

Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED09-01

10 January 2023 – Online

Grant expenses

Summary	This paper provides TAG members with an overview of the approach taken to the development of the proposed guidance for grant expenses.
Purpose/Objective of the paper	To allow TAG members to consider the approach being taken to the application of the conceptual basis for transfer expenses being developed by IPSASB to the proposed guidance for grant expenses. The paper also provides an initial draft of the INPAG Section 24A <i>Grant Expenses</i> authoritative guidance for comment.
Other supporting items	None
Prepared by	Philip Trotter
Actions for this meeting	<p><u>Comment and advise</u> on:</p> <ul style="list-style-type: none"> (i) the key terms that have been defined for Section 24A (ii) the proposed approach taken to the recognition and measurement of grant expenses in the authoritative guidance (iii) the proposed approach taken to the disclosure of grant expenses in the authoritative guidance (iv) any additional NPO-specific issues areas that the authoritative guidance needs to cover (v) the title of the Section

Technical Advisory Group

Grant expenses

1. Consultation Paper Proposal

- 1.1 At TAG ED 08, TAG members were provided with a summary of responses to the grant expenses section of the Consultation Paper. In response to the feedback it was proposed at this meeting that the grant expenses financial reporting requirements be based on the principles contained within the IPSASB's ED72 *Transfer Expenses* (hereafter IPSAS ED 72), noting that since this Exposure Draft IPSASB has further developed its proposal principally by changing the focus from the transfer recipient to the transfer provider and simplification. The ED 72 proposals formed the basis of Alternative 2, which received the most support from respondents to the Consultation Paper.
- 1.2 The new IPSAS, when it is finalised, will be the only international standard that covers concepts relevant to grant expenses. IPSASB is expected to release a publication on *Transfer Expenses* in the Spring of 2023. In the meantime, as agreed at TAG ED 08, development of INPAG Section 24A *Grant Expenses* (hereafter INPAG Section 24A) has been based on draft versions presented to the IPSASB Board.
- 1.3 This paper provides TAG members with an overview of how INPAG Section 24A has been developed from current drafts of the IPSAS standard with a focus on the most significant conceptual issues. It highlights how recognition, measurement and disclosure principles have been developed for the authoritative guidance. It also provides an initial draft of the authoritative guidance of INPAG Section 24A.

2. Significant conceptual issues in core text

- 2.1 Grant expenses relates to the accounting of the expenditure by an NPO that provides a grant to another entity or individual, and any related assets and liabilities associated with the transaction. It does not relate to the accounting by an NPO of grant that it has received. Accounting for grant and similar income received by an NPO will be covered as part of revenue.

Scope of grant expenses

- 2.2 The IPSAS draft standard establishes principles for transfer expenses. These are defined as:

an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return.

2.3 It is proposed that INPAG Section 24A takes a similar approach. Transfer expenses are, however, redefined as **grant expenses**, entity is redefined to **grant recipient**, and an explicit reference is made to cash transfers.

2.4 A grant expense is therefore defined as:

*“an expense arising from a transaction in which a **grant providing NPO** provides 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.”*

2.5 Under this definition of grant expense, it follows 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. A grant from a grant providing NPO will therefore relate not only to items commonly described as grants but also items that may otherwise be described as donations, gifts, and similar transfers of resources.

Identifying the grant expenses transaction

2.6 Under the draft IPSAS, the key accounting principle relating to transfer expenses is whether the transaction results in the recognition of an asset by the transferring entity. If transfer transactions do not result in the recognition of an asset they are generally recognised as a transfer expense when the entity loses control of the transferred resources or when the entity has an obligation to transfer resources.

2.7 The IPSASB saw the recognition of an asset as key because it relates to the transfer providers right to have a transfer recipient fulfil its obligation. The conclusion of the IPSASB was that such a right meets the definition of an asset in that it constitutes a resource presently controlled by the entity as a result of past events.

2.8 It is proposed that the identification and accounting of a grant expense by a grant providing NPO under INPAG Section 24A is similarly driven by whether or not the transaction results in the recognition of an asset. Grant expenses which do not result in the recognition of an asset by the grant providing NPO will generally be recognised as a grant expense when the grant providing NPO loses control of the transferred resources. When the grant providing NPO has generated an obligation to transfer resources, it will recognise a liability and grant expense.

Binding grant arrangements

2.9 A binding arrangement under the draft IPSAS is

“an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement.”

2.10 Binding arrangements are an important conceptual component of the draft IPSAS because the rights and obligations they contain provide input into the assessment of the asset recognition criteria and whether an obligation to transfer resources exists.

2.11 This input is also deemed appropriate in the NPO context, with the draft IPSAS’s binding arrangements redefined as **binding grant arrangements** for INPAG Section 24A. The proposed conceptual basis is, however, the same. A binding grant arrangement is

“a grant arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the grant arrangement.”

While it is expected that this will usually be through a written grant agreement, it could also arise through an oral agreement or be implied by a grant providing NPO’s or a sector’s customary practices. It would therefore include constructive obligations.

2.12 As with binding arrangements, enforceability is highlighted as an essential characteristic of binding grant arrangements. This is because enforceability will provide a grant providing NPO with rights in exchange for an obligation to transfer resources to the grant recipient. These rights and obligations are examined further below.

Grant expenses where there are no binding grant arrangements

2.13 In the absence of a binding grant arrangement, INPAG Section 24A follows the draft IPSAS approach to recognition and measurement. A grant providing NPO may still recognise grant expenses either because (i) a constructive or legal obligation exists to transfer resources which results in the recognition of a provision in accordance with Section 21 *Provisions*, or (ii) the grant providing NPO otherwise ceases to control the economic resources by transferring them to the grant recipient. This is highlighted in figure 24.1 on page 8 below from the proposed authoritative guidance.

Grant expenses where there are binding grant arrangements

2.14 It is proposed that INPAG Section 24A uses the same overall conceptual approach to the recognition and measurement of grant expenses where there are binding grant arrangements as the draft IPSAS does for transfer expenses arising from binding arrangements.

2.15 Where a binding grant arrangement exists, a grant providing NPO needs to consider its rights at the inception of the grant arrangement. The grant providing NPO is required to identify each distinct right to have the grant recipient satisfy a **compliance obligation** that is separate from the satisfaction of other compliance obligations in the arrangement.

2.16 Compliance obligations are

“a grant recipient’s promise in a binding grant arrangement to either use resources internally for distinct services, goods or other assets or transfer distinct services, goods, cash or other assets to a purchaser or third-party beneficiary.”

A binding grant arrangement must have at least one compliance obligation. A compliance obligation may be specific, such as a requirement for a grant recipient to provide cash to a named group of children to pay for their annual school fees, or more general, such as a requirement for the grant recipient to spend cash on the broader promotion of education. Where a compliance obligation is more general, the grant providing NPO should consider whether there are conditions attached to the compliance obligation that enable it to realistically avoid the transfer of resources.

2.17 Rights are grant satisfaction rights which are

“a distinct right in the binding grant arrangement held by the grant providing NPO to have the grant recipient satisfy a compliance obligation.”

2.18 Once the **grant satisfaction rights** have been identified, the grant providing NPO must determine the **grant payment consideration**. This is

“the amount that the grant providing NPO is obliged to pay the grant recipient for the extinguishment of each distinct grant satisfaction right.”

Where these vary due to features such as penalties or because they are contingent on the occurrence of a future event this will be a **variable consideration**. This is

“consideration in a binding grant arrangement that includes a variable amount.”

2.19 The grant providing NPO will recognise a grant expense when a grant satisfaction right is extinguished. It will be measured at the amount of the grant payment consideration.

2.20 If the grant providing NPO has transferred resources to the grant recipient in advance of the grant recipient satisfying its compliance obligations, the grant providing NPO will derecognise the transferred resources and recognise a **grant prepayment asset**. Grant prepayment assets are defined as

“an asset arising from a grant providing NPO transferring resources in accordance with a binding grant arrangement prior to the grant recipient satisfying its compliance obligations.”

The grant expense will be recognised when the grant prepayment asset is derecognised because the grant recipient has satisfied its compliance obligations.

2.21 If the grant recipient has satisfied its compliance obligation prior to the grant providing NPO transferring resources, this will give rise to a grant payment obligation

and the recognition of a **grant payment liability**. A grant payment liability is defined as

“a liability arising from a grant recipient satisfying its compliance obligations in a binding grant arrangement prior to the grant providing NPO transferring resources.”

Recognition of this liability will also lead to the recognition of a grant expense.

- 2.22 Where there is variable consideration this may result in a liability of uncertain timing or amount. 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 and initially and subsequently measure this in accordance with Section 21 *Provisions*. This will give rise to the recognition of a **grant payment provision** and a grant expense. A grant payment provision is defined as

“a provision arising from the probable satisfaction by a grant recipient of its compliance obligations in a binding grant arrangement prior to the grant providing NPO transferring resources.”

- 2.23 If the grant payment consideration changes due to a change in circumstances or the resolution of an uncertain event, the grant providing NPO may need to recognise an additional expense, or reduce an expense, that has been allocated to an **extinguished grant satisfaction right**.
- 2.24 If there is a modification made to the binding grant arrangement that changes the rights and obligations of the grant providing NPO and the grant recipient, the grant providing NPO may also need to revise the grant payment consideration and the amount that it has allocated to extinguished and unextinguished grant satisfaction rights. Where this results in an accumulated grant expense that differs to the accumulated grant expense previously recognised, the grant providing NPO will need to recognise this in surplus or deficit at the date of the modification.

Reclassification and impairment of a grant prepayment asset

- 2.25 After the recognition of a grant prepayment asset, the grant recipient may become unable or unwilling to satisfy its compliance obligations under the binding grant arrangement. Where the grant providing NPO has an enforceable and unconditional right to a refund of the previously transferred cash, the grant providing NPO shall reclassify the grant prepayment asset to a financial asset and measure it in accordance with Section 11 *Financial Instruments*. If the grant prepayment asset is not reclassified, the grant providing NPO will assess the grant prepayment asset for impairment in accordance with Section 27 *Impairment of assets*. This is the same conceptual basis for reclassification and impairment as the draft IPSAS.

- 2.26 Figure 24.1 from the proposed authoritative guidance on page 8 below highlights the essential recognition and measurement principles of grant expenses from transactions with binding grant arrangements.

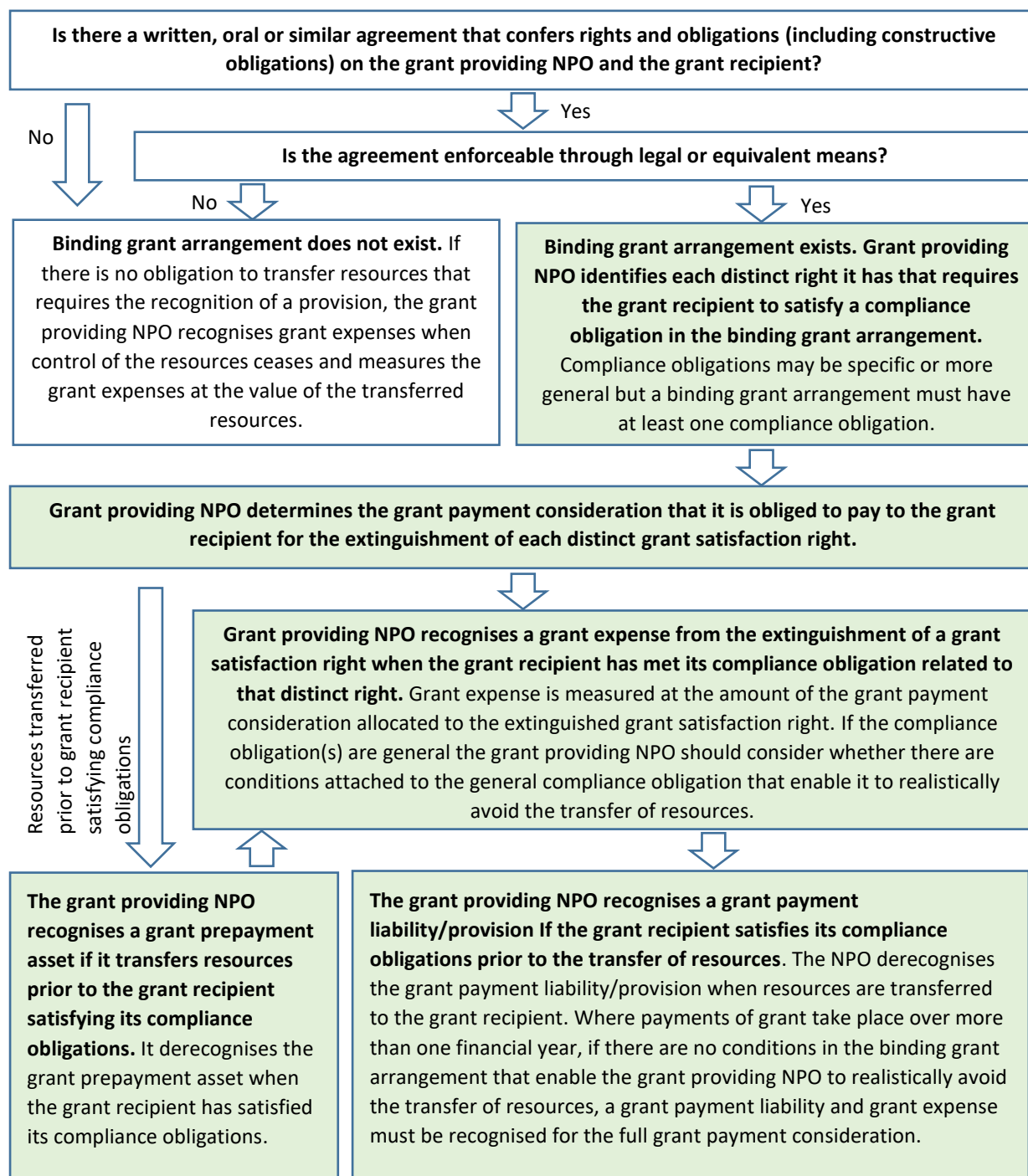
Fund accounting

- 2.27 The resources that a grant providing NPO transfers, or will transfer, to a grant recipient may be from funds with restrictions. Where this is the case the grant providing NPO should ensure that any grant expenses, and associated grant prepayment assets and grant prepayment liabilities/provisions are accounted for within funds with restrictions.

Discussion of terms with the PAG

- 2.28 The definitions described in paragraphs 2.4 to 2.22 of this paper were discussed with the PAG when it met in December 2022. The key points raised about the terms being used were as follows:
- PAG provided feedback that the term 'grant expenses' could be misinterpreted to mean expenses paid from grants received. The PAG asked that an alternative title be considered and there was a proposal to retitle the Section to 'Grants payable'. TAG member feedback on the titling of the Section is welcome.
 - PAG members were concerned that the definition of a grant expense did not include an obligation to transfer cash or another resource.
 - The term 'binding arrangement' was considered to imply legal enforceability, which may not always be the case. It was, however, noted that the term 'binding' is used by the sector.
 - The term 'extinguishment of rights' was also viewed to be quite legalistic and a plainer English alternative such as 'fulfilment' was suggested.
 - The term 'consideration' was not thought to be widely used in the sector and alternative suggestions of 'financial support, funding, resources or value' were asked to be considered.

Figure 24.1 – Determining if a binding grant arrangement exists and the recognition and measurement of grant expenses



Principal agent considerations

- 2.29 As noted in TAG 08-12 *NPOs acting on behalf of other entities* and agreed at TAG08, guidance on NPOs acting on behalf of other entities will not be included as a standalone Section in INPAG. Rather it will be integrated into those Sections where guidance on principal agent relationships is required, one of which is INPAG Section 24A.
- 2.30 If a grant providing NPO controls the economic resources that are transferred to the grant recipient it is proposed that it will be a principal in the transaction and the recognition, measurement, presentation and disclosure requirements of INPAG Section 24A relating to grant expenses will apply. If the 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 24A for NPOs acting as an agent and only costs incurred in the administration of the agency arrangement will be recognised as expenditure by the grant providing NPO.

Question 1: Do TAG members have any comments on the key terms that have been defined for INPAG Section 24A *Grant Expenses*?

Question 2: Do TAG members have any comments on the proposed approach taken to the recognition and measurement of grant expenses in the core text for INPAG Section 24A *Grant Expenses*?

Disclosures

- 2.31 It is proposed that a grant providing NPO will need to make a number of disclosures to enable users of the general purpose financial reports to understand the nature, amount, timing and any uncertainty arising from grant expenses. This will include a description of the purpose of the material binding grant arrangements or other arrangements that have led to the recognition of grant expenses. It will also include the disclosure of the existence and potential consequences of variable consideration, significant payment terms and the nature of the resources that have been or will be transferred related to these agreements.
- 2.32 In addition to this general description, specific disclosure requirements will apply to:
- Grant expenses;
 - Grant prepayment assets and financial assets;
 - Grant payment liabilities, grant payment provisions, and grant payment contingent liabilities; and

- Disclosures where the NPO has acted as an agent.

Grant expenses

- 2.33 A **grant providing NPO** will need to disclose the amount recognised in the Statement of Income and Expenses as grant expenses, and provide an analysis of grant expenses in accordance with requirements for the classification of expenses by nature or function within the grant providing NPO. The classification of expenses is an NPO-specific issue that is being developed as part of Exposure Draft 3.

Grant prepayment assets and financial assets

- 2.34 Where a grant providing NPO has recognised a grant prepayment asset, it will need to disclose information that enables users to understand balances, and significant judgements and changes in significant judgements that the grant providing NPO has made regarding the recognition of grant prepayment assets. The grant providing NPO will also need to disclose significant risks and uncertainties relating to the realisation of grant prepayment assets. As the grant prepayment asset is not a financial asset under the *IFRS for SMEs* Accounting Standard, amendments to Section 11 *Financial Instruments* are proposed to create a specific grant prepayment asset category which will permit the broader disclosure requirements of that Section to apply.
- 2.35 Where a grant prepayment asset has been reclassified to a financial asset, this will also need to be disclosed in accordance with the requirements of Section 11 *Financial Instruments*.

Grant payment liabilities, grant payment provisions, and contingent grant payment liabilities

- 2.36 Where a grant payment liability is an obligation to transfer cash, the financial liability will be measured at amortised cost and the disclosure requirements of Section 11 *Financial Instruments* for payables will be applicable. If not an obligation to transfer cash, it is proposed that the grant providing NPO will need to disclose the nature of the obligation and the resources that will need to be transferred to satisfy the obligation. As with grant prepayment assets, amendments to Section 11 *Financial Instruments* are proposed to create a specific category for grant payment liabilities that are not obligations to transfer cash.
- 2.37 If variable consideration in a binding grant arrangement has resulted in the recognition of a grant payment provision, or there is no binding grant arrangement but a grant payment provision is recognised for a legal or constructive obligation, the disclosure requirements Section 21 *Provisions* are applicable.



- 2.38 It is also proposed that a grant providing NPO will need to disclose the existence of commitments to provide grant funding that are not recognised as grant payment liabilities or grant payment provisions when it is sufficiently clear that payment is possible but not probable. These grant funding commitments will be disclosed as a contingent grant payment liability in accordance with the requirements of Section 21 *Provisions*. Contingent grant payment liabilities are defined as

“a contingent liability arising from the possible but not probable satisfaction by a grant recipient of its compliance obligations in a binding grant arrangement prior to the grant providing NPO transferring resources.”

Principal agent considerations

- 2.39 Where a grant providing NPO has acted as an agent during the reporting period, although it will not recognise grant expenses related to those resources for which it has acted as an agent, there is other information that will be useful to users that should be disclosed. As such it is proposed that where material the grant providing NPO disclose:

- (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.

Question 3: Do TAG members have any comments on the proposed approach taken to the disclosure of grant expenses in the core text for INPAG Section 24A *Grant Expenses*?

Core text draft Section 24A *Grant Expenses*

- 2.40 The proposed approach taken to the development of the core text have been developed into a draft INPAG Section 24A *Grant Expenses* that is provided in annex to this paper. It is requested that TAG members provide any detailed drafting amendments directly to the Secretariat.

Question 4: Are there any further conceptual areas that TAG members consider need to be covered in the core text for INPAG Section 24A *Grant Expenses*?

3. Application Guidance

- 3.1 The Application Guidance provides additional authoritative guidance to NPOs on principal agent considerations, grant expenses when there are no binding grant arrangements, and modifications to a binding grant arrangement. These do not involve any significant new conceptual issues so are not examined in detail in this paper.
- 3.2 There are, however, conceptual issues that do need to be considered by the TAG for proposed guidance related to
- (i) grant satisfaction rights and obligations in binding grant arrangements,
 - (ii) foreign exchange gains and losses and
 - (iii) funds with restrictions.

Issues related to grant satisfaction rights and obligations in binding grant arrangements

Specific and general compliance obligations

- 3.3 The Application Guidance provides the guidance noted in paragraph 2.16 above relating to specific and general compliance obligations. It highlights the need for the grant providing NPO to consider whether there are conditions attached to more general compliance obligations that enable it to realistically avoid the transfer of resources and delay the recognition of grant expenses.

Question 5: Do TAG members have any comments on the distinction highlighted between specific and general compliance obligations?

Payments of grant over more than one financial year

- 3.4 Under the proposed conceptual approach to the recognition and measurement of grant expenses in Section 24a, an NPO needs to recognise a grant expense for the total amount of the resources that must be transferred under the binding grant arrangement to the grant recipient for the compliance obligations that it has satisfied. This requirement holds even if the actual payment will occur over a number of financial years.
- 3.5 The Application Guidance notes that only where payments for later years are subject to the grant recipient satisfying obligations that they have not yet met, or if there are conditions in the binding grant arrangement that remain within the control of the grant providing NPO that provide it with the discretion to avoid grant expenditure, should grant expenses and a grant payment liability not be recognised.

- 3.6 For example, if a grant providing NPO makes payments over several financial years but there is a substantive review undertaken each year that provides the possibility of future payments to the grant recipient being withheld, then the grant providing NPO may realistically be able to avoid the future payments. In this situation it would be appropriate for the grant expenses and a grant payment liability related to the future payments to not be recognised.

Question 6: Do TAG members have any comments on the proposed approach to the payments of grant paid over more than one year?

Grant recipient obligations

- 3.7 The Application Guidance indicates that where there are rights and obligations that are outside of the control of the grant providing NPO, such as a requirement on a grant recipient to find match funding, if the transfer of resources is probable then the grant providing NPO must recognise a grant payment liability and a grant expense.

Performance-related grants

- 3.8 A binding grant arrangement 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. The Application Guidance notes that where this results in variable consideration, this can result in a liability of uncertain timing or amount for the grant providing NPO that requires the grant providing NPO to recognise a grant payment provision.

Restricted grants

- 3.9 The issue of restrictions to grants is important for NPOs. The Application Guidance clarifies that a binding grant arrangement that restricts a grant to a particular purpose does not on its own create a performance-related right or obligation as the payment is not conditional on a specific level of service or outputs by the grant recipient.

Capital grants

- 3.10 The Application Guidance also provides authoritative guidance on **capital grants**. These are defined as:

“a transfer of cash or another asset by a grant providing NPO to a grant recipient with a specification that the grant recipient acquires or constructs a non-financial asset that the grant recipient will then control.”

- 3.11 It is proposed that a grant providing NPO will follow the same approach to recognising a grant expense for a binding grant arrangement involving a capital grant

as with any other grant expense. i.e. the identification of grant satisfaction rights, the determination of the grant payment consideration, and the recognition of a grant expense from the extinguishment of a grant satisfaction right.

- 3.12 For a capital grant, the terms of the binding grant arrangement will require the grant recipient to either acquire or construct a specified non-financial asset. If the grant recipient acquires the specific non-financial asset, the grant providing NPO's grant satisfaction right will be extinguished when the asset is acquired and a grant expense recognised by the grant providing NPO at this point. If the grant recipient constructs the non-financial asset, the grant satisfaction right will be extinguished as the asset is being built, and the Application Guidance proposes that a grant expense will be recognised by the grant providing NPO based on the measure of progress made by the grant recipient.
- 3.13 If the grant providing NPO has already recognised a grant expense, but the grant recipient subsequently disposes of an acquired asset or constructed asset against the terms of the binding grant arrangement, the Application Guidance also notes that the grant providing NPO should consider whether it has an enforceable unconditional right to a refund of the transferred resources. If so this may result in the recognition of a financial asset and revenue.

Question 7: Do TAG members have any comments on the proposed approach to capital grants and in particular the recognition of grant expenses based on acquisition or a measure of progress made?

Foreign exchange gains and losses

- 3.14 Section 30 *Foreign Currency Translation* is subject to update as part of ED 2, and proposals for its update will be brought to the TAG at the February 2023 meeting. Section 24a's Application Guidance related to foreign exchange gains and losses will therefore also be brought to this meeting
- 3.15 The Application Guidance is expected to provide NPOs with guidance on the recognition of foreign exchange gains and losses that may arise when the grant providing NPO is required to pay the grant recipient in a foreign currency and a grant prepayment asset or grant payment liability is recognised. The Secretariat will also examine whether additional recognition and measurement principles and disclosures may be required related to foreign exchange, such as where there are differences between exchange rates required in the binding grant arrangement and market or other rates.

Question 8: Do TAG members have any comments on areas that guidance on foreign exchange translations will need to cover in relation to grant expenses?

Funds with restrictions – presentation and disclosure

- 3.16 Finally, the Application Guidance provides guidance on the presentation and disclosure of expenses, income, assets, and liabilities related to transactions that are financed by financial resources that have been restricted. These items are required to be presented and disclosed by the grant providing NPO within funds with restrictions in accordance with the requirements of Section 4 *Statement of Financial Position*, Section 5 *Statement of Income and Expenses* and Section 6 *Statement of Change in Net Assets*.

Question 9: Do TAG members have any advice on additional NPO-specific issues that need to be covered in the authoritative guidance?

4. Implementation Guidance and Examples and the Basis for Conclusions

- 4.1 Implementation Guidance with illustrative examples and the Basis for Conclusions will be developed following agreement of the conceptual basis for the authoritative text that have been highlighted in this paper.
- 4.2 If there are any specific areas that TAG members believe should be covered by the Implementation Guidance and illustrative examples, these should be notified to the Secretariat so that they can be included ahead of the next TAG meeting.

5. Next steps

- 5.1 The authoritative guidance will be amended to reflect TAG member feedback and will be brought to the February 2023 meeting along with the Implementation Guidance and Examples and the Basis for Conclusions.

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Annex A

Section 24A - Grant expenses (New)

Scope

G24A.1 This section specifies the accounting by grant providing NPOs for grant expenses. A grant expense is an expense arising from a transaction in which a grant providing NPO provides 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.

Identifying the grant expense transaction

G24A.2 A grant providing NPO accounts for a grant expense based on whether or not the transaction results in the recognition of an asset. An asset will arise for the grant providing NPO when resources are transferred before the grant recipient has met obligations relating to the grant. Grant expenses which do not result in the recognition of an asset are generally recognised as a grant expense when the grant providing NPO loses control of the transferred resources. Alternatively, when the grant providing NPO has incurred an obligation to transfer resources, it recognises a liability and grant expense.

Binding grant arrangements and enforceability

G24A.3 A binding grant arrangement is a grant arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on 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.

G24A.4 Identifying whether the transaction arises from a binding grant arrangement impacts on the determination of whether the transaction results in the recognition of an asset. This is because an enforceable binding grant arrangement will provide a grant providing NPO with grant satisfaction rights in exchange for an obligation to transfer resources to the grant recipient.

Grant expenses from transactions without binding grant arrangements

Recognition and measurement

G24A.5 Where there is no binding grant arrangement, a grant providing NPO shall recognise and measure grant expenses as follows:

- (a) When there is a constructive or legal obligation to transfer resources that results in the recognition of a provision in accordance with paragraph G21.4 of Section 21 *Provisions and Contingencies*, with the grant payment provision initially and subsequently measured in accordance with paragraphs G21.8-G21.12. In such cases the recognition of the grant payment provision results in the recognition of the grant expense at the same measurement, and the subsequent transfer of resources settles the recognised grant payment provision; or
- (b) If a constructive or legal obligation to transfer resources does not exist, when the grant providing NPO ceases to control the resources in the transaction. This will usually be the date at which it transfers the resources to the grant recipient, and the grant providing NPO shall measure the grant expense at the carrying amount of the previously controlled resources.

Figure 24A.1 provides an overview of the recognition and measurement of grant expenses where no binding grant arrangement exists

Grant expenses from transactions with binding grant arrangements

Identifying grant satisfaction rights in binding grant arrangements

G24A.6 At the inception of a binding grant arrangement, a grant providing NPO shall consider its rights in the binding grant arrangement. It should identify each distinct right (or series of rights that have substantially similar characteristics) to have the grant recipient satisfy a compliance obligation that is separate from the satisfaction of other compliance obligations in the binding grant arrangement.

Recognition and measurement

G24A.7 A binding grant arrangement is wholly unsatisfied if the grant providing NPO has not yet paid, and is not yet obligated to pay, consideration to the grant recipient and the grant recipient has not yet satisfied any of its stated compliance obligations in the binding grant arrangement.

G24A.8 A grant providing NPO shall not recognise any asset, liability, or expense associated with the binding grant arrangement when it is wholly unsatisfied. The recognition of

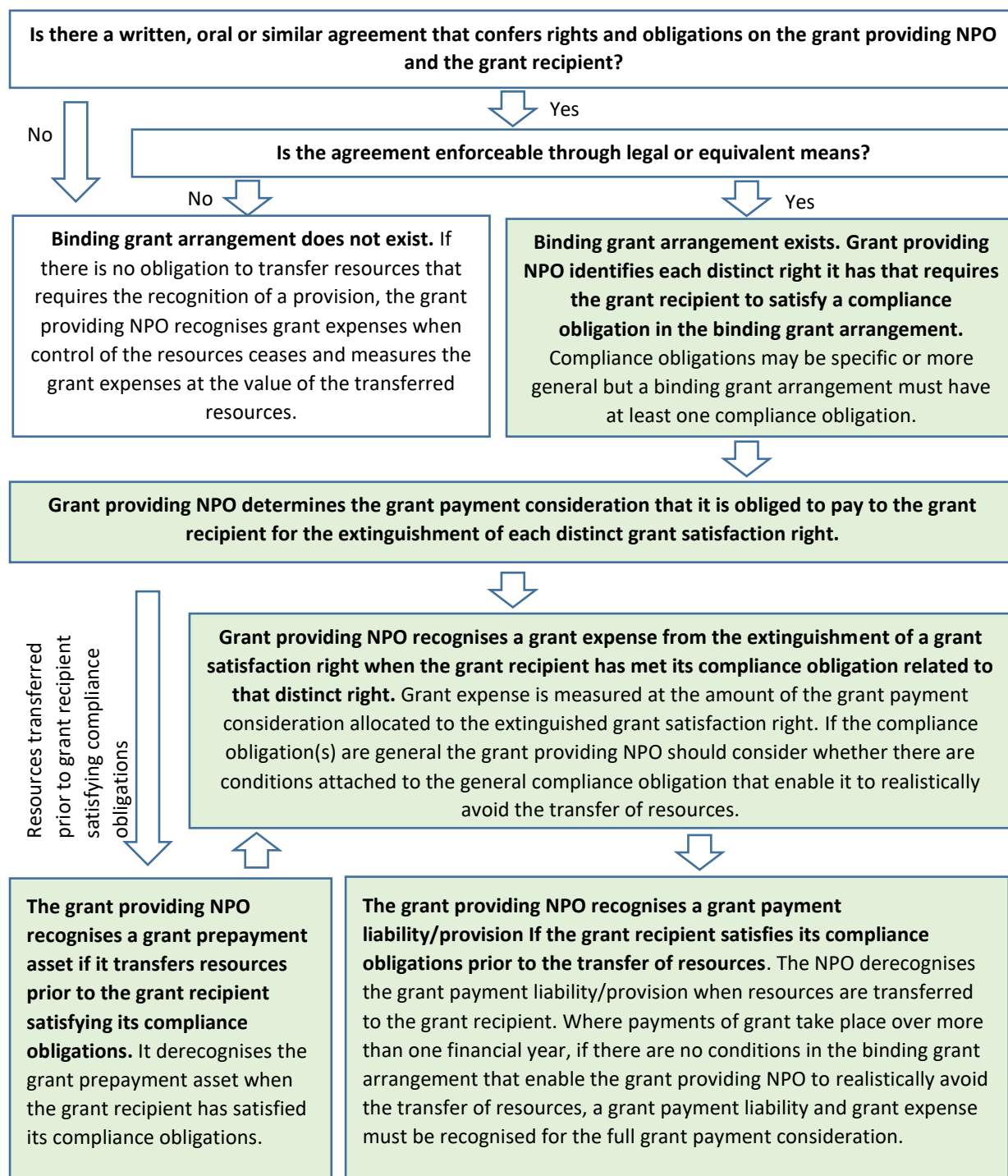
assets, liabilities, and expenses commences only when one party to the binding grant arrangement starts to satisfy their obligations under the arrangement.

- G24A.9 A grant providing NPO shall consider the terms of the binding grant arrangement to determine the grant payment consideration that it is obliged to pay the grant recipient for the extinguishment of each distinct grant satisfaction right.
- G24A.10 The grant payment consideration that the grant providing NPO is obliged to pay 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 satisfies its compliance obligations in the binding grant arrangement within a specified period. This is known as variable consideration.
- G24A.11 When a grant expense is recognised from the extinguishment of a grant satisfaction right, the grant expense is measured at the amount of the grant payment consideration that is allocated to the extinguished grant satisfaction right. When a binding grant arrangement involves multiple distinct grant satisfaction rights, the grant payment consideration shall be allocated by the grant providing NPO to each distinct grant satisfaction right to reflect its stand-alone consideration, adjusted for amounts of any variable consideration.
- G24A.12 If a grant providing NPO transfers resources in accordance with the binding grant arrangement prior to the grant recipient satisfying its compliance obligations, the transferred resources are derecognised, and a grant prepayment asset is recognised. The grant prepayment asset is measured at the total carrying amount of the resources which have been transferred.
- G24A.13 Conversely, when a grant recipient satisfies its compliance obligations in the binding grant arrangement prior to the grant providing NPO transferring resources, the arrangement gives rise to a grant payment obligation for the grant providing NPO and the recognition of a grant payment liability. The grant providing NPO measures its grant payment liability at the total carrying amount of the resources which the grant providing NPO is obligated to transfer to the grant recipient in accordance with the binding grant arrangement.
- G24A.14 A grant providing NPO shall recognise grant expenses when:
- (a) a grant prepayment asset is derecognised because the grant recipient has satisfied its compliance obligations to the grant providing NPO; or
 - (b) when a grant payment liability is recognised.

G24A.15 For a grant expense transaction, variable consideration in a binding grant arrangement may result in a liability of uncertain timing or amount which meets the definition of a provision in Section 21 *Provisions*. 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*.

Figure 24A.1 provides an overview of the recognition and measurement of grant expenses where a binding grant arrangement exists.

Figure 24A.1 – Determining if a binding grant arrangement exists and the recognition and measurement of grant expenses



Changes to the grant payment consideration and modification to the binding grant arrangement

G24A.16 After the inception of the binding grant arrangement, the grant payment consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration which a grant providing NPO is obligated to pay in the binding grant arrangement. Any amounts allocated to an extinguished grant satisfaction right shall be recognised as an expense, or as a reduction of an expense, in the period in which the grant payment consideration changes.

G24A.17 A binding grant arrangement may also be modified through a change in the rights and obligations that is 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 grant payment consideration and the amount of the grant payment consideration allocated to extinguished and unextinguished grant satisfaction 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 grant prepayment asset

G24A.18 After the recognition of a grant prepayment asset, the grant recipient may become unable or unwilling to satisfy its compliance obligations under the binding grant arrangement. Where the grant providing NPO has an enforceable and unconditional right to a refund of the previously transferred cash arising from the terms of the binding grant arrangement, the legal system in the jurisdiction, or other circumstances, the grant providing NPO shall reclassify the grant 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*.

G24A.19 If the grant prepayment asset is not reclassified to a financial asset as noted in paragraph G24A.18, because the terms of the binding 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 grant prepayment asset for impairment in accordance with Section 27 *Impairment of assets*.

Principal agent considerations

G24A.20 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 does control the economic resources, it will be a principal in the transaction and the recognition and measurement requirements of paragraphs G24A.2 to G24A.19 will apply to grant expenses. This is the case even if the grant providing NPO is subject to a binding grant arrangement with the grant recipient that imposes obligations upon it. 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 conditions under which the transaction is to occur.

G24A.21 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, and so by agreement the grant providing NPO may administer the other entity's funds on its behalf and transfer them 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.

G24A.22 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, this is not recognised as a grant expense in accordance with the recognition and measurement requirements of paragraphs G24A.2 to G24A.19. Only costs incurred in the administration of the agency arrangement will be recognised as expenses by the grant providing NPO. Similarly any assets related to the agency arrangement such as funding provided to the grant providing NPO by the other entity are not under the control of the grant providing NPO and hence 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 G24A.30.

Disclosures

G24A.23 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 binding grant arrangements or other arrangements 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.

Analysis of grant expenses

G24A.24 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 24B *Classification of expenses* [to be provided in ED 3].

Grant prepayment assets and financial assets

G24A.25 Where a grant providing NPO has recognised a grant prepayment asset, this will be disclosed as a grant prepayment asset in accordance with paragraphs G11.XX – G11.XX of Section 11 *Financial Instruments* [subject to amendment to Section 11 to create grant prepayment assets as a specific category of financial instrument]. As part of this disclosure, the grant providing NPO will need to include information that enables users to understand significant judgements, and changes in significant judgements, that the grant providing NPO has made regarding the recognition of grant prepayment assets. The grant providing NPO will also need to disclose significant risks and uncertainties relating to the realisation of grant prepayment assets.

G24A.26 Where a grant prepayment asset has been reclassified to a financial asset, the grant providing NPO shall provide disclosure in accordance with paragraphs G11.50 – G11.60 of Section 11 *Financial Instruments*.

Grant payment liabilities and provisions

G24A.27 If the grant payment liability is an obligation to transfer cash, the financial liability is measured at amortised cost and the disclosure requirement of paragraphs G11.50 – G11.60 Section 11 *Financial Instruments* for payables are applicable. If not an obligation to transfer cash, the grant providing NPO will need to disclose the nature of the obligation and the resources that will need to be transferred to satisfy the obligation in accordance with paragraphs G11.xx – G11.xx of Section 11 *Financial Instruments* [subject to amendment to Section 11 to create a specific category for grant payment liabilities that are not an obligation to transfer cash].

G24A.28 If variable consideration in a binding grant arrangement has resulted in the recognition of a grant payment provision, or there is no binding grant arrangement but a grant payment provision is recognised for a legal or constructive obligation, then the disclosure requirements of G21.15 in Section 21 *Provisions* are applicable.

Contingent grant payment liability

G24A.29 A grant providing NPO shall disclose the existence of commitments to provide grant funding that are not recognised as grant payment liabilities or provisions when it is sufficiently clear that payment is possible but not probable. These grant funding

commitments will be disclosed as a contingent grant payment liability in accordance with the requirements of G21.15 of Section 21 *Provisions*.

Principal agent considerations

G24A.30 Where a grant providing NPO has acted as an agent during the reporting period, it must disclose in a note to the accounts:

- (vii) an analysis of funds received and paid by the grant providing NPO as an agent;
- (viii) details of any balances held as an agent at the reporting date;
- (ix) 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;
- (x) details of any balances outstanding between any participating consortium members for which the grant providing NPO is administratively responsible;
- (xi) where funds have been held as agent for related parties the grant providing NPO must make the required disclosures for related parties; and
- (xii) details of the arrangements for safe custody and segregation of funds and other assets from the grant providing NPO's own assets.

Application Guidance

Items included under the term grant

AG24A.1 The term grant encompasses any cash, service, good or other asset that is transferred by a grant providing NPO to a grant recipient without the grant providing NPO directly receiving any cash, service, good or other asset in return. A grant from a grant providing NPO may therefore relate not only to items commonly described as grant but also items that may otherwise be described as donations, gifts, and similar transfers of resources.

Principal agent considerations

AG24A.2 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 an agent. 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.

AG24A.3 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.

AG24A.4 A lead NPO acts as agent for members of a consortium by administering contractual arrangements on behalf of all other members such as invoicing and making payments when it does not take over the contractual obligations and rights of other members. The lead NPO is not an agent if it is the principal under the contract and is then subcontracting work to third parties, including other NPOs, in order to satisfy its contractual obligations.

Modifications to a Binding Grant Arrangement

AG24A.5 A modification to a binding grant arrangement may be so significant that it requires the grant providing NPO to account for the modification as a separate binding arrangement. A grant providing NPO shall account for a modification to a binding grant arrangement as a separate binding grant arrangement if both of the following conditions are present:

- (a) The scope of the binding grant arrangement increases, providing the grant providing NPO with one or more additional grant satisfaction rights, because the grant recipient accepts one or more additional compliance obligations, or an increase in one or more existing compliance obligations; and
- (b) The grant payment consideration increases by an amount that is intended to reflect the value of the additional grant satisfaction rights by compensating the grant recipient for the additional or increased compliance obligations assumed.

Issues related to grant satisfaction rights and obligations in binding grant arrangements

Specific and general compliance obligations

AG24A.6 A compliance obligation may be specific, such as a requirement for a grant recipient to provide cash to a named group of children to pay for their annual school fees, or more general, such as a requirement for the grant recipient to spend cash on the broader promotion of education. Where a compliance obligation is of a more general nature, the grant providing NPO should consider whether there are conditions attached to the compliance obligation that enable it to realistically avoid the transfer of resources.

Payment of grants over more than one financial year

AG24A.7 Where a binding grant arrangement is payable over a period of more than one year, a grant payment 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 binding grant arrangement to the grant recipient for the obligations it has satisfied.

AG24A.8 Where payments for later years are subject to the grant recipient satisfying obligations that have not yet been met, the grant providing NPO may under the terms of the binding grant arrangement be able to not transfer resources. In this situation a grant payment liability and grant expense should not be recognised.

AG24A.9 If there are conditions in the binding grant arrangement that remain within the control of the grant providing NPO and this provides it with the discretion to avoid grant expenditure a liability should not be recognised. For example, if a grant providing NPO has made a commitment to provide grant funding over a number of years, but future years payments are subject to a review by the grant providing NPO that gives it the right to terminate the binding grant arrangement. If this is clear within the binding grant arrangement and it is a substantive review with the real possibility of termination, then a constructive liability is unlikely to arise for payments related to periods after the review date.

AG24A.10 Alternatively, if there are no conditions in the binding 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 full grant payment consideration even if payment will occur over a number of financial years.

Grant recipient obligations

AG24A.11 Binding grant arrangements may contain rights and obligations that are outside of the control of the grant providing NPO. For example a grant providing NPO may note that a transfer of resources is subject to the grant recipient finding match funding. As this obligation is outside of the control of the grant providing NPO, if the transfer of resources is probable it must recognise a grant payment liability and grant expense.

Performance-related rights and obligations

AG24A.12 Binding 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 which meets the

definition of a provision. This should be initially and subsequently measured in accordance with paragraphs G21.8-G21.12 of Section 21 Provisions.

Restricted grants

AG24A.13 A binding grant arrangement that restricts a grant to a particular purpose does not on its own create a performance-related right or obligation as the payment is not conditional on a specific level of service or outputs by the grant recipient.

Capital grants

AG24A.14 A capital grant arises from a binding grant arrangement in which a grant providing NPO transfers cash or another asset to a grant recipient with a specification that the grant recipient acquires or constructs a non-financial asset that the grant recipient will then control.

AG24A.15 A grant providing NPO shall follow the same approach to recognising a grant expense for a binding arrangement involving a capital grant as with any other grant expense. When the grant providing NPO transfers a resource in accordance with the binding grant arrangement, the transferred assets are derecognised and a grant prepayment asset is recognised. This grant prepayment asset represents the grant providing NPO's enforceable right to have the grant recipient satisfy its obligations. This grant prepayment asset is derecognised and a grant expense recognised when the grant satisfaction rights are extinguished in accordance with the terms of the binding grant arrangement.

AG24A.16 For a capital grant, the terms of the binding grant arrangement will require the grant recipient to either acquire or construct a specified non-financial asset. If the grant recipient acquires the specific non-financial asset, the grant providing NPO's grant satisfaction right will be extinguished when the asset is acquired and a grant expense recognised by the grant providing NPO at this point. If the grant recipient constructs the non-financial asset, the grant satisfaction right will be extinguished as the asset is being built, with a grant expense recognised by the grant providing NPO based on the measure of progress made by the grant recipient.

AG24A.17 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 grant payment liability and a grant expense for the obligation to transfer resources. This could be for the full amount if the asset is acquired or based on the extent of progress towards constructing the asset. The grant payment liability will then be derecognised once the transfer of resources is made from the grant providing NPO to the grant recipient.

AG24A.18 If after the initial transfer of resources from the grant providing NPO, the grant recipient is unable or unwilling to acquire or construct the specific non-financial asset, the grant providing NPO will consider whether it has an enforceable unconditional right to a refund of the transferred resources and apply paragraphs G24A.18-G24A.19.

AG24A.19 If the grant providing NPO has already recognised a grant expense, but the grant recipient subsequently disposes of an acquired asset or constructed asset against the terms of the binding grant arrangement, the grant providing NPO should again consider whether it has an enforceable unconditional right to a refund of the transferred resources. If so it should recognise and measure a financial asset in accordance with Section 11 *Financial Instruments* and revenue in accordance with Section 23 *Revenue*.

Foreign exchange gains and losses

AG24A.20 [Guidance to be developed]

Funds with restrictions – presentation and disclosure

AG24A.21 Expenses, income, assets, and liabilities recognised by a grant providing NPO as part of Section 24A *Grant Expenses* may relate to a transaction that has been financed by a resource provider that has restricted the financial resources provided to be expended on that specific purpose or activity. Where this is the case a grant providing NPO shall present and disclose these items within funds with restrictions in accordance with the requirements of G4.14 of Section 4 *Statement of Financial Position*, G5.3 of Section 5 *Statement of Income and Expenses* and G6.3-G6.4 of Section 6 *Statement of Changes in Net Assets*.

Implementation Guidance and Examples

[To be developed following agreement to authoritative guidance.]

Basis for Conclusions

[To be developed following agreement to authoritative guidance.]

Terms for the Glossary

Binding grant arrangement - a grant arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the grant arrangement.

Compliance obligation - a grant recipient's promise in a binding grant arrangement to either use resources internally for distinct services, goods or other assets or transfer distinct services, goods, cash or other assets to a purchaser or third-party beneficiary.

Contingent grant payment liability - a contingent liability arising from the possible but not probable satisfaction by a grant recipient of its compliance obligations in a binding arrangement prior to the grant providing NPO transferring resources.

Grant expense - an expense arising from a transaction in which a grant providing NPO provides 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.

Grant payment consideration - the amount a grant providing NPO is obliged to pay a grant recipient for the extinguishment of each distinct grant satisfaction right.

Grant payment liability - a liability arising from a grant recipient satisfying its compliance obligations in a binding grant arrangement prior to a grant providing NPO transferring resources.

Grant payment provision - a provision arising from the probable satisfaction by a grant recipient of its compliance obligations in a binding grant arrangement prior to the grant providing NPO transferring resources.

Grant prepayment asset - an asset arising from a grant providing NPO transferring resources in accordance with a binding grant arrangement prior to the grant recipient satisfying its compliance obligations.

Grant providing NPO - an NPO that transfers cash or a service, good or other asset to a grant recipient without directly receiving any cash, service, good or other asset in return.

Grant recipient - an entity or individual that a grant providing NPO transfers cash or a service, good or other asset to without directly receiving any cash, service, good or other asset in return.

Grant satisfaction right - a distinct right in a binding grant arrangement held by an NPO to have a grant recipient satisfy a compliance obligation.

Variable consideration - consideration in a binding grant arrangement that includes a variable amount.