a negative impact on its ability to fundraise its operations.

Implementation Guidance

Part I

Identifying the Grant Expense Transaction

Identifying whether an enforceable grant arrangement exists

Does the way in which an NPO transacts with other entities or individuals impact the accounting?

IG24.1 NPOs transact in many different ways. These transactions may involve multiple entities and individuals, different types of rights and obligations and varying degrees of enforceability. The form in which an NPO transacts will determine the overall economic substance of the transaction.

IG24.2 Identifying whether or not a grant expense transaction arises from an enforceable grant arrangement is key to correctly applying this Section. The grant-providing NPO is required to determine what type of arrangement it has entered into by considering the terms of the grant expense transaction and all relevant facts and circumstances so as to apply the appropriate accounting principles to reflect the economic substance of the transaction (see G24.3 – G24.28).

How does a grant-providing NPO determine if a constraint is sufficient for an obligation to be deemed an enforceable grant obligation?

IG24.3 A constraint imposed by a grant-providing NPO on a grant recipient may be of a general nature. For example, an arrangement may constrain the use of a grant to the overall purpose of the grant recipient or to a general geographic area in which it operates rather than require the grant to be used on individual programmes, projects and activities. Where constraints are of a more general nature it may not be possible to identify specific outcomes and activities or the distinct services, goods or other assets for which the resources will be used. In these types of arrangement a grant fulfilment right and enforceable grant obligation will not exist because an enforceable grant obligation and associated grant fulfilment right will go beyond the overall mission or mandate of the grant recipient.

Enforceability

What should an NPO consider in assessing enforceability?

- IG24.4 Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and require professional judgment. This assessment is integral to identifying whether an NPO has an enforceable grant arrangement (both enforceable rights and obligations), only enforceable rights, or only enforceable obligations. In cases where an NPO does not have an enforceable grant arrangement, it may still have an enforceable right or an enforceable obligation which should be accounted for appropriately.
- IG24.5 In developing grant arrangements, the grant-providing NPO should consider its overall objectives and the risk of its requirements not being met. Where the grant-providing NPO is intending to create an enforceable grant arrangement, the grant-providing NPO should identify appropriate enforceable grant obligations for the grant recipient, which will create its grant fulfilment rights. The grant-providing NPO should consider its ability to monitor if and when enforceable grant obligations have been met, and its ability to enforce them. Enforceability may arise from various mechanisms. What is important is that the mechanism(s) provide an NPO with the ability to enforce the terms of the arrangement and hold the parties accountable for meeting their obligations in accordance with the terms of the arrangement.
- IG24.6 At the inception of the arrangement, an NPO shall use its judgment and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or meeting those obligations (i.e., how it is enforced). As noted, this will be easier if the NPO has considered the enforceable rights and obligations and associated consequences of not meeting them in developing the arrangement.
- IG24.7 Relevant factors include, but are not limited to:
- (a) The economic substance, 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 capable of being binding through legal means (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence), or through equivalent means (e.g., if a party to the arrangement is able to draw on any regulatory or executive authority or directives);
 - (d) Consequences of not fulfilling the obligations in the arrangement;
 - (e) Other enforceable grant arrangements with the grant recipient;
 - (f) The specific jurisdiction, sector, and operating environment; and
 - (g) Past experience with the other parties in the arrangement.
- IG24.8 Some mechanisms (for example, reductions of future funding, where they relate to other enforceable grant arrangements already in existence between the two parties) may constitute a valid mechanism of enforcement. An NPO should apply judgment and consider all facts and circumstances objectively, within the context of their jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG24.7-AG24.17 provide further guidance on assessing enforceability through legal or equivalent means and how oral agreements and customary norms and practices impact on these assessments.

Does a change in internal or external factors, after the inception of an enforceable grant arrangement, have accounting implications?

- IG24.9 At inception, an NPO considers the requirements of an arrangement to determine whether it meets the definition of an enforceable grant arrangement in paragraphs G24.3-G24.5. If it does meet the definition, the grant-providing NPO accounts for the enforceable grant arrangement in accordance with paragraphs G24.13 - G24.28.
- IG24.10 A grant-providing NPO should subsequently assess whether any changes in internal or external factors affect the enforceability of the enforceable grant arrangement (i.e., the substance of the arrangement), or the likelihood of enforcing the enforceable grant arrangement (i.e., the subsequent measurement of any prepayment assets or liabilities associated with the grant-providing NPO's right(s) and obligation(s) in the enforceable grant arrangement). As a minimum this should be carried out at each reporting date. Examples of such factors include, but are not limited to:
- (a) Changes in the legal framework that impact the ability of the grant-providing NPO, or other party or parties in the arrangement to enforce their respective rights through legal or equivalent means; and
 - (b) Changes in the grant-providing NPO's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the enforceable grant arrangement.
- IG24.11 The implication on subsequent measurement of the respective prepayment asset or liability depends on whether the impact is likely to be permanent and should be accounted for in accordance with Section 21 *Provisions and Contingencies* in relation to the need for or a change to a provision, or Section 11 *Financial Instruments* for changes to payables and receivables.

Grant expenses from transactions with funding agreements

When an NPO transfers resources in a transaction with funding agreements, is it possible for the transfer to result in the recognition of a prepayment asset by the grant-providing NPO?

- IG24.12 Generally, it is not expected that a grant-providing NPO will be able to recognise a prepayment asset from a funding agreement, because the grant-providing NPO is unlikely to have grant fulfilment rights arising from an enforceable grant obligation.
- IG24.13 It is possible that a grant-providing NPO has a one-way enforceable right (and therefore it cannot be an enforceable grant arrangement) over assets that have been transferred under a funding agreement. This could be the ability to direct the grant recipient on how to use the resources transferred. Where this exists, depending on the nature of the right, this may result in the recognition of an asset by the grant-providing NPO. This asset would be derecognised when or as the enforceable right is met.

Grant expenses from transactions with enforceable grant arrangements

Identifying grant fulfilment rights and enforceable grant obligations and determining when they have been met

How does an NPO determine the distinct grant fulfilment rights in an enforceable grant arrangement?

- IG24.14 From the grant-providing NPO's perspective, an enforceable grant arrangement has at least one grant fulfilment right. A grant fulfilment right is a distinct component or element (unit of account) within an enforceable grant arrangement where the grant-providing NPO requires the grant recipient to meet a requirement.
- IG24.15 Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of grant expenses. In practice, since enforceable grant arrangements can vary substantially by entity, jurisdiction, sector and operating environment, a grant-providing NPO will need to use professional judgment to determine the individual grant fulfilment rights in its enforceable grant arrangement.
- IG24.16 A grant-providing NPO should first identify all the rights it has to require the grant recipient to satisfy its enforceable grant obligation(s) in a manner as specified in the enforceable grant arrangement. Rights include the ability to require the grant recipient to use resources for a specific outcome, activity, for distinct services or goods internally or to transfer cash, a service, good, or other asset to a third party or third parties. A thorough assessment is necessary for the grant-providing NPO to identify all of its rights in the enforceable grant arrangement. However, as noted in IG24.6 careful consideration in the development of the enforceable grant arrangement of the objectives of the grant-providing NPO will assist with this assessment.
- IG24.17 A grant-providing NPO then considers each identified right to determine if a right is itself a distinct grant fulfilment right, or whether it should be grouped with other rights to be a single distinct grant fulfilment right. In this way, a grant fulfilment right is a unit of account that represents a distinct right or group of rights to which recognition and measurement concepts are applied.
- IG24.18 A right in an enforceable grant arrangement is distinct if it can be enforced separately from other rights in the arrangement. A grant-providing NPO can consider the following factors when assessing whether a right is distinct:
- (a) The right relates to the grant-providing NPO's ability to require the grant recipient to undertake to achieve a specific external outcome, activity or provide cash, a service, good, or other asset to third parties that can be undertaken or provided separately from other outcomes, activities or cash, services, goods or assets to be undertaken or provided under the enforceable grant arrangement;
 - (b) The right relates to the grant-providing NPO's ability to require the grant recipient to undertake to achieve a specific internal outcome, activity or use cash, a service, good, or other asset internally in a specific manner separately from undertaking other specific internal outcomes, activities or the use of other cash, services, goods or assets to be used under the enforceable grant arrangement; and
 - (c) The outcome or activity to be achieved or the cash, service, good or other asset that the grant recipient is required to provide to third parties or use internally is not highly interdependent or highly interrelated with other activities to be undertaken or cash, services, goods or assets to be provided or used under the enforceable grant arrangement.
- IG24.19 Any distinct right, or distinct group of rights, identified by the grant-providing NPO through this analysis would be an individual grant fulfilment right.

How can a grant-providing NPO determine if an enforceable grant obligation has been met?

IG24.20 A grant arrangement that includes constraints of a more general nature may provide some indication of how the resources are to be used to support the overall purpose of the grant recipient. They are, however, likely to provide the grant recipient with a greater degree of freedom as to how it complies with the constraints. The grant recipient is also likely to be subject to a lesser degree of monitoring by the grant-providing NPO to determine if, when and how the constraint has been met.

IG24.21 By contrast, an enforceable grant obligation in an enforceable grant arrangement will relate to specific outcomes, activities or distinct services, goods or other assets that are to be internally used or externally transferred by the grant recipient. Enforceable grant obligations are therefore likely to be subject to a greater degree of monitoring of the grant recipient by the grant-providing NPO to determine if, when and how the enforceable grant obligation has been met. The specific terms of the enforceable grant arrangement should make these monitoring requirements clear.

IG24.22 Monitoring on its own, is not, however, sufficient to create an enforceable grant obligation. Generally, administrative tasks do not create an enforceable grant obligation because there is no substantive grant fulfilment right for the grant-providing NPO. 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.

IG24.23 The grant-providing NPO should consider at the inception of the enforceable grant arrangement whether or not it can realistically avoid the transfer of resources. If it concludes that it cannot realistically avoid the transfer of resources to the grant recipient it should follow the recognition and measurement requirements of G24.18.

How does the grant-providing NPO best determine a measure of progress of a grant fulfilment right that is being met over time?

IG24.24 In general, a grant fulfilment right is met and a grant expense recognised when the grant recipient has met its obligations in the arrangement. A single enforceable grant arrangement may, however, be met over time. The appropriate method of measuring progress depends on the specific nature of the grant-providing NPO's grant fulfilment rights and the specific terms of the enforceable grant arrangement.

IG24.25 In situations where the enforceable grant arrangement consists of one grant fulfilment right to have the grant recipient satisfy various interrelated activities, the grant fulfilment right may be partially met as individual activities are being performed by the grant recipient. Common considerations which could inform when a grant fulfilment right has been partially met include:

- (a) The grant recipient has performed some of the activities specified in the enforceable grant arrangement;
- (b) The grant recipient has incurred eligible expenditures as outlined in the enforceable grant arrangement; and
- (c) The grant recipient has achieved some of the milestones agreed upon in the enforceable grant arrangement.

IG24.26 In cases where multiple parties are involved in the arrangement, the grant-providing NPO will need to consider whether a grant fulfilment right relates to the right to require another party in the arrangement to meet an enforceable grant obligation. There could

be situations where resources are passed through a series of entities before being transferred to the ultimate grant recipient. In these situations, the grant-providing NPO will need to consider whether the grant fulfilment right being met depends on the satisfaction of the ultimate grant recipient's enforceable grant obligations as specified in the enforceable grant arrangement.

- IG24.27 In other cases, a grant recipient may be unable or unwilling to satisfy its obligations in the enforceable grant arrangement following the transfer of resources to it from the grant-providing NPO. When this occurs, the grant-providing NPO considers if the terms of the enforceable grant arrangement, along with the legal framework in the relevant jurisdiction, give the grant-providing NPO the unconditional right to receive cash or return of resources (e.g., a refund of the transferred resources). Such an unconditional right results in the derecognition of the prepayment asset and the recognition of a financial asset (see G24.27). If the enforceable grant arrangement and relevant legal framework do not support the recognition of a financial asset, the grant-providing NPO then considers if the prepayment asset has been impaired (see G24.28).

Allocating the amount of resources to be transferred to the grant fulfilment right

How should an NPO determine the suitable method for estimating the standalone amount of a grant fulfilment right?

- IG24.28 A grant-providing NPO may explicitly specify in an enforceable grant arrangement the amount of resources it is willing to transfer for each grant fulfilment right (i.e., the stand-alone amount is typically specified for each grant fulfilment right). In situations where the stand-alone amount is not explicitly stated, the grant-providing NPO is required to determine the best estimate of the amounts that would compensate the grant recipient for meeting its obligation.
- IG24.29 The most suitable method to estimate the stand-alone amount will depend on the quality and type of information that is available to the grant-providing NPO. For example, the individuals negotiating an enforceable grant arrangement may have records detailing how they estimated the stand-alone amount of each grant fulfilment rights included in the enforceable grant arrangement. Other grant-providing NPOs may have detailed budget information documenting the resources needed or it is willing to transfer in order to achieve each grant fulfilment right. In other cases, the individuals negotiating an enforceable grant arrangement may be using observable information, such as pricing lists to estimate the total resources to be transferred. In this situation, the standard prices for each individual deliverable can be used to estimate the standalone consideration of each grant fulfilment right.

Accounting for multi-year arrangements

Are different principles required to account for, and recognise grant expenses in a multi-year arrangements?

- IG24.30 Multi-year arrangements generally involve the provision of resources over multiple years for a specific purpose (for example, supporting medical research on a particular disease). The provision of resources may occur at multiple dates throughout a year and/or across multiple years.

- IG24.31 While these arrangements span a longer term, the accounting principles for grant expense transactions still apply. A grant-providing NPO shall consider whether the multi-year arrangement is an enforceable grant arrangement and apply the principles in the paragraphs G24.7-G24.12 for grant expenses arising from funding agreements, or paragraphs G24.13-G24.28 for grant expenses arising from transactions with enforceable grant arrangements. The NPO shall consider the recognition of a grant expense independently from the timing of when resources are transferred.
- IG24.32 As a consequence, if a grant-providing NPO transfers resources for multiple years in advance and cannot currently, realistically obtain the return or refund of those resources because there are no present obligations for the grant recipient, then the grant-providing NPO will recognise the full amount as a grant expense when the resources are transferred or owed to the grant recipient. If the agreement requires, for example, an annual revalidation of the agreement, this would likely mean that each annual amount is recognised in the relevant year.

Sensitive information

What is meant by sensitive information or information that could prejudice the ability of the NPO to deliver its mission?

- IG24.33 Grant-providing NPOs are permitted to not disclose detailed information about grant expenses where the information is sensitive or could prejudice the ability of the grant-providing NPO or grant recipient to deliver its mission or purpose. Given the diversity of activities undertaken by NPOs, it is not possible to provide a definition or exhaustive list of the activities that could give rise to such information. It is intended to include situations where there is a risk, including but not limited to physical harm, to a grant-providing NPO's staff, its volunteers or the public and other entities and individuals who engage with the grant-providing NPO, or that would provoke significant ongoing disruption to the grant-providing NPOs or partner entity's operating activities in a locality if information was publicly disclosed in the general purpose financial reports.
- IG24.34 Permission to not disclose information must not be used by grant-providing NPOs as a way of hiding poor governance, poor performance or financial problems that may have arisen with aspects of its operations. It should be reserved solely for situations where disclosure would significantly disrupt operations and/or jeopardise the safety and security of staff, volunteers, the public that benefit from the services and goods provided by the grant-providing NPO, and other entities and individuals that engage with the grant-providing NPO.
- IG24.35 Examples of sensitive or mission prejudicial information that a grant-providing NPO may not disclose could include, but is not limited to:
- (a) information that identifies the nature of activities being undertaken by a grant-providing NPO or entities and individuals that engage with it;
 - (b) information that discloses the scope of geographic activities being undertaken by a grant-providing NPO or entities and individuals that engage with it;
 - (c) information that identifies the individuals, communities or groups that benefit from the services and goods provided by the grant-providing NPO or entities that engage with it.

Illustrative Examples

The following examples aim to illustrate the application of the principles for accounting for grant expenses. They show how features of the model for recognising grant expenses, such as determining whether or not an enforceable grant arrangement exists, payments over multiple years and capital grants could be considered.

The circumstances in relation to individual NPOs and transactions will vary significantly. These examples are only illustrations of how the guidance could be applied. Individual NPOs will need to use their own professional judgement to apply the guidance to their own circumstances.

Example 1: NPO has a constructive obligation outside of an enforceable grant arrangement

NPO A has been set up to support children in a rural community access education. Parents are required to register their children with NPO A in advance of the school year. As part of this registration, the parents sign an agreement that commits them to signing up their child to attend school in exchange for NPO A committing to transfer cash for school fees directly to the school. The agreement notes that if NPO A does not transfer the cash to the school the parents can appeal to the local education ministry which has the executive power to require NPO A to make payment. If the child subsequently does not attend school, the agreement notes that parents are required to reimburse NPO A for the amount of fees it has paid with NPO A having the ability to appeal to a local court to enforce repayment.

The children are dispersed across a wide geographical area. In outreach to promote the school fee scheme NPO A has told the community that to support access it intends to provide free transportation to all children that are registered with it for the upcoming school year. NPO A has not provided a detailed explanation of how it will do this but has noted it is most likely to involve providing parents with additional funds so that they can pay for the cost of using local minibuses. Without this free transportation most children would not be able to attend school as private means of transportation are unavailable. This offer of free transportation is not, however, included in the agreement between parents and NPO A and there is no agreement in place between NPO A and any other entity to provide this service.

Is there an enforceable grant arrangement in relation to the free transportation?

There is an enforceable grant arrangement between NPO A and the parents for the payment of school fees. This is because the parents commit to signing up their child to attend a school and NPO A agrees to pay the school fees with both sides able to enforce their rights and obligations. In relation to the free transportation, however, NPO A has only made a general statement of intent to provide free transportation. This does not create an enforceable grant arrangement between NPO A and parents or any other entity under which both parties have enforceable rights and obligations in relation to the free transportation.

Does NPO A have a constructive obligation and how should it be accounted for?

While an enforceable grant arrangement for the free transportation may not exist, NPO A may still have an obligation. This is because through its statements of intent at outreach events NPO A may be deemed to have created a valid expectation that it will ensure that free transportation is available. This is a constructive obligation that is intrinsically linked to the school fee arrangement. Although not included in the written agreement between parents and NPO A, absent NPO A ensuring that free transportation is available most children will be unable to attend school. For the parents of these children, it is unlikely that they would have signed an agreement requiring

them to reimburse the fees NPO A has paid if the expected free transport was not believed to be available.

Where there is no enforceable grant arrangement, a grant-providing NPO recognises a grant expense when there is a constructive obligation to transfer resources that results in the recognition of a provision. If NPO considers that it does have a constructive obligation, it will need to recognise the provision and the grant expense. To do so NPO A will need to estimate the amount of the obligation at the point where the constructive obligation exists, which is likely to be when the parents have signed the agreement and NPO A has transferred the school fees. The measurement of the constructive obligation will involve determining the cost for parents who have signed the agreement and have had school fees paid by NPO A of paying minibus taxis to transport their children to school. When NPO subsequently transfers resources to the parents to pay for the transport, this will settle the recognised provision.

Example 2: NPO is party to a grant arrangement with a constraint that is insufficient to create an enforceable grant obligation

NPO B is a foundation that has the primary objective of supporting the welfare of working animals that have been retired. It specialises in fundraising from the general public and then providing financial support to other NPOs that operate animal sanctuaries.

NPO B signs a written grant agreement with NPO C. NPO C is a donkey sanctuary that NPO B has supported a number of times in the past. The terms of this agreement are that NPO B will provide NPO C with a grant of CU1,000,000 that NPO C is required to spend on its overall purpose of supporting the welfare of donkeys in its care. As NPO B has provided grants without any issues arising as to eligibility of expenditure to NPO C in the past, only a high-level review of how transferred resources have been used is anticipated for in the grant agreement.

Is there an enforceable grant arrangement and how should it be accounted for?

Although there is a written grant agreement this is not an enforceable grant arrangement. NPO C is required under the constraint included in the grant agreement to spend transferred resources in line with its overall mission of supporting the welfare of donkeys in its care. No specific outcomes or activities are mentioned and nor are any distinct services, goods or other assets that NPO C is required to use internally or transfer externally noted.

NPO B should therefore account for the transaction as a funding agreement. If NPO B deems that a legal obligation or constructive obligation exists because of the written grant agreement it should recognise a grant expense for the full CU1,000,000 value of the grant and a matching liability/provision until the resources are transferred to NPO C. If not it will recognise a grant expense when the resources are transferred to NPO C.

Example 3: NPO is party to an enforceable grant arrangement with multiple grant fulfilment rights and enforceable grant obligations and transfers cash and non-cash resources

NPO D is a global centre of excellence in the study and treatment of infectious childhood diseases. In addition to its own research activities, it supports governments in a number of other jurisdictions by providing funding, staff resources and vaccines to them.

NPO D has signed an agreement that is enforceable under local law with the government of a jurisdiction (Jurisdiction A). This agreement covers support for a number of programmes, projects and activities that the government is undertaking in the area of infectious childhood diseases but the most significant are:

- (i) CU10,000,000 in cash to be spent reimbursing the training costs of the jurisdiction's medical graduates in methods for identifying and treating infectious childhood diseases. The amount is based on a grant of CU10,000 to cover the costs of tuition of each of 1,000 graduates in the jurisdiction's medical school. To be eligible for reimbursement of the training costs each graduate must complete the training and pass an exam.
- (ii) CU50,000,000 in vaccines that are currently held by NPO D for the most common infectious childhood diseases in the jurisdiction. The vaccines are provided according to the principle that Jurisdiction A must first use its own supplies of vaccines before NPO D will transfer its vaccines to replenish the jurisdiction's available supply.

Is there an enforceable grant arrangement and how should it be accounted for?

The agreement between NPO D and Jurisdiction A is an enforceable grant arrangement, where jurisdiction A has two enforceable grant obligations. These have named activities and distinct services, goods or other assets that are to be internally used or externally transferred by the grant recipient. The first is to train 1,000 graduates in identifying and treating infectious childhood diseases and ensure that they complete the training and pass a final exam. The second is to use its own vaccines. If these enforceable grant obligations are met NPO D will provide CU10,000 for each graduate who has completed the training course and passed the exam and transfer CU50,000,000 of vaccines that are currently held by NPO D to replenish the jurisdiction's own supply that have been used.

For both of these enforceable grant obligations, NPO D may realistically be able to avoid the transfer of resources. Grants will only be provided for those graduates who complete the training course and pass the exam, and vaccines will only be transferred when the jurisdiction has used its own supply. In this example NPO D will recognise grant expenses when:

- (i) it receives confirmation of the number of graduates who have completed the course and passed the exam, with a grant expense of CU10,000 recognised for each successful graduate; and
- (ii) it receives confirmation that Jurisdiction A has used its own supply of vaccines, with a grant expense recognised at the measurement of the vaccines held by NPO D that are to be transferred to the jurisdiction.

The recognition of a prepayment asset or a liability by NPO D and their subsequent derecognition will depend on the timing of the transfer of resources to Jurisdiction A.

Example 4: NPO is party to a grant arrangement with payments of grant over multiple years

NPO E has signed an agreement with a regional government that is expanding a number of programmes that aim to protect environmental habitats. These programmes set aside land for wildlife reserves and provide financial support to indigenous communities in those areas to mitigate for potential lost earnings from forestry and agriculture activities. The agreement between NPO E and the regional government, which is enforceable under the laws of the jurisdiction, provides the regional government with CU2,000,000 of financial support each year for five years provided that a long-term budget envelope is passed to fund the programmes and CU10,000,000 is transferred by the regional government to an independent fund for the

indigenous communities. The regional government has subsequently passed a long-term budget envelope to fund these programmes that includes an additional CU10,000,000 of expenditure based on receiving the same amount in support from NPO E over that period. It has also transferred CU10,000,00 to the independent fund upfront.

Is there an enforceable grant arrangement and how is it accounted for?

The agreement between NPO E and the regional government is an enforceable grant arrangement. NPO E has agreed to provide a total of CU10,000,000 to the regional government provided that it meets its enforceable grant obligation of passing a long-term budget envelope to fund the specific programmes and transferring CU10,000,000 to the independent fund. The agreement is enforceable under the laws of the jurisdiction in which the regional government is based.

There are no further enforceable grant obligations placed on the regional government. As it has passed the long-term budget envelope and already transferred the full CU10,000,000 to the independent fund the enforceable grant obligation has been met.

Although the arrangement spans five years, with the transfer of CU2,000,000 due each year, the recognition of the grant expense must be considered independently from the timing of when the resources are transferred. For the recognition of a grant expense, NPO E must consider whether the regional government has performed under the terms of the enforceable grant arrangement and met its enforceable grant obligation. The key consideration is that the regional government has performed for the entire amount that NPO E is obliged to transfer. NPO E will therefore recognise a grant expense and matching liability of CU10,000,000. This liability will be reduced by CU2,000,000 each year as the resources are transferred from NPO E to the regional government.

If instead of transferring the entire CU10m to the independent fund when the long-term budget envelope was passed, the regional government instead transferred CU2,000,000 per year then the enforceable grant obligation would be met over time. In this case NPO E would need to determine whether it was able to realistically avoid the transfer of resources. If the transfer of the CU2,000,000 was dependent each year on the regional government making its own transfer then NPO E may realistically be able to avoid the transfer and it would recognise a grant expense of CU2,000,000 each year instead.

Example 5: NPO is party to an enforceable grant arrangement with a capital grant

NPO F is funded by professional sports teams in a region and exists to provide funding to community sports organisations in that region to build their own sporting facilities.

NPO F has signed an agreement with a community athletics organisation to upgrade its facilities. Both NPO F and the community athletics organisation are subject to oversight by a regulator that entities can appeal to if agreements are not upheld. The agreement provides the community athletics organisation with CU5,000,000 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 a final report of the amount spent must be provided to NPO F by the community athletics organisation and any unspent funds are to be returned to NPO F.

Is there an enforceable grant arrangement and how is it accounted for?

The agreement between NPO F and the community athletics organisation is an enforceable grant arrangement involving a capital grant. The terms of the enforceable grant arrangement require the community athletics organisation 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. The regulator which provides oversight of NPO F and the community athletics organisation supports the enforceability of the arrangement.

As the community athletics organisation is constructing the non-financial assets, NPO F's grant fulfilment rights are met as the assets are being built. NPO F and the community athletics organisation have agreed a methodology based on percentage of completion. This measures progress based on costs incurred against the overall projected costs of the building work. As NPO F has provided the full expected cost of the project as a transfer to the community athletics organisation upfront, it has recognised a grant prepayment asset for this amount. NPO F will recognise grant expenses and derecognise the prepayment asset over time based on the percentage of costs incurred to date by the community athletics organisation. The prepayment asset will be fully derecognised once the project is completed. If overall costs are lower than the initial transfer of resources from NPO F to the community athletics organisation NPO F is entitled to reimbursement and part of the prepayment asset will be reclassified to a financial asset. The financial asset will be derecognised once the unused funds are reimbursed.

Example 6: NPO is party to a grant arrangement with a 'termination for convenience' clause

NPO G is a donor organisation that relies on investment income to finance its funding of other entities and individuals. Restrictions on the use of its investments means that it can only use investment returns in any year, which results in significant fluctuations in the income available to it.

As a result, NPO G includes a 'termination for convenience' clause in all of its agreements with other entities and individuals. This allows NPO G to terminate an agreement at any time without there being a breach of the agreement. It has just signed an agreement with NPO H - an international humanitarian organisation - to provide CU1,000,000 for it to purchase emergency ration packs for distribution to refugees. The terms of the agreement indicate that the transfer of resources is due when NPO H has purchased and distributed the ration packs.

Is there an enforceable grant arrangement and how is it accounted for?

An enforceable grant arrangement confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the grant arrangement. In determining whether a grant arrangement is enforceable, a grant-providing NPO must consider the substance rather than the legal form of the grant arrangement.

NPO G has a grant fulfilment right under the agreement for NPO H to purchase and distribute ration packs to refugees – this is also NPO H's enforceable grant obligation. In return NPO G is obliged to provide CU1,000,000 to NPO H. The legal form of the arrangement does, however, provide NPO G with the ability to terminate the agreement at any time without their being a breach of the agreement. This means that even after NPO H has fulfilled its enforceable grant obligation, NPO G would be able to terminate the agreement and not transfer the resources.

Whether an enforceable grant arrangement exists depends on enforceability and the substance of the arrangement. If it is unlikely that NPO G would utilise the 'termination for convenience' clause because it has no past history of doing so and/or in addition to the written agreement there

is a deemed oral agreement or customary practices that are legally or otherwise enforceable then an enforceable grant arrangement may be deemed to exist. In this case NPO G would recognise a grant expense and liability once NPO H has met its specific enforceable grant obligation.

If, however, NPO G does have a history of utilising these clauses, and they are seen to override any deemed oral agreements or customary practices, this may mean that NPO H could not enforce the obligation for NPO G to transfer the resources once it has purchased and distributed the ration packs. In such a situation an enforceable grant arrangement may be deemed not to exist. In this case NPO G would follow the guidance for the recognition and measurement of grant expenses where there are funding agreements. Given the termination for convenience clause this would likely see NPO G recognise a grant expense only when it has transferred the resources to NPO H, measured at the value of the transferred resources.