Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED10-01

28 February 2023 – Video Conference

ED 2 - Revenue

Summary	This paper provides TAG members with a first draft of Section 23 *Revenue* for comment
Purpose/Objective of the paper	To seek the TAG's views on the first draft of Section 23 *Revenue* and to comment on the proposed structure of the section and how the *IFRS for SMEs* Accounting Standard and IPSAS proposals have been incorporated into the section.
Other supporting items	None
Prepared by	Paul Mason
Actions for this meeting	Comment and advise on: • The structure of Section 23 *Revenue* • Guidance on which revenue recognition model to apply (Preface to Section 23) • Revenue from grants and donations (Part I to Section 23) • Revenue from contracts with customers (Part II to Section 23)

Technical Advisory Group

ED 2 - Revenue

1. Introduction

1.1 At the TAG's January 2023 meeting, the Secretariat considered options for the structure of Section 23 *Revenue*. The options considered were:

- two sections, one covering commercial (exchange) revenue and one covering grants and donations (non-exchange revenue), as with the *IFRS for SMEs* Accounting Standard; or
- a single integrated section covering all revenue, in line with the latest draft IPSAS.

The views expressed at the January 2023 were more supportive of having two sections.

1.2 The TAG also noted that the five-step revenue recognition model may be overly complex for simple grants and donations, and that it would be helpful to NPOs if simplified requirements could be included in INPAG.

1.3 The TAG further requested the Secretariat to clarify the level of specificity required for compliance obligations under IPSAS. In particular, the Secretariat were asked to consider how compliance obligations related to the passage of time, and whether this results in a different accounting outcome compared to the *IFRS for SMEs* Accounting Standard.

2. Structure of Section 23 *Revenue*

2.1 Following the discussions at the January 2023 TAG meeting, Section 23 has been developed as a single section but with separate parts for commercial revenue and revenue from grants and donations. An initial draft of Section 23 is included as Annex A. As revenue from grants and donations is likely to be more significant for NPOs, it is proposed to include this part comes before the part dealing with commercial revenue. Putting both parts in a single section allows for text to guide users on which part of the Section should be used.

2.2 The proposed structure of the Section is as follows:

- **Preface** – setting out the criteria for deciding which section is applicable to a revenue transaction.
- **Revenue from grants and donations** – based on the principles in the draft IPSAS presented to the IPSASB at its December 2022 meeting. Note this drafting has not been colour coded as it is a fusion of sources.

- **Revenue from contracts with customers** – based on the *IFRS for SMEs* Accounting Standard Exposure Draft,

Question 1:	Do TAG members agree with the proposed structure of Section 23, *Revenue*? In particular, do TAG members support including revenue from grants and donations before revenue from contracts with customers?

2.3 TAG members will note that there is a significant amount of repetition between the two parts, as both Section 23 of the *IFRS for SMEs* Accounting Standard Exposure Draft and the draft IPSAS are based on IFRS 15, *Revenue from Contracts with Customers*.

2.4 There are opportunities to remove some of the duplication. One approach could be to have the bulk of the duplicated content in Part I, which is where we are expecting most transactions to be, or to have the bulk of the duplicated content in Part II alongside what might potentially be more complex transactions with customers and allow greater consistency with the *IFRS for SMEs* Accounting Standard for Section 23. Under each of these scenarios cross references could be made to the relevant content. However, noting that there is some nuance to the terminology in each Section (eg binding grant arrangement versus contract), there may be benefits in retaining at least some elements of the duplication. This will be developed in the next draft of this Section.

2.5 Whichever scenario is progressed, the Secretariat propose including two parts to Section 23 in ED2, given the comments at the last TAG meeting that '*the sector sees commercial revenue and revenue from grants and donations as quite different. Two sections will feel more intuitive. A single section might generate an adverse reaction, with a concern that NPO specific issues are not being addressed'* (wording taken from the meeting Advice and Requests).

2.6 However, NPOs may prefer a unified section once they have seen the text and are aware of the similarities between the two approaches and the length of the Section if the two parts are retained. The Secretariat propose including a Specific Matter for Comment in ED2 on this matter.

Question 2:	What are TAG members' views on the options for addressing the duplication in the current draft?
Question 3:	Do TAG members agree with the proposal to include a Specific Matter for Comment seeking views on whether a unified section should be included in INPAG?

3. Preface

3.1 The purpose of the Preface is to provide guidance on which part of Section 23 should be applied to an NPO's revenue transactions.

3.2 This key guidance is set out in the Preface as follows:

If the transaction involves the NPO receiving cash, a service, good or other asset from another entity or individual without directly providing cash, a service, good or other asset to them in return for the resources provided then it should apply Part I for accounting for revenue from grants, donations and similar income. If the transaction involves the NPO directly providing a service, good or other asset to an entity or individual in exchange for consideration then it should apply Part II for accounting for revenue from contracts with customers. If the transaction involves the NPO receiving cash, a service, good or other asset from another entity in exchange for a nominal consideration, or the NPO providing a service, good or other asset for nominal consideration, then the NPO will need to consider the substance of the transaction to determine whether Part I or Part II should be followed.

Question 4:	Do TAG members have any comments on the text and in particular to the proposed approach to explaining which Part should be followed?

4. Revenue from grants and donations

4.1 Part I of Section 23 *Revenue* covers revenue from grants, donations, and similar income. In developing Part I, the starting point has been the draft IPSAS presented to the IPSASB meeting in December 2022. The Secretariat has made the following changes to the approach in the draft IPSAS:

- Terminology changes to reflect the NPO context have been made.
- The ordering of the text relating to the more complex binding grant arrangements has been amended to follow the five step model in sequence rather than retaining separate recognition and measurement sections. This mirrors the order of the text in Part II.
- References to "customer" or "purchaser" have been removed as these are covered in Part II dealing with revenue from contracts with customers.
- Where appropriate, the wording of the IPSAS text has been simplified. In some cases this is achieved by adapting the wording in Part II, which is based on the *IFRS for SMEs* Accounting Standard Exposure Draft, which in itself simplifies the wording in IFRS 15. Where the draft IPSAS uses the wording from IFRS 15, the *IFRS for SMEs* simplification of the wording is considered appropriate for Part I, subject to referring to grants rather than purchases.

- In line with the discussions at the January 2023 TAG meeting, simplified requirements for grants with a single obligation have been included. This is intended to assist NPOs in cases where following the five-step revenue recognition process is unnecessary.
- Requirements that are not relevant to NPOs, for example accounting for tax revenue, have been omitted.

Structure of Part I of Section 23

4.2 The structure of Part I of Section 23 is as follows:

- Identifying the revenue transaction
- Identifying whether a grant arrangement exists
- Revenue from transactions without restrictions
- Revenue from transactions with restrictions but without binding grant arrangements
- Revenue from binding grant arrangements with only one compliance obligation
- Revenue from binding grant arrangements with a number of compliance obligations
- Disclosures

4.3 The paragraphs dealing with binding grant arrangements with only one compliance obligation provide the simplified requirements requested by the TAG at its last meeting.

Question 5:	Do TAG members support the approach taken in developing Part I of Section 23, *Revenue*?
Question 6:	Do TAG members agree with the proposed structure of Part I?

Revenue from transactions without restrictions

4.4 Where the grant is given with no restrictions, the NPO will usually recognise revenue as they receive the grant or donation (or earlier if the NPO has a right to receive the grant or donation at an earlier date).

4.5 Rarely, a revenue transaction with no restrictions may give rise to an obligation for the NPO. Where this is the case, revenue is recognised as the obligation is satisfied.

4.6 The requirements for transactions without restrictions also includes provisions relating to gifts in-kind and services in-kind. The guidance covers recognition and measurement, and permits a number of exceptions to the general recognition and measurement requirements.

4.7 The specific provisions for gifts in-kind and services in-kind are as follows:

- NPO receives a *non-current asset* – recognition and measurement requirements are applied in full.

- NPO receives ***high value*** *items for resale* – recognition and measurement requirements are applied in full.
- NPO receives ***high volume or low value*** *items for resale* – permitted alternative of recognising revenue only when items are sold; no revenue or inventory recognised before that point.
- NPO receives *items for distribution to beneficiaries or for its own use (whether for delivering services or for administration purposes)* – permitted alternative of recognising revenue and expense only when items are distributed or used; no revenue or inventory recognised before that point.
- NPO receives *any other gift in-kind* – recognition and measurement requirements are applied in full.
- NPO receives *services in-kind that it would otherwise have purchased* – recognition and measurement requirements are applied in full, and an expense or asset is recognised at the same time.
- NPO receives *any other services in-kind* – permitted alternative of not recognising revenue, expense or asset; disclosure is required.

4.8 The permitted exceptions are included in the requirements for revenue transactions without binding grant arrangements only. The Secretariat do not currently see a need to apply an exception where gifts in-kind or services in-kind have been received in exchange for the NPO assuming compliance obligations, which may need to be fulfilled prior to the NPO, for example, selling or distributing donated assets.

Question 7:	Do TAG members agree with the proposed accounting for revenue transactions without restrictions?
Question 8:	Do TAG members support the proposed permitted exceptions to the recognition and measurement requirements?
Question 9:	Do TAG members agree that the permitted exceptions should only be applied to revenue transactions without a binding grant arrangement?

Revenue from transactions with restrictions but no binding grant arrangements

4.9 Part I distinguishes between transactions that impose enforceable obligations on the NPO and those that do not. Enforceable obligations are referred to as compliance obligations, using the terminology found in the draft IPSAS.

4.10 A compliance obligation is defined as *an NPO's promise in a binding grant arrangement to either use resources internally for distinct services, goods or other assets or to transfer distinct services, goods, cash or other assets to a beneficiary*.

4.11 A compliance obligation therefore refers to the goods or services to be developed or purchased, either for internal use for particular projects or to meet particular objectives, or to be provided to a beneficiary. Compliance obligations are often known as conditions. In some binding grant arrangements, it will not be possible to disaggregate the NPO's promises into distinct compliance obligations; in these circumstances, there is a single compliance obligation for the promises in the binding grant arrangement.

4.12 Where there are no enforceable obligations, there may still be terms in an agreement with the grant provider relating to the overall purpose of the NPO. These are often known as restrictions. They are less specific, and may include non-performance conditions such as conditions relating to time.

4.13 Restrictions usually do not meet the definition of a present obligation, and therefore do not give rise to a liability for the NPO. In these cases, revenue will be recognised as it is received (or earlier if the NPO has a right to receive the grant or donation at an earlier date). The revenue would be presented as income with restrictions in the statement of income and expenses.

4.14 Rarely, a revenue from transaction with restrictions but no binding grant arrangements may give rise to an obligation for the NPO. Where this is the case, revenue is recognised as the obligation is satisfied.

4.15 Additional guidance is provided for multi-year grants. Amounts received will be recognised as revenue. However, where amounts are to be paid annually in future periods for activities in those periods, no revenue is recognised in the current period. This is because those parts of the agreement with the grant provider relating to the future years are executory, and wholly unfulfilled. Amounts are only recognised once one party performs (that is, when the NPO starts carrying out activities in a future period, or the grant provider makes a payment for that future period).

Question 10: Do TAG members agree with the proposed accounting for revenue with restrictions but no binding grant arrangements?

Question 11: Do TAG members support the proposed additional guidance relating to multi-year grants?

Revenue from binding grant arrangements with only one specific obligation

4.16 Revenue from a binding grant arrangement with only one compliance obligation is recognised as or when the obligation is satisfied. Where the NPO receives the grant prior to satisfying the obligation, it recognises an asset (binding grant arrangement asset) for the amount received and a liability that is subsequently derecognised as revenue is recognised. Conversely, if the NPO satisfies the obligation prior to receiving the grant, it recognises revenue and an asset.

4.17 The simplified guidance omits accounting requirements that are not relevant where there is only one compliance obligation (for example, the requirement to allocate the transaction consideration to compliance obligations based on the stand-alone value) but is otherwise consistent with the requirements for binding grant arrangements with more than one compliance obligation.

Question 12:	Do TAG members agree with the proposed accounting for revenue from a grant arrangement with only one compliance obligation?

Revenue from binding grant arrangements with a number of compliance obligations

4.18 Where binding grant arrangements have a number of compliance obligations, an NPO will need to determine the amount of the grant that relates to each compliance obligation. Revenue will be recognised as or when the obligation is satisfied.

4.19 The approach, based on the draft IPSAS, adapts the five-step model from IFRS 15, and is consistent with the approach in the *IFRS for SMEs* Accounting Standard Exposure Draft (and Part II of Section 23 of INPAG).

4.20 Because compliance obligations are obligations related to distinct goods and services (as is the case with *IFRS for SMEs*), the Secretariat consider that the accounting results from this approach will be the same as if the requirements from Section 23 of the *IFRS for SMEs* Accounting Standard Exposure Draft were applied.

Question 13:	Do TAG members agree with the proposed accounting for revenue from a binding grant arrangement with a number of compliance obligations?
Question 14:	Do TAG members support the Secretariat's conclusions regarding compliance obligations?

4.21 The Secretariat would ask the TAG to note that the process of developing these requirements has been complex, and that improvements to the drafting and to the flow of the paragraphs will be made. For example, the text around principal and agent will be reviewed to consider where it is best positioned within the Section. The Secretariat propose to carry out a further review of the drafting prior to full draft of ED2 being issued. Suggestions from TAG members would be welcomed.

Disclosures

4.22 The draft IPSAS has extensive disclosures (consistent with IFRS 15) which the Secretariat do not consider appropriate for INPAG. Consequently, the disclosure requirements included in Part I of Section 23 are based on those in the *IFRS for SMEs* Accounting Standard Exposure Draft, adapted for the NPO context and the fact that Part I is dealing with grants. Additional disclosures have been included where there is no equivalent *IFRS for SMEs* requirement, for example grants and donations without restrictions or binding grant arrangements.

Question 15:	Do TAG members agree with the proposed disclosure requirements?
Question 16:	Do TAG members have any comments on the text of Part I?

5. Revenue from contracts with customers

5.1 Part II of Section 23 *Revenue* covers revenue from contracts with customers. In developing Part II, the Secretariat has followed the rules of the road when adapting the text of Section 23 of the *IFRS for SMEs* Accounting Standard Exposure Draft. The proposals in this Exposure Draft adopt the five-step model from IFRS 15, *Revenue.*

5.2 In developing Part II of Section 23, the Secretariat has made two types of changes to the wording in Section 23 of the *IFRS for SMEs* Accounting Standard Exposure Draft:

- Terminology changes to reflect the NPO context; and
- The addition of a table to provide guidance on applying the requirements to simpler transactions (for example, guidance that the requirements on allocating the transaction price to the promises in the contract are not necessary if there is only one promise).

Question 17:	Do TAG members agree with the changes made in developing Part II of Section 23?
Question 18:	If so, should the table of additional guidance be included in the core text or in Application Guidance?
Question 19:	Do TAG members have any comments on the text of Part II?

6. Next steps

6.1 The authoritative guidance will be amended to reflect TAG member feedback. A Basis for Conclusions will be developed to reflect the feedback of the TAG as well as the Implementation Guidance and provided as part of the full draft of ED2.

February 2023

Annex A

Section 23 – Revenue

Scope of this Section

G23.1 This section specifies the accounting for revenue by NPOs. The section comprises two parts to be applied by NPOs, depending on the economic substance of the transaction that leads to the requirement for the NPO to recognise revenue.

G23.2 Part I *Revenue from Grants and Donations* relates to accounting for revenue from grants, donations and similar income. This form of revenue is sometimes also known as non-exchange revenue or unrequited payments. It is revenue that arises from a transaction in which an NPO receives assistance in the form of a transfer of cash, a service, good or other asset from another entity or individual without directly providing cash, a service, good or other asset in return to the provider of those resources. The revenue recognition model for revenue from grants, donations and similar income is based on the existence or not of a **binding grant arrangement**. This is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. This could be through a written agreement, but could also be through an oral agreement or implied by an entity's or a sector's customary practices. In determining whether an arrangement is enforceable, an NPO must consider the substance rather than the legal form of the arrangement.

G23.3 Part II *Revenue from Contracts with Customers* relates to accounting for revenue from contracts with customers. This is sometimes also known as exchange revenue or requited payments. This is revenue that arises from the direct transfer of promised services, goods or other assets to customers (be they an entity or individual) in an amount that reflects the consideration to which the NPO expects to be entitled in exchange for those services, goods or other assets.

Use of Part I and Part II

G23.4 The revenue recognition model that an NPO is required to apply depends on the economic substance of the transaction. If the transaction involves the NPO receiving cash, a service, good or other asset from another entity without directly providing cash, a service, good or other asset in return then it should apply Part I in accounting for revenue from grants, donations and similar income. If the transaction involves the NPO directly providing a service, good or other asset to an entity or individual in exchange for consideration then it should apply Part II for accounting for revenue from contracts with customers. If the transaction involves the NPO receiving cash, a service, good or other asset from another entity in exchange for a nominal consideration, or the NPO providing a service, good or other asset for nominal consideration, then the NPO will need to consider the substance of the transaction to determine whether Part I or Part II should be followed.

Principal agent considerations

G23.5 An NPO will often control the economic resources provided to it by a **grant provider**. This control arises where the NPO has the present ability to direct the use of the economic resources and obtain the economic benefits or service potential that may flow from it. In situations such as these an NPO is deemed to be acting as a principal.

G23.6 Where an NPO is acting as a principal, it should apply the guidance included in Part I *Revenue from Grants and Donations* or Part II *Revenue from Contracts with Customers* to account for revenue depending on the economic substance of the transaction.

G23.7 There may, however, be situations in which this is not the case and an NPO does not control the economic resource. Rather it acts as an agent to further another entity's objectives. This will occur for example when an NPO operates in a jurisdiction where another entity does not, and so by agreement acts on the other entity's behalf by administering the other entity's funds in accordance with instructions provided by that entity.

G23.8 When an NPO is acting as an agent in a transaction, the receipt of funds from the other entity are not recognised as revenue. Similarly any assets that an NPO may receive as an agent and act as a custodian of are not under the control of the NPO and hence do not form part of the NPO's assets or income.

G23.9 In addition to the funds that it administers on behalf of the other entity an NPO may also receive fees for acting as an agent. These fees shall be recognised as revenue, in accordance with Part II *Revenue from Contracts with Customers*. This is because in respect of these fees the NPO does provide a service to the other entity in exchange for consideration.

G23.10 A formal agreement between an NPO and other entity will usually provide clarity as to whether the NPO is acting as an agent or a principal. In the absence of a formal agreement, or in more complex arrangements such as partnerships, consortia or sub-contractor relationships this may however be more difficult to determine and judgement will be required.

Part I – Revenue from grants and donations

Scope of Part I

G23.11 Part I specifies the accounting for revenue from grants, donations and similar income. It does not relate to the accounting by an NPO of expenditure on grants, donations and similar transfers that it has provided. The accounting for the this type of expenditure by an NPO is specified in Section 24A *Expenditure on grants, donations and similar transfers by NPOs to other entities or individuals*.

G23.12 Part I does not apply to:

a) Revenue from contracts with customers (see Part II); and

b) Equity contributions received [see Section 22].

Identify the revenue transaction

G23.13 Revenue from grants, donations and similar income may arise from transactions without binding grant arrangements or with binding grant arrangements. The majority of an NPO's revenue from grants, donations and similar income is typically derived from transactions without binding grant arrangements, or with binding grant arrangements that do not include transfers of distinct goods or services to external parties.

G23.14 Revenue from grants, donations and similar income may arise from transactions:

a) without binding grant arrangements that:

   i) impose no restrictions on an NPO's ability to use the grant (that is, income without restrictions); or

   ii) impose limitations on an NPO's ability to use the grant, without requiring the NPO to undertake specific actions (that is, income with restrictions); and

b) with binding grant arrangements that have:

   i) only one **compliance obligation**; or

   ii) a number of compliance obligations.

Identifying whether a Binding Grant Arrangement Exists

G23.15 For a grant arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability of a binding grant arrangement can arise from various mechanisms, so long as the mechanism(s) provide the entity with the ability to enforce the binding grant arrangement and hold the parties accountable for the satisfaction of their obligations.

G23.16 In determining whether a grant arrangement is enforceable, the NPO considers the substance rather than the legal form of the arrangement. Whether a grant arrangement is enforceable is based on an NPO's assessment of the ability to enforce the specified terms and conditions of the grant arrangement and the satisfaction of the other parties' stated obligations.

G23.17 A binding grant arrangement includes both rights and obligations that are enforceable for two or more of the involved parties. Each party's enforceable right and obligation within the grant arrangement are interdependent and inseparable.

G23.18 Binding grant arrangements can be evidenced in several ways. A binding grant arrangement can be written, oral or implied by an NPO's customary practices. The practices and processes for establishing binding grant arrangements vary across legal jurisdictions, sectors and entities. In addition, they may vary within an NPO (for example, they may depend on the class of the grant provider or the nature of the NPO's promise in the binding grant arrangement).

G23.19 An arrangement with a grant provider that is not binding because it does not specify the activities that that the NPO is to undertake may nevertheless restrict the NPO's ability to use the grant. For example an arrangement with a grant provider would not be a binding grant arrangement if the arrangement gave the NPO the right to determine which activities would be undertaken. However, the arrangement might impose a restriction on the NPO if it limited the use of the grant to, for example, a particular geographic area.

G23.20 If the NPO identifies that an arrangement with a grant provider includes restrictions that are separate from a binding grant arrangement, the NPO shall identify the amount of the transaction consideration (if any) that relates to these restrictions, and shall account for these restrictions separately (see paragraphs G23.49–G23.52).

The remainder of the transaction consideration shall be accounted for as the transaction consideration of the binding grant arrangement.

G23.21 An NPO will apply the recognition and measurement criteria in this Section of INPAG as follows:

a) Revenue from transactions without binding grant arrangements are accounted for by applying paragraphs G23.22–G23.52; and

b) Revenue from transactions with binding grant arrangements are accounted for by applying paragraphs G23.53–G23.140.

Revenue from transactions with no restrictions

Recognition

G23.22 Grants, donations and similar income give rise to an asset (cash, goods, services or another asset) and revenue for an NPO. The NPO will usually recognise the asset and revenue at the same time, when the asset is received.

G23.23 In some cases, a revenue transaction without restrictions may give an NPO a right to receive an asset prior to the grant provider transferring the asset. An NPO shall determine if any of its rights in its revenue transaction without restrictions meet the definition of an asset in accordance with paragraphs G23.26–G23.29.

G23.24 Rarely, a revenue transaction without a restriction may impose an obligation on an NPO. An NPO shall determine if any of its obligations in its revenue transaction without restrictions meet the definition of a liability in accordance with paragraphs G23.30–G23.32.

G23.25 Gifts in-kind and services in-kind (that is, donations of non-cash items such as goods, services such as volunteer time and other assets) give rise to particular issues of recognition and measurement for NPOs. Additional guidance on accounting for gifts in-kind and services in-kind is set out in paragraphs G23.39–G23.48. This guidance includes permitted exceptions to the general recognition and measurement requirements where the cost of complying with the general requirements may exceed the benefits (to the users of the financial statements) of such compliance.

Analysis of the initial inflow of resources

G23.26 An NPO may receive an initial inflow of resources from a revenue transaction without restrictions. Except where the NPO has elected to apply a permitted exception to the general recognition requirements (see paragraphs G23.39–G23.48), the NPO recognises this inflow of resources as an asset if:

a) it presently controls the resources (such as cash, goods, services, or other assets) received as a result of past events; and

b) the value of the asset can be measured reliably.

G23.27 In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised liability may give rise to an inflow of resources.

Right to an inflow of resources

G23.28 When an NPO has not received an inflow of resources for a revenue transaction without restrictions, it should consider whether it has a right to receive an inflow of cash, goods, services or other assets that meets the definition of an asset. The NPO bases this determination on the facts and circumstances of its revenue transaction, its ability to enforce this right through legal or equivalent means, its past experience with similar types of flows of resources, and its expectations regarding the grant provider's ability and intention to pay.

G23.29 An announcement by a grant provider of an intention to transfer resources to an NPO is not of itself sufficient to identify resources as controlled by an NPO.

Existence and recognition of a liability

G23.30 An NPO may have an obligation as a result of entering into a revenue transaction without restrictions. An example is where the receipt of donations for a particular purpose imposes an obligation on the NPO to use the donations to achieve that purpose. The obligation meets the definition of a liability when it is a present obligation of the NPO to transfer resources as a result of past events.

G23.31 For a liability to exist, it is necessary that the NPO cannot avoid a transfer of resources as a consequence of past events, and that the transfer of resources is probable. An NPO should consider the facts and circumstances relating to the revenue transaction to determine if the obligation is enforceable and requires an incremental transfer of resources if the NPO does not satisfy its obligation(s).

G23.32 An obligation that meets the definition of a liability shall be recognised as a liability when, and only when the amount of the obligation can be measured reliably.

Recognition of revenue transactions with no restrictions

G23.33 When an NPO recognises an asset for a revenue transaction without restrictions in accordance with paragraphs G23.22–G23.29, it recognises revenue based on the nature of the revenue transaction. An NPO shall recognise revenue from a transaction without restrictions:

a) in accordance with paragraphs G23.39–G23.48 where the NPO has elected to apply a permitted exception to the general recognition requirements; or

b) where no permitted exception to the general recognition requirements applies, or where the NPO has not elected to apply a permitted exception:

   i) when (or as) the NPO satisfies any obligations associated with the inflow of resources that met the definition of a liability; or

   ii) immediately if the NPO does not have an enforceable obligation associated with the inflow of resources.

Measurement

Measurement of assets from an inflow of resources

G23.34 Except where the NPO has elected to apply a permitted exception to the general measurement requirements (see paragraphs G23.39–G23.48), an inflow of resources or a right to an inflow of resources that meets the definition of an asset shall initially be measured by the NPO at its transaction consideration (the value of the asset received or receivable) as at the date that it recognises the asset.

Measurement of revenue transactions without grant arrangements

G23.35 Except where an NPO has elected to apply a permitted exception to the general measurement requirements (see paragraphs G23.39–G23.48), an NPO recognises revenue equivalent to the amount of the asset measured in accordance with paragraph G23.34, adjusted by the amount of any liability recognised in accordance with paragraphs G23.30–G23.32.

Measurement of liabilities

G23.36 The amount recognised as a liability shall be the best estimate of the amount required to settle the obligation at the reporting date. For the purposes of Part I of this Section of INPAG, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognised.

G23.37 The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognised. Where the time value of money is material, the liability will be measured at the present value of the amount expected to be required to settle the obligation.

Subsequent measurement

G23.38 After initial recognition, an NPO shall subsequently measure:

a) A receivable asset in accordance with Section 11 *Financial Instruments* of INPAG

b) All other assets in accordance with the relevant section of INPAG (examples include Section 13 *Inventories* and Section 17 *Property, Plant and Equipment*).

Gifts in-kind and services in-kind

G23.39 Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services).

G23.40 Except where an NPO elects to apply a permitted exception to the general recognition requirements, gifts in-kind and services in-kind are recognised in accordance with paragraph G23.26.

G23.41 Except where an NPO elects to apply a permitted exception to the general measurement requirements, gifts in-kind and services in-kind are measured at recognition at their fair value (that is, the price that would be received to sell, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date).

Gifts in-kind

G23.42 When an NPO receives a *non-current asset* (for example, a vehicle or building), the NPO shall apply the general recognition and measurement requirements, that is:

a) recognise the asset in accordance with paragraph G23.26;

b) measure the asset at fair value in accordance with paragraph G23.41; and

c) recognise revenue in accordance with paragraph G23.33.

Due to the significance of donated non-current assets to the users of the financial statements, no exceptions to the general recognition and measurement requirements are permitted.

G23.43 When an NPO receives *high value items for resale*, the NPO shall apply the general recognition and measurement requirements.

G23.44 When an NPO receives high volume or low value items for resale, the NPO may:

a) apply the general recognition and measurement requirements; or

b) apply the permitted exceptions to the general recognition and measurement requirements, which requires the NPO to:

i) not recognise an asset (see also Section 13 *Inventories* [included in ED3]);

ii) not recognise revenue when the items are received; and

iii) recognise an asset and revenue when the items are sold, measured at the amount of the consideration received.

The NPO shall apply that policy consistently to all items within a class of inventory.

G23.45 When an NPO receives items for distribution to beneficiaries or for its own use (whether for delivering services or for administration purposes), the NPO may:

a) apply the general recognition and measurement requirements; or

b) apply the permitted exceptions to the general recognition and measurement requirements, which requires the NPO to:

i) not recognise an asset (see also Section 13 Inventories [included in ED3]);

ii) not recognise revenue when the items are received; and

iii) recognise an asset and an expense when the items are distributed or used, measured at the fair value of the items, which will reflect their condition at the time they are distributed or used. For example, a pharmaceutical product close to its expiry date may have a lower fair value than the same product with a longer shelf life.

The NPO shall apply that policy consistently to all items within a class of inventory.

G23.46 When an NPO receives any other gift in-kind, the NPO shall apply the general recognition and measurement requirements.

Services in-kind

G23.47 When an NPO receives *services in-kind that it would otherwise have purchased*, the NPO shall apply the general recognition and measurement requirements, that is:

a) recognise revenue in accordance with paragraph G23.33;

b) recognise either:

i) an expense; or

ii) an asset (in accordance with paragraph G23.26) if the benefits of the services are not consumed immediately. For example, an asset is recognised if the services contribute to the construction of a non-current asset or meet the definition of inventory (such as work in progress); and

c) measure the revenue and the expense or asset at fair value in accordance with paragraph G23.41.

G23.48 When an NPO receives *any other services in-kind*, the NPO may:

a) apply the general recognition and measurement requirements; or

b) apply the permitted exceptions to the general recognition and measurement requirements, which requires the NPO to:

i) not recognise revenue; and

ii) not recognise an expenses or an asset.

The NPO shall apply that policy consistently to all items within a class of inventory or other asset.

Revenue from transactions with Restrictions but no binding grant arrangements

G23.49 Restrictions without a binding grant arrangement do not give rise to a present obligation, and an NPO shall not recognise a liability for such a restriction.

G23.50 Restrictions may give rise to an obligation at a future date if the NPO does not satisfy the terms of the arrangement with the grant provider. For example, if the NPO fails to use the grant within the timeframe specified in the arrangement, an obligation to refund all or part of the grant may arise at that point. No liability is recognised until the obligation is a present obligation.

G23.51 An NPO shall initially account for a revenue from transactions with restrictions but no binding grant arrangements by applying the same requirements as for a revenue transaction without restrictions (see paragraphs G23.22–G23.48). The NPO shall present revenue from a grant arrangement with restrictions but without binding grant arrangements as income with restrictions in the Statement of Income and Expenses.

G23.52 After the inception of the grant arrangement with restrictions but without binding grant arrangements, an NPO shall account for any liability that arises as a result of a failure to comply with the restriction in accordance with Section 21 *Provisions and Contingencies* as at the date at which the failure to satisfy the general obligation is confirmed.

Revenue from transactions with binding grant arrangements

G23.53 At the inception of a binding grant arrangement, an NPO shall identify each obligation that is separate from other obligations in the grant arrangement.

G23.54 Binding grant arrangements may have:

a) only one compliance obligation; or

b) a number of distinct compliance obligations.

G23.55 A compliance obligation is an NPO's promise to either use resources internally for distinct services, goods or other assets or to transfer distinct services, goods, cash or other assets to a **beneficiary**. Compliance obligations are sometimes known as conditions.

G23.56 The NPO shall present revenue from a binding grant arrangement as income with restrictions in the Statement of Income and Expenses..

Accounting for a binding grant arrangement

G23.57 An NPO shall account for a binding grant arrangement if all of the following criteria are met:

a) The parties to the binding grant arrangement have approved the binding grant arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;

b) The NPO can identify each party's rights under the binding grant arrangement;

c) The NPO can identify the payment terms for the satisfaction of each identified compliance obligation;

d) The binding grant arrangement has economic substance; and

e) It is probable that the NPO will collect the consideration to which it will be entitled for satisfying its compliance obligations.

G23.58 The criterion in paragraph G23.57 e) is met when the grant provider has the ability and intention to pay the consideration when due.

G23.59 If a binding grant arrangement meets the criteria in paragraph G23.57 at the inception of the binding grant arrangement, an NPO shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances.

G23.60 If a binding grant arrangement does not meet the criteria in paragraph G23.57, an NPO shall initially recognise any consideration received from the grant provider as a liability, and continue to reassess the binding grant arrangement until the criteria are met.

G23.61 An NPO shall recognise the consideration initially recognised as a liability in accordance with paragraph G23.60 as revenue when either:

a) the binding grant arrangement is complete and all, or substantially all, of the consideration promised by the grant provider has been received and is non-refundable; or

b) the binding grant arrangement is terminated and the consideration received is non-refundable.

Combination of binding grant arrangements

G23.62 An NPO shall combine two or more binding grant arrangements entered into at or near the same time with the same grant provider (or related parties of the grant provider) and account for the binding grant arrangements as a single binding grant arrangement if one or more of the following criteria are met:

a) The binding grant arrangements are negotiated as a package with a single objective;

b) The amount of consideration to be paid in one binding grant arrangement depends on the consideration or performance of the other binding grant arrangement; or

c) The promises in the binding grant arrangements (or some promises in each of the binding grant arrangements) are a single obligation.

Modifications to a binding grant arrangement

G23.63 A modification to a binding grant arrangement is a change in the scope or consideration (or both) of a binding grant arrangement that is approved by the parties to the arrangement. A modification to a binding grant arrangement either creates new enforceable rights and obligations, or changes such rights and obligations that already exist.

G23.64 An NPO shall account for modifications to a binding grant arrangement as follows:

a) If the remaining compliance obligations are distinct from the those satisfied on or before the date of the modification to the binding grant arrangement, an NPO shall account for the modification as if it were a termination of the existing binding grant arrangement and the creation of a new binding grant arrangement. The transaction consideration for the new binding grant arrangement is the sum of:

i) the consideration included in the original estimate of the transaction consideration that had not been recognised as revenue; and

ii) any additional consideration promised as part of the modification to the binding grant arrangement.

b) If the remaining compliance obligations are not distinct from those satisfied on or before the date of the modification to the binding grant arrangement, an NPO shall account for the modification as if it were part of the existing binding grant arrangement. The effect that the modification has on the transaction consideration, and on the NPO's measure of progress towards complete satisfaction of the compliance obligations, shall be recognised as an adjustment to revenue at the date of the modification (that is, on a cumulative catch-up basis).

G23.65 As an alternative to the treatment set out in paragraph G23.64 a) and instead of terminating the existing binding grant arrangement, an NPO may choose to account for a modification as a separate binding grant arrangement if:

a) the modification increases the scope of the existing binding grant arrangement because of additional promises that are distinct from those in the existing binding grant arrangement; and

b) the modification increases the price of the existing binding grant arrangement by an amount of consideration that reflects the NPO's **stand-alone value** of the additional promises and any appropriate adjustments to that value to reflect the circumstances of that binding grant arrangement.

Applying the revenue recognition model to simpler transactions – a single compliance obligation

G23.66 An NPO may be able to determine without detailed analysis that a binding grant arrangement has a single compliance obligation. If the NPO is not able to do so, it shall apply paragraphs G23.71–G23.77 to determine whether the binding grant arrangement has a single compliance obligation.

G23.67 Where the binding grant arrangement has a single compliance obligation, the entire transaction consideration is allocated to that obligation. The NPO will often be able to determine the transfer consideration without detailed analysis, for example where the transaction consideration is an agreed amount. If necessary, the NPO shall refer to paragraphs G23.78–G23.88 in determining the transfer consideration. This may be necessary if the transaction consideration includes variable consideration, non-cash consideration or needs to reflect the time value of money.

G23.68 An NPO shall recognise revenue from a binding grant arrangement with a single compliance obligation as or when it satisfies the compliance obligation. If necessary, the NPO shall refer to paragraphs G23.102–G23.121 in determining whether the compliance obligation is satisfied over time or at a point in time; and if the compliance obligation is satisfied over time, how the NPO's progress to complete satisfaction of the compliance obligation is to be measured.

G23.69 An NPO shall:

a) recognise a **binding grant arrangement liability** for the amount of consideration received and for which the compliance obligation has yet to be satisfied;

b) recognise revenue and derecognise the binding grant arrangement liability as or when the compliance obligation is satisfied;

c) recognise revenue and a **binding grant arrangement asset** for the amount of the transaction consideration to which the NPO is entitled for progress towards complete satisfaction of the compliance obligation and for which the consideration is yet to be received; and

d) derecognise the binding grant arrangement asset as the consideration is received.

G23.70 The NPO shall present revenue from a binding grant arrangement with a single compliance obligation as income with restrictions in the Statement of Income and Expenses.

Accounting for binding grant arrangements with a number of distinct compliance obligations

Identifying compliance obligations in a binding grant arrangement

G23.71 At the inception of a binding grant arrangement, an NPO shall assess the goods and services promised in a binding grant arrangement and shall identify as a compliance obligation:

a) each promise to transfer a distinct good or service (or a distinct bundle of goods or services) to a beneficiary or beneficiaries; and

b) each promise to use a distinct good or service (or a distinct bundle of goods or services) internally.

G23.72 If an NPO is to transfer or use a series of distinct goods or services that are substantially the same, the series shall be accounted for as a single promise if both of the following criteria are met:

a) each distinct good or service in the series that the NPO promises to either transfer to the beneficiary or use internally would meet the criteria in paragraph G23.107 to be satisfied over time; and

b) in accordance with paragraphs G23.116–G23.119, the same method would be used to measure the NPO's progress towards complete satisfaction of the promise to transfer or use each distinct good or service in the series.

G23.73 A binding grant arrangement has at least one compliance obligation because its enforceability holds the NPO accountable for satisfying its obligations of the arrangement, for which the NPO has little or no realistic alternative to avoid.

Promises to use resources

G23.74 A binding grant arrangement generally explicitly states the goods or services that an NPO promises to either transfer to a beneficiary or use internally. However, promises may be implied by an NPO's customary business practices, published policies or specific statements if these create a valid expectation of the grant provider that the NPO will transfer a good or service to a beneficiary or use internally.

G23.75 Compliance obligations do not include activities that an NPO must undertake to satisfy a binding grant arrangement unless the completion of those activities uses resources in a manner clearly specified in the binding grant arrangement. For example, the performance of various administrative tasks may not use a resource internally for a service or transfer a service to a beneficiary unless specified. Therefore, those setup activities may not be a compliance obligation.

Identifying distinct promises to use resources

G23.76 A good or service that is promised in a binding grant arrangement is distinct if both of the following criteria are met:

a) the beneficiary (where goods or services are transferred to a beneficiary) or the NPO (where goods or services are used internally) can benefit from the good or service either on its own or together with other resources that are readily available to it (that is, the good or service is capable of being distinct); and

b) the NPO's obligation to transfer or use the good or service is separate from other obligations in the binding grant arrangement.

G23.77 The criterion in paragraph G23.76 a) is satisfied for goods or services that the NPO regularly provides or sells separately.

Determining the transaction consideration

G23.78 An NPO shall consider the terms of the binding grant arrangement and its customary practices to determine the transaction consideration. The transaction consideration is the amount of resources to which an NPO expects to be entitled in the binding grant arrangement for satisfying its compliance obligations, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a binding grant arrangement may include fixed amounts, variable amounts, or both.

G23.79 For the purpose of determining the transaction consideration, an NPO shall assume that the consideration will be received in accordance with the terms of the existing binding grant arrangement and that the binding grant arrangement will not be cancelled, renewed or modified.

Variable consideration

G23.80 If the consideration in the binding grant arrangement includes a variable amount, an NPO shall estimate the amount of the consideration which it expects to collect from the grant provider.

G23.81 An NPO shall estimate an amount of variable consideration by using either of the following methods:

a) the expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an NPO has a large number of binding grant arrangements with similar characteristics; or

b) the most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (that is, the single most likely outcome of the binding grant arrangement). The most likely amount may be an appropriate estimate of the amount of variable consideration if the binding grant arrangement has only two possible outcomes (for example, an entity either delivers services on schedule or not).

G23.82 An NPO shall apply one method consistently throughout the binding grant arrangement when estimating the amount of variable consideration. The information that an NPO uses to estimate the amount of variable consideration would typically be similar to the information that the NPO's management uses during the bid-and-proposal process and in establishing prices for promised goods or services.

G23.83 At the end of each reporting period, an NPO shall update the estimate of variable consideration included in the transaction consideration to reflect any relevant changes in circumstances. An NPO shall account for changes in the estimate of the transaction consideration in accordance with paragraphs G23.97–G23.99.

Time value of money

G23.84 If the timing of the inflows agreed to by the parties to the binding grant arrangement provides the NPO or the grant provider with a significant benefit of financing, the arrangement constitutes a financing transaction (see paragraph G11.16). The NPO shall adjust the amount of consideration for the effects of the time value of money and shall recognise interest revenue or interest expense in accordance with Section 11.

G23.85 The NPO shall present interest revenue or interest expense separately from revenue from binding grant arrangements in the Statement of Income and Expenses. Interest revenue or interest expense is recognised only to the extent that a binding grant arrangement asset (or receivable) or a binding grant arrangement liability is recognised in accounting for a binding grant arrangement.

G23.86 An NPO need not adjust the consideration for the effects of a significant financing component if the NPO expects, at the inception of the binding grant arrangement, that the period between when the NPO satisfies the compliance obligation and when the grant provider transfers the consideration will be one year or less.

Non-cash consideration

G23.87 To determine the transaction consideration for binding grant arrangements in which a grant provider promises consideration in a form other than cash, an NPO shall measure the non-cash consideration (or right to a non-cash inflow) at its fair value as at the time when the criteria for asset recognition is satisfied.

G23.88 If an NPO cannot reasonably estimate the fair value of the non-cash consideration, the NPO shall measure the consideration indirectly by reference to the stand-alone value of the goods or services to be used internally or transferred to the beneficiary.

Allocating the transaction consideration to compliance obligations

G23.89 An NPO shall allocate the transaction consideration to each compliance obligation identified in the binding grant arrangement on a relative stand-alone value basis in accordance with paragraphs G23.91–G23.94.

G23.90 Paragraphs G23.91–G23.96 do not apply if a binding grant arrangement has only one compliance obligation (see instead paragraphs G23.66–G23.70. However, paragraphs G23.95–G23.96 may apply if an NPO promises to use or transfer a series of distinct goods or services identified as a single compliance obligation in accordance with paragraph G23.66 or G23.71 and the promised consideration includes variable amounts.

Allocation Based on Stand-Alone Values

G23.91 An NPO shall determine the stand-alone value at the inception of the binding grant arrangement of the distinct good or service underlying each compliance obligation in the binding grant arrangement and allocate the transaction consideration in proportion to those stand-alone values.

G23.92 The stand-alone value is the price at which an NPO would use a good or service internally or provide a good or service separately to a beneficiary. The best evidence of a stand-alone value is the observable price of a good or service when the NPO provides that good or service separately in similar circumstances and to similar grant providers. In a binding grant arrangement, the stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone value of that good or service.

G23.93 If a stand-alone value is not directly observable, an NPO shall estimate it. When estimating a stand-alone value, an NPO shall take into account all information that is reasonably available to the NPO, including market conditions, NPO-specific factors and information about the grant provider or class of grant provider. An NPO shall apply estimation methods consistently in similar circumstances.

G23.94 Suitable estimation methods include, but are not limited to, the following:

a) adjusted market assessment approach—an NPO could evaluate the market in which it uses or provides goods or services and estimate the price that other entities in that market would be willing to pay for those goods or services, or similar goods or services and adjusting those prices as necessary to reflect the NPO's costs and margins.

b) expected cost approach—an NPO could forecast its expected costs of satisfying a compliance obligation and, if applicable, add an appropriate margin for that good or service.

c) residual approach—only if the stand-alone value of a good or service is highly variable or uncertain, then an NPO may estimate the stand-alone value by reference to the total transaction consideration less the sum of the observable or estimated stand-alone selling values of other goods or services to be used or provided.

Allocation of variable consideration

G23.95 An NPO shall allocate variable consideration in a transaction consideration to the entire binding grant arrangement on a relative stand-alone value basis, unless this basis does not depict the amount of consideration to which the NPO expects to be entitled in exchange for satisfying its compliance obligations. In that case, the NPO shall allocate the variable consideration using a method that reflects such an amount.

G23.96 An NPO shall allocate variable consideration in a transaction consideration to all the distinct goods or services promised in a series of distinct goods or services that forms part of a single compliance obligation in accordance with paragraph G23.72, unless this basis does not depict the amount of consideration to which the NPO expects to be entitled in exchange for satisfying its compliance obligations. In that case, the NPO shall allocate the variable consideration using a method that reflects such an amount.

Changes in the Transaction Consideration

G23.97 After inception of the binding grant arrangement, an NPO's estimate of the amount of consideration to which it expects to be entitled in exchange for satisfying its compliance obligations may change. For example, an NPO updates its estimate of variable consideration included in the transaction consideration to reflect any relevant changes in circumstances.

G23.98 To account for changes in the estimate of the transaction value, an NPO shall allocate any changes to compliance obligations in the binding grant arrangement on the same basis as at the inception of the arrangement. Consequently, an NPO shall not reallocate the transaction consideration to reflect changes in stand-alone values after the inception of the binding grant arrangement. Amounts allocated to a compliance obligation that has been satisfied shall be recognised as revenue, or as a reduction of revenue, in the period in which the estimate of the transaction consideration changes.

G23.99 A change in transaction consideration as a result of a modification arises from separate and subsequent negotiation between the parties to the binding grant arrangement that changes the enforceable rights and obligations of those parties. Such a change shall be accounted for in accordance with paragraphs G23.63–G23.65.

Recognising revenue when (or as) the NPO satisfies a Compliance obligation

Initial recognition of revenue transactions with a binding grant arrangement

G23.100 When a binding grant arrangement is wholly unsatisfied, an NPO shall not recognise any asset, liability or revenue associated with the binding grant arrangement. The recognition of assets, liabilities, and revenues commences when one party to the binding grant arrangement starts to satisfy their obligations under the arrangement.

G23.101 Binding grant arrangements will be wholly unsatisfied if the NPO has not yet met any of its stated compliance obligations in the binding grant arrangement and the grant provider has not yet paid, and is not yet obligated to pay, consideration to the NPO.

G23.102 When an NPO receives an inflow of resources in a revenue transaction with a binding grant arrangement, the entity shall recognise:

a) revenue for any satisfied compliance obligations in respect of the inflow; and

b) A liability for any unsatisfied compliance obligations in respect of the inflow.

G23.103 The timing of revenue recognition is determined by the nature of the requirements in a binding grant arrangement and their settlement. An NPO shall recognise revenue from a transaction with a binding grant arrangement when (or as) the NPO satisfies a compliance obligation by using resources in the specified manner. The NPO shall reduce an equal amount of the carrying amount of any liability that was recognised upon receipt of an inflow of resources.

G23.104 When (or as) a compliance obligation is satisfied, an entity shall recognize as revenue the amount of the transaction consideration that is allocated to that compliance obligation (see paragraphs G23.89–G23.90.

G23.105 An NPO satisfies a compliance obligation by using resources for a promised good or service (i.e., an asset) internally, or transferring a promised good or service to a beneficiary. An asset is used internally or transferred when (or as) the entity receiving the asset (that is, the NPO or the beneficiary) obtains control of that asset.

G23.106 Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining economic benefits that may flow from, the asset.

Compliance obligations to use resources for goods or service internally

Satisfied over time

G23.107 An NPO satisfies a compliance obligation (to use resources for goods or services internally) over time, and recognises revenue over time, if one of the following criteria is met:

a) The NPO simultaneously receives and consumes the economic benefits or service potential provided by the NPO's performance as the NPO performs (see paragraphs AG23.23–AG23.24);

b) The NPO's performance creates or enhances an asset (for example, work in progress) that the NPO controls as the asset is created or enhanced; or

c) The NPO's performance does not create an asset with an alternative use to the NPO (see paragraph G23.108–G23.109) and the NPO has an enforceable right to consideration for performance completed to date (see paragraphs G23.110–G23.111).

G23.108 An asset created by an NPO's performance does not have an alternative use to an NPO if the NPO is either:

a) restricted by the binding grant arrangement from readily directing the asset for another use during the creation or enhancement of that asset; or

b) limited practically from readily directing the asset in its completed state for another use (for example, because the NPO would either recognise a significant loss or incur significant costs to rework the asset for another use).

G23.109 The assessment of whether an asset has an alternative use to the NPO is made at the inception of the binding grant arrangement. Reassessment of whether an asset can be readily redirected to an alternative use shall occur only if there is a modification to the binding grant arrangement that substantially changes the promise.

G23.110 An obligation for a grant provider to compensate an NPO for work carried out to date may arise from specific terms in the binding grant arrangement or laws that apply to that arrangement. An obligation for a grant provider to compensate the NPO exists if the NPO has either:

a) a present unconditional right to payment for work carried out to date; or

b) an enforceable right to demand or retain payment for work carried out to date if the binding grant arrangement were to be terminated before completion for reasons other than the NPO's failure to perform as promised.

G23.111 An amount that would compensate an NPO for work carried out to date would be an amount that approximates the value of the goods or services used to date (for example, recovery of the cost incurred by the NPO in satisfying the compliance obligation plus, where applicable, a reasonable margin).

Satisfied at a point in time

G23.112 If a compliance obligation is not satisfied over time in accordance with paragraphs G23.107–G23.111, an NPO satisfies the compliance obligation and recognises revenue at a point in time. To determine the point in time at which the entity obtains or transfers control of a promised asset and satisfies a compliance obligation, the entity shall consider the requirements for control in paragraphs G23.105–G23.106.

Compliance obligations to transfer goods or service to a beneficiary

Satisfied over time

G23.113 An NPO satisfies a compliance obligation (to transfer a good or service to a beneficiary) over time, and recognises revenue over time, if one of the following criteria is met:

a) The beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the NPO's performance as the NPO performs (see paragraphs AG23.25–AG23.26);

b) The NPO's performance creates or enhances an asset (for example, work in progress) that the beneficiary controls as the asset is created or enhanced; or

c) The NPO's performance does not create an asset with an alternative use to the NPO (see paragraph G23.108–G23.109) and the NPO has an enforceable right to consideration for performance completed to date (see paragraphs G23.110–G23.111).

Satisfied at a point in time

G23.114 If a compliance obligation is not satisfied over time in accordance with paragraph G23.113, an NPO satisfies the compliance obligation and recognises revenue at a point in time.

G23.115 To determine the point in time at which a beneficiary obtains control of a promised asset and the NPO satisfies a compliance obligation, the NPO shall consider the requirements for control in paragraphs G23.105–G23.106. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

a) The NPO has a present right to consideration for the asset;

b) The beneficiary has legal title to the asset;

c) The beneficiary has physical possession of the asset; and

d) The beneficiary has the significant risks and rewards of ownership of the asset.; and

e) The grant provider has accepted the transfer of the asset to the beneficiary.

Measuring progress towards complete satisfaction of a compliance obligation

G23.116 For each compliance obligation satisfied over time in accordance with paragraphs G23.107–G23.111 (for compliance obligations to use goods or service internally) or paragraph G23.113 (for compliance obligations to transfer goods or service to a beneficiary), an NPO shall recognise revenue over time by measuring the progress towards complete satisfaction of that compliance obligation.

G23.117 An NPO shall apply a single method of measuring progress for each compliance obligation satisfied over time and the NPO shall apply that method consistently to similar compliance obligations and in similar circumstances. At the end of each reporting period, an NPO shall remeasure its progress towards complete satisfaction of a compliance obligation satisfied over time.

G23.118 Appropriate methods of measuring progress include output methods and input methods. Paragraphs AG23.27–AG23.36 provide guidance for using output methods and input methods to measure an NPO's progress towards complete satisfaction of a compliance obligation. In determining the appropriate method for measuring progress, an NPO shall consider the nature of the NPO's promise, and whether the terms of the binding grant arrangement specify the activities or expenditures an entity is to perform or incur, respectively.

G23.119 As circumstances change over time, an NPO shall update its measure of progress to reflect any changes in the satisfaction of the compliance obligation. Such changes to an NPO's measure of progress shall be accounted for as a change in accounting estimate in accordance with paragraphs G10.18–G10.22.

Reasonable measures of progress

G23.120 An NPO shall recognise revenue for a compliance obligation satisfied over time only if the NPO can reasonably measure its progress towards complete satisfaction of the compliance obligation. An NPO would not be able to reasonably measure its progress towards complete satisfaction of a compliance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress.

G23.121 If an NPO has a right to consideration from a grant provider in an amount that corresponds directly with the value to the grant provider of the NPO's work to date (for example, a service contract in which an NPO bills a fixed amount for each hour of service provided), the NPO may recognise revenue in the amount to which the NPO has a right to invoice.

Subsequent consideration of asset recognition criteria

G23.122 When an inflow of resources arrangement with a resource provider within the scope of this Guidance does not meet the criteria in paragraph G23.26 and an NPO receives an inflow of resources from the resource provider, the NPO shall recognise the inflow received as revenue only when either of the following events has occurred:

a) The NPO has no unsatisfied compliance obligation; or

b) The arrangement has been terminated and the inflow received from the resource provider is non-refundable.

Binding grant arrangement costs

Costs to obtain a binding grant arrangement

G23.123 An NPO may incur costs in its effort to obtain a binding grant arrangement with a grant provider. An NPO shall recognise such costs as an asset if:

a) the costs would not have been incurred by the NPO if the binding grant arrangement had not been obtained; and

b) the costs are expected to be recovered.

G23.124 If an NPO is unable to identify whether costs to obtain a binding grant arrangement meet the criteria in paragraph G23.123 without undue cost or effort, the NPO shall recognise such costs as an expense when incurred.

G23.125 Costs to obtain a binding grant arrangement that would have been incurred regardless of whether the binding grant arrangement was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the grant provider regardless of whether the binding grant arrangement is obtained.

G23.126 An NPO may recognise the costs to obtain a binding grant arrangement that meet the criteria in paragraph G23.123 as an expense when incurred if the amortisation period of the assets that the NPO otherwise would have recognised is one year or less.

Costs of fulfilling a binding grant arrangement

G23.127 An NPO shall account for the costs incurred in fulfilling a binding grant arrangement in accordance with the relevant Section of INPAG for those costs (for example, Section 13 *Inventories*, Section 17 *Property, Plant and Equipment*, Section 18 *Intangible Assets other than Goodwill*).

G23.128 If the costs incurred in fulfilling a binding grant arrangement are not within the scope of another Section of INPAG, an NPO shall recognise those costs as an asset if:

a) the costs relate directly to a binding grant arrangement or to an anticipated binding grant arrangement that the NPO can specifically identify (for example, direct costs of a specific anticipated binding grant arrangement);

b) the costs generate or enhance resources of the NPO that will be used in satisfying (or in continuing to satisfy) promises in the future; and

c) the costs are expected to be recovered.

G23.129 An asset recognised in accordance with paragraph G23.128 gives rise to resources that the NPO will use to satisfy future promises in the binding grant arrangement. Conversely, costs that relate to promises that are satisfied (or partially satisfied) shall be recognised as expenses when incurred, as those costs relate to past performance.

Measurement after recognition

G23.130 After initial recognition, an NPO shall measure assets recognised in accordance with paragraph G23.123 or G23.128 at cost less accumulated amortisation and any accumulated impairment losses.

G23.131 An asset recognised in accordance with paragraph G23.123 or G23.128 shall be amortised in accordance with the pattern of use or transfer and revenue recognition of the goods or services to which the asset relates.

G23.132 If an asset has been recognised in accordance with paragraph G23.123 or G23.128, an NPO shall follow Section 27 *Impairment of Assets* for recognising and measuring the impairment of the asset. However, an NPO shall apply paragraph G23.133 instead of paragraphs G27.11–G27.20 to estimate the recoverable amount of such an asset.

G23.133 The recoverable amount of an asset recognised in accordance with paragraph G23.123 or G23.128 is:

a) the remaining amount of consideration that the NPO expects to receive in exchange for satisfying the compliance obligations to which the asset relates; less

b) the costs that relate directly to satisfying the compliance obligations and that have not been recognised as expenses.

G23.134 In applying paragraph G23.133 a), an NPO shall determine the amount of consideration that the NPO expects to receive by adjusting the transaction consideration for any consideration received to date and the effects of the grant provider's credit risk.

Presentation of binding grant arrangement balances

G23.135 When either party to a binding grant arrangement has performed, an NPO shall present the binding grant arrangement in the Statement of Financial Position as a binding grant arrangement asset or a binding grant arrangement liability, depending on the relationship between:

a) the NPO's performance; and

b) the grant provider's transfer of consideration.

An NPO shall present any unconditional rights to consideration separately as a receivable.

G23.136 If an NPO has received consideration (or consideration is due) from the grant provider before the NPO satisfies a compliance obligation, the NPO shall recognise a binding grant arrangement liability when the payment is made or the payment is due (whichever is earlier). A binding grant arrangement liability is an NPO's obligation to satisfy a compliance obligation for which the NPO has received consideration (or the amount is due) from the grant provider. When (or as) the NPO satisfies the compliance obligation, the NPO shall derecognise the binding grant arrangement liability (or part of a binding grant arrangement liability) and recognise revenue, in accordance with paragraphs G23.100–G23.122.

G23.137 If an NPO satisfies a compliance obligation before the customer pays consideration (or before payment is due), the NPO shall recognise a binding grant arrangement asset, excluding any amounts presented as a receivable. A binding grant arrangement asset is an NPO's right to consideration for satisfying a compliance obligation. When the grant provider pays the consideration (or the consideration becomes due), the NPO shall derecognise the binding grant arrangement asset. An NPO shall assess a binding grant arrangement asset for impairment, and recognise any impairment loss, in accordance with Section 11.

G23.138 A receivable is an NPO's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an NPO would recognise a receivable if it has a present right to payment even though that amount may be subject to refund in the future.

G23.139 An NPO shall present binding grant arrangement assets and receivables separately.

G23.140 This Guidance uses the terms 'binding grant arrangement asset' and 'binding grant arrangement liability' but does not prohibit an NPO from using alternative descriptions in the statement of financial position for those items.

Disclosure

G23.141 An NPO shall disclose the revenue it recognised from grants, donations and other income, disaggregated into categories, showing separately, at a minimum, revenue arising from transactions:

a) without restrictions, disaggregated into:

   i) revenue received or receivable in cash;

   ii) revenue received as gifts in-kind; and

   iii) revenue received as services in-kind;

b) with restrictions but without binding grant arrangements, disaggregated into:

   i) revenue received or receivable in cash;

   ii) revenue received as gifts in-kind; and

   iii) revenue received as services in-kind;

c) with binding grant arrangements.

Revenue from grants, donations and similar income without restrictions

G23.142 If an NPO elects to use the permitted exceptions in paragraph G23.44 (high volume or low value items donated for resale), paragraph G23.45 (items donated for distribution to beneficiaries) or paragraph G23.48 (services in-kind that the NPO would not otherwise have purchased), the NPO shall disclose that fact. An NPO is encouraged to disclose its best estimate of the value of any gifts in-kind or services in-kind that it has received but not recognised as revenue.

G23.143 An NPO shall disclose:

a) the opening and closing balances of any receivables and liabilities from grants, donations and similar income without restrictions, if not otherwise separately presented or disclosed; and

b) revenue recognised in the reporting period that was included in the liability balance at the beginning of the period.

Revenue from grants, donations and similar income with restrictions but without binding grant arrangements

G23.144 If an NPO elects to use the permitted exceptions in paragraph G23.44 (high volume or low value items donated for resale), paragraph G23.45 (items donated for distribution to beneficiaries) or paragraph G23.48 (services in-kind that the NPO would not otherwise have purchased), the NPO shall disclose that fact. An NPO is encouraged to disclose its best estimate of the value of any gifts in-kind or services in-kind that it has received but not recognised as revenue.

G23.145 An NPO shall disclose:

a) the opening and closing balances of any receivables and liabilities from grants, donations and similar income with restrictions but without binding grant arrangements, if not otherwise separately presented or disclosed; and

b) revenue recognised in the reporting period that was included in the liability balance at the beginning of the period.

Revenue from binding grant arrangements

G23.146 Unless the amounts are presented separately in the Statement of Income and Expenses by applying other Sections of INPAG, an NPO shall disclose the amount of impairment losses recognised (by applying Section 11) for the reporting period on any receivables or binding grant arrangement assets arising from an NPO's binding grant arrangements, which the NPO shall disclose separately from other impairment losses for the reporting period.

G23.147 An NPO shall disclose:

a) the opening and closing balances of receivables, binding grant arrangement assets and binding grant arrangement liabilities, if not otherwise separately presented or disclosed;

b) revenue recognised in the reporting period that was included in the binding grant arrangement liability balance at the beginning of the period; and

c) revenue recognised in the reporting period from promises satisfied or partially satisfied in previous periods (for example, changes in estimates of variable consideration).

G23.148 An NPO shall disclose information about its promises in binding grant arrangement, including a description of:

a) when the NPO typically satisfies its promises (for example, upon shipment, upon delivery, as services are rendered or upon completion of service); and

b) the significant payment terms (for example, when payment is typically due, whether the binding grant arrangement includes a financing transaction, and whether the consideration amount is variable).

G23.149 For promises that an NPO satisfies over time, the NPO shall disclose the methods it used to recognise revenue—for example, a description of the output methods or input methods used and how those methods are applied.

G23.150 An NPO shall provide a quantitative or qualitative explanation of the significance of unsatisfied promises and when they are expected to be satisfied. However, an NPO need not disclose such information for a promise if either of the following conditions is met:

a) the promise is part of a binding grant arrangement that has an original expected duration of one year or less; or

b) the NPO recognises revenue from the satisfaction of the promise in accordance with paragraph G23.121.

G23.151 An NPO shall disclose:

a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a binding grant arrangement (in accordance with paragraphs G23.123 and G23.128), by main category of asset (for example, costs to obtain binding grant arrangement, pre-arrangement costs and set-up costs); and

b) the amount of amortisation and any impairment losses recognised in the reporting period.

G23.152 If an NPO elects to use the options in paragraph G23.86 (making no adjustment for the time value of money) or paragraph G23.126 (costs of obtaining a binding grant arrangement), the NPO shall disclose that fact.

G23.153 If an NPO recognises the costs to obtain a binding grant arrangement as expenses when incurred because it is unable to identify whether those costs meet the criteria in paragraph G23.123 without undue cost or effort, the NPO shall disclose that fact and the reasons why identifying the costs that meet the criteria in paragraph G23.123 would involve undue cost or effort.

Part II – Revenue from Contracts with Customers

Scope of Part II

G23.154 Part II applies to all **revenue** from **contracts** with **customers**, except:

a) lease agreements within the scope of Section 20 *Leases*;

b) insurance contracts;

c) financial instruments and other contractual rights or obligations within the scope of Section 9 *Consolidated and Separate Financial Statements*, Section 11 *Financial Instruments*, Section 14 *Investments in Associates* and Section 15 *Joint Arrangements*; and

d) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

G23.155 A contract with a customer may be partially within the scope of this Section and partially within the scope of other Sections in paragraph G23.154 (for example, a lease agreement that includes the provision of services). If the other Section specifies how to separate or initially measure any parts of the contract, then an NPO shall first apply the separation or measurement requirements in that Section. Otherwise, the NPO shall apply this Section to separate or initially measure those parts of the contract.

Revenue recognition model

G23.156 Part II establishes a revenue recognition model for accounting for revenue from contracts with customers. The objective of the model is for an NPO to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the NPO expects to be entitled in exchange for those goods or services. To apply the model, an NPO shall take the following steps:

a) Step 1—*Identify the contract(s) with a customer* (see paragraphs G23.160–G23.169);

b) Step 2—*Identify the promises in the contract* (see paragraphs G23.170–G23.194);

c) Step 3—*Determine the* ***transaction price*** (see paragraphs G23.195–G23.214);

d) Step 4—*Allocate the transaction price to the promises in the contract* (see paragraphs G23.215–G23.99); and

e) Step 5—*Recognise revenue when (or as) the NPO satisfies a promise* (see paragraphs 0–G23.255).

G23.157 An NPO shall apply Part II consistently to contracts with similar characteristics and in similar circumstances.

G23.158 Part II specifies the accounting for an individual contract with a customer. An NPO may apply this Section to a portfolio of similar contracts (or promises) if the NPO reasonably expects that the result of doing so would not differ materially from the result of applying this Section to the individual contracts (or promises) within that portfolio.

Applying the Revenue Recognition Model to Simpler Transactions

G23.159 Part II establishes the revenue recognition model for all revenue from contracts with customers, and as a consequence includes requirements for many complex features of revenue transactions that are not relevant for many NPO revenue transactions. For complex transactions, NPOs will need to apply all of the requirements in this Section. For simpler transactions, NPOs need only apply the relevant requirements. Paragraph AG23.38 provides guidance on when certain requirements will not be relevant to simpler transactions.

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

G23.160 An NPO shall apply the revenue recognition model to account for a contract with a customer that is within the scope of this Section only when all of the following criteria are met:

a) the parties to the contract have approved the contract and are committed to perform their respective obligations;

b) the NPO can identify each party's rights regarding the goods or services to be transferred;

c) the NPO can identify the payment terms for the goods or services to be transferred;

d) the contract has commercial substance; and

e) it is probable that the NPO will collect the consideration to which it will be entitled in exchange for the goods or services to be transferred to the customer.

G23.161 The criterion in paragraph G23.160 e) is met when the customer has the ability and intention to pay the consideration when due.

G23.162 If a contract with a customer meets the criteria in paragraph G23.160 at inception, reassessment is only required if there is an indication of a significant change in relevant facts and circumstances.

G23.163 If a contract with a customer does not meet the criteria in paragraph G23.160, an NPO shall initially recognise any consideration received from the customer as a liability, and continue to reassess the contract until the criteria are met.

G23.164 An NPO shall recognise the consideration initially recognised as a liability in accordance with paragraph G23.60 as revenue when either:

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

b) the contract is terminated and the consideration received is non-refundable.

G23.165 Some contracts with customers may have no fixed duration or may automatically renew periodically. An NPO shall apply this Section to the duration of the contract (that is, the contractual period) in which the parties to the contract have present enforceable rights and obligations, except for contract renewal options within the scope of paragraph G23.190.

Combination of contracts

G23.166 An NPO shall combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:

a) the contracts are negotiated as a package with a single commercial objective;

b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or

c) the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single promise in accordance with paragraphs G23.170–G23.178.

Contract modifications

G23.167 A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A contract modification either creates new enforceable rights and obligations, or changes such rights and obligations that already exist.

G23.168 An NPO shall account for contract modifications as follows:

a) If the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification, an NPO shall account for the contract modification as if it were a termination of the existing contract and the creation of a new contract. The transaction price for the new contract is the sum of:

i) the consideration included in the original estimate of the transaction price that had not been recognised as revenue; and

ii) any additional consideration promised as part of the contract modification.

b) If the remaining goods or services are not distinct from the goods or services transferred on or before the date of the contract modification, an NPO shall account for the contract modification as if it were part of the existing contract. The effect that the contract modification has on the transaction price, and on the NPO's measure of progress towards complete satisfaction of the promise, shall be recognised as an adjustment to revenue at the date of the contract modification (that is, on a cumulative catch-up basis).

G23.169 As an alternative to the treatment set out in paragraph G23.168 a) and instead of terminating the existing contract, an NPO may choose to account for a contract modification as a separate contract if:

a) the modification increases the scope of the existing contract because of additional goods or services promised that are distinct from those in the existing contract; and

b) the modification increases the price of the existing contract by an amount of consideration that reflects the NPO's **stand-alone selling price** of the additional goods or services and any appropriate adjustments to that price to reflect the circumstances of that contract.

Step 2—Identify the promises in the contract

G23.170 At contract inception, an NPO shall assess the goods and services promised in a contract with a customer and shall identify each promise to transfer a distinct good or service (or a distinct bundle of goods or services).

G23.171 If an NPO is to transfer a series of distinct goods or services that are substantially the same, the series shall be accounted for as a single promise if both of the following criteria are met:

a) each distinct good or service in the series that the NPO promises to transfer to the customer would meet the criteria in paragraph G23.232 to be satisfied over time; and

b) in accordance with paragraphs G23.242–G23.121, the same method would be used to measure the NPO's progress towards complete satisfaction of the promise to transfer each distinct good or service in the series to the customer.

G23.172 A contract with a customer generally explicitly states the goods or services that an NPO promises to transfer. However, promises may be implied by an NPO's customary business practices, published policies or specific statements if these create a valid expectation of the customer that the NPO will transfer a good or service to the customer.

G23.173 Promises do not include activities that an NPO must undertake to fulfil a contract unless those activities directly transfer a good or service to the customer (for example, set-up activities and administrative tasks that do not transfer a good or service to the customer).

Distinct goods or services

G23.174 A good or service that is promised by an NPO to a customer is distinct if both of the following criteria are met:

a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (that is, the good or service is capable of being distinct); and

b) the NPO's obligation to transfer the good or service is separate from other obligations in the contract (see paragraph G23.177).

G23.175 The criterion in paragraph G23.76 a) is satisfied for goods or services that the NPO regularly sells separately.

G23.176 For the purpose of applying the criterion in paragraph G23.76 a), readily available resources are:

a) goods or services sold separately (by the NPO or another entity); or

b) goods or services that the customer has already obtained from the NPO (including goods or services transferred to the customer under the contract) or from other transactions or events.

G23.177 The purpose of the criterion in paragraph G23.76 b) is to determine if the nature of the NPO's obligation, within the context of the contract, is to transfer the good or service individually, rather than to transfer a combined item or items to which the good or service is an input. Factors that indicate that two or more goods or services promised in a contract are inputs to a combined item or items and are therefore not distinct include, but are not limited to, the following:

a) the NPO provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the NPO is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the customer. A combined output or outputs might include more than one phase, element or unit. An example is a construction contract when an NPO provides an integration (or contract management) service to manage and co-ordinate the various construction tasks necessary for the construction of an asset.

b) one or more of the goods or services significantly modifies or customises, or is significantly modified or customised by, one or more of the other goods or services promised in the contract. An example is a software contract when an NPO promises to provide existing software and to customise that software, if the customisation service significantly modifies the software.

c) the goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. For example, in some cases, two or more goods or services are significantly affected by each other because an NPO would not be able to fulfil its promise by transferring each of the goods or services independently.

G23.178 If a good or service promised to a customer is not distinct, an NPO shall combine that good or service with other goods or services in the contract until it identifies a bundle of goods or services that is distinct. In some cases, this will result in the NPO accounting for all the goods or services in a contract as a single promise.

Warranties

G23.179 An NPO might provide a warranty in connection with the sale of a product (whether a good or service).

G23.180 If a customer has the option to purchase a warranty separately (that is, there is a choice of purchasing the product either with or without a warranty), the warranty is distinct because the NPO promises to provide a service to the customer in addition to the product that has the functionality described in the contract. In those circumstances, an NPO shall account for the warranty as a separate promise in accordance with paragraphs G23.170–G23.178.

G23.181 If a customer does not have the option to purchase a warranty separately, an NPO shall account for the warranty in accordance with Section 21 *Provisions and Contingencies* unless:

a) the warranty is significant to the contract; and

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

G23.182 If the conditions in paragraph G23.181 are met, the service that the warranty provides to the customer is a separate promise. Therefore, the NPO shall allocate the transaction price to the product and the service. If a warranty provides the customer with both a service and the assurance that the product complies with agreed-upon specifications, but an NPO cannot reasonably account for these components separately, the NPO shall account for both the components together as a single promise.

Non-refundable upfront fees

G23.183 In some contracts, an NPO charges a customer a non-refundable upfront fee at or near contract inception. Examples include joining fees in health club membership contracts, set-up fees in some service contracts and initial fees in some supply contracts.

G23.184 Often a non-refundable upfront fee relates to an activity that the NPO is required to undertake to fulfil the contract but that activity does not directly transfer a good or service to the customer. If a non-refundable upfront fee relates to the transfer of a good or service, an NPO shall evaluate whether to account for the good or service as a separate promise in accordance with paragraphs G23.170–G23.178. Otherwise, the non-refundable upfront fee is included in the transaction price and allocated to the promises in the contract.

G23.185 An NPO may charge a non-refundable fee that gives customers an option to renew the contract on similar terms. Such options that provide a customer with a material right identified in accordance with paragraph G23.186 are accounted for in accordance with paragraph G23.190, instead of as separate promises in accordance with paragraphs G23.170–G23.178.

Customer options for additional goods or services

G23.186 In some contracts, customers are granted the option to acquire additional goods or services for free or at a discount. If the option provides the customer with a material right that it would not receive without entering into that contract, the option gives rise to a separate promise in addition to the other promises in the contract. If customers are granted the option to acquire additional goods or services at a price that would reflect the stand-alone selling prices for that good or service, the option does not provide the customer with a material right and does not give rise to a separate promise.

G23.187 Options that may provide a material right to customers include sales incentives, customer award credits (or points), contract renewal options or other discounts on future goods or services.

G23.188 If an option provides a material right to a customer, the customer is in effect paying the NPO in advance for future goods or services. As a consequence, the NPO recognises revenue when those future goods or services are transferred or when the option expires.

G23.189 An NPO shall account for an option that provides a material right to a customer as a separate promise only when the effect of doing so is significant to the accounting for the individual contract.

G23.190 If a customer is granted an option to renew a contract on similar terms (that is, provide goods or services that are similar to the original goods or services in the contract) and the option provides the customer with a material right, an NPO shall not account for the option as a separate promise. Instead, an NPO shall account for a contract that includes such an option based on:

a) the expected contract term (that is, including expected renewal periods); and

b) the corresponding expected consideration (that is, the consideration that the NPO expects to receive in exchange for the goods or services that the NPO expects to provide).

Principal versus agent considerations

G23.191 When another party is involved in providing goods or services to a customer, an NPO shall determine whether the nature of its promise is to provide the specified goods or services itself (that is, the NPO is a principal) or to arrange for those goods or services to be provided by the other party (that is, the NPO is an agent). An NPO shall determine whether it is a principal or an agent for each promise in a contract. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs G23.76–G23.178).

G23.192 An NPO is a principal if:

a) it is primarily responsible for fulfilling the promise to provide the specified good or service, including responsibility for the acceptability of the specified good or service (for example, the NPO has primary responsibility for the good or service meeting the customer's specifications);

b) it obtains control of the specified good as inventory before it transfers to the customer (for example, the NPO has inventory risk before the specified good is transferred to the customer); or

c) it obtains control of the specified service or right to the specified good or service before:

   i) it transfers to the customer; or

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

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

G23.193 An NPO that is a principal shall recognise revenue in the gross amount of consideration to which the NPO expects to be entitled in exchange for the specified good or service transferred as it satisfies its promise.

G23.194 An NPO that is an agent shall recognise revenue in the amount of any fee or commission to which the NPO expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party as it satisfies its promise. An NPO's fee or commission might be the net amount of consideration that the NPO retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

Step 3—Determine the transaction price

G23.195 An NPO shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the NPO expects to be entitled in exchange for transferring goods or services promised to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes).

G23.196 For the purpose of determining the transaction price, an NPO shall assume that the goods or services will be transferred to the customer in accordance with the existing contract and that the contract will not be cancelled, modified or renewed, except for contract renewal options within the scope of paragraph G23.190.

Variable consideration

G23.197 If the consideration promised in a contract includes a variable amount (for example, because of some discounts, rebates, refunds, penalties or performance bonuses), an NPO shall estimate the variable amount in the transaction price that reflects the amount that is expected to become due, determined in accordance with paragraphs G23.198–G23.204.

G23.198 An NPO shall first estimate an amount of variable consideration by using either of the following methods:

a) the expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an NPO has a large number of contracts with similar characteristics.

b) the most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (that is, the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an NPO either achieves a performance bonus or does not).

G23.199 An NPO shall apply one method consistently throughout the contract when estimating the amount of variable consideration. The information that an NPO uses to estimate the amount of variable consideration would typically be similar to the information that the NPO's management uses during the bid-and-proposal process and in establishing prices for the goods or services promised to the customer.

G23.200 An NPO shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph G23.198 only to the extent that it is highly probable that this amount will become due when the uncertainty associated with the variable consideration is subsequently resolved.

G23.201 At the end of each reporting period, an NPO shall update the estimate of variable consideration included in the transaction price to reflect any relevant changes in circumstances. An NPO shall account for changes in the estimate of the transaction price in accordance with paragraphs G23.226–G23.98.

Sales-based or usage-based royalties

G23.202 An NPO shall not apply paragraphs G23.198–G23.201 to a sale-based or usage-based royalty provided in exchange for a licence of intellectual property when the licence of intellectual property is the sole or predominant item to which the royalty relates. Instead, an NPO shall recognise revenue for such royalties when (or as) the later of the following events occurs:

a) the subsequent sale or usage takes place; and

b) when (or as) the promise to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

Refund liabilities

G23.203 If an NPO receives consideration from a customer and expects to refund some or all of that consideration to the customer, the NPO shall recognise as a refund liability the amount of consideration that the NPO reasonably expects to refund to the customer. For example, the terms of a fixed-price service contract may require a customer to pay upfront and provide the customer with a full refund of the amount paid if the customer is dissatisfied with the service at any time. At the end of each reporting period, an NPO shall update the estimate of the refund liability (and transaction price) to reflect any relevant changes in circumstances. An NPO shall account for changes in the estimate of the transaction price in accordance with paragraphs G23.226–G23.98.

G23.204 To account for a refund liability relating to a sale with a right of return, an NPO shall apply paragraphs G23.205–G23.210.

Sale with a right of return

G23.205 In some contracts, an NPO transfers control of a product to a customer and also grants the customer the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:

a) a full or partial refund of any consideration paid;

b) a credit that can be applied against amounts owed, or that will be owed, to the NPO; and

c) another product in exchange.

G23.206 Exchanges by customers of one product for another of the same type, quality, condition and price (for example, one colour or size for another) are not considered returns for the purposes of applying the requirements in paragraphs G23.207–G23.210.

G23.207 To account for revenue for the transfer of products with a right of return (and for some services that are provided subject to a refund), an NPO shall recognise the following:

a) revenue only for products expected not to be returned;

b) a refund liability for consideration received (or receivable) for products expected to be returned; and

c) a refund asset, classified as inventory, for products expected to be returned (and corresponding adjustment to cost of sales).

G23.208 To determine the amount of consideration that should be recognised in accordance with paragraph G23.207 a), an NPO shall recognise revenue only to the extent that it is highly probable that the products will not be returned. The amount of consideration received (or receivable) that is not recognised as revenue shall be recognised as a refund liability in accordance with paragraph G23.207 b).

G23.209 A refund asset recognised by an NPO in accordance with paragraph G23.207 c) shall initially be measured at the former carrying amount of the product (for example, inventory), less:

a) any expected costs to recover those products; and

b) allowances for potential decreases in the value to the NPO of those products (for example, because of damage, obsolescence or declining selling prices).

G23.210 At the end of each reporting period, an NPO shall update its assessment of products expected to be returned. The NPO shall:

a) recognise changes in the amount of revenue recognised as adjustments to the refund liability, and vice versa; and

b) recognise adjustments to the asset recognised for products expected to be returned in cost of sales.

G23.211 Contracts in which a customer may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs G23.179–G23.182.

Time value of money

G23.212 If payment is deferred beyond normal business terms, the arrangement constitutes a financing transaction (see paragraph G11.16). An NPO shall adjust the promised amount of consideration for the effects of the time value of money and recognise the interest revenue in accordance with Section 11. The NPO shall present interest revenue separately from revenue from contracts with customers.

G23.213 An NPO need not adjust the promised amount of consideration for the effects of the time value of money if the NPO expects, at contract inception, that the period between when the NPO transfers the good or service promised to a customer and when the customer pays for that good or service will be one year or less.

Non-cash consideration

G23.214 To determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an NPO shall measure the non-cash consideration (or promise of non-cash consideration) at fair value. If an NPO cannot reasonably estimate the fair value of the non-cash consideration, the NPO shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

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

G23.215 An NPO shall allocate the transaction price to each promise identified in the contract on a relative stand-alone selling price basis in accordance with paragraphs G23.217–G23.221, unless allocating discounts or variable amounts on an alternative basis in accordance with paragraphs G23.222–G23.96.

G23.216 Paragraphs G23.217–G23.96 do not apply if:

a) a contract contains a single promise; or

b) all promises in a contract are satisfied at the same point in time in accordance with paragraph G23.237.

However, paragraph G23.96 applies if an NPO accounts for a series of distinct goods or services as a single promise in accordance with paragraph G23.171 and the consideration promised in the contract includes a variable amount.

Allocation based on stand-alone selling prices

G23.217 An NPO shall determine the stand-alone selling price at contract inception of the distinct good or service underlying each promise in the contract and allocate the transaction price in proportion to those stand-alone selling prices.

G23.218 The stand-alone selling price is the price at which an NPO would sell a good or service promised in a contract separately to a customer. The best evidence of a stand-alone selling price is the observable price of a good or service when the NPO sells that good or service separately in similar circumstances and to similar customers.

G23.219 If a stand-alone selling price is not directly observable, an NPO shall estimate it. When estimating a stand-alone selling price, an NPO shall take into account all information that is reasonably available to the NPO, including market conditions, NPO-specific factors and information about the customer or class of customer. An NPO shall apply estimation methods consistently in similar circumstances.

G23.220 Suitable estimation methods include, but are not limited to, the following:

a) adjusted market assessment approach—an NPO could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services. That approach might also include referring to prices from the NPO's competitors for similar goods or services and adjusting those prices as necessary to reflect the NPO's costs and margins.

b) expected cost plus a margin approach—an NPO could forecast its expected costs of transferring the good or service promised to a customer and then add an appropriate margin for that good or service.

c) residual approach—only if the stand-alone selling price of a good or service is highly variable or uncertain, then an NPO may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable or estimated stand-alone selling prices of other goods or services promised in the contract.

G23.221 When estimating the stand-alone selling price for a customer's option to acquire additional goods or services identified in accordance with paragraphs G23.186–G23.190, an NPO shall reflect the discount that the customer would obtain when exercising the option, adjusted for both:

a) any discount that the customer could receive without exercising the option; and

b) the likelihood that the option will be exercised.

Allocation of a discount

G23.222 A customer receives a discount if the sum of the stand-alone selling prices of the goods or services promised in the contract exceeds the promised consideration.

G23.223 An NPO shall allocate a discount to the entire contract on a relative stand-alone selling price basis, unless this basis does not depict the amount of consideration to which the NPO expects to be entitled in exchange for transferring the goods or services promised to the customer. In that case, the NPO shall allocate the discount using a method that reflects such an amount.

Allocation of variable consideration

G23.224 An NPO shall allocate variable consideration in a transaction price to the entire contract on a relative stand-alone selling price basis, unless this basis does not depict the amount of consideration to which the NPO expects to be entitled in exchange for transferring the goods or services promised to the customer. In that case, the NPO shall allocate the variable consideration using a method that reflects such an amount.

G23.225 An NPO shall allocate variable consideration in a transaction price to all the distinct goods or services promised in a series of distinct goods or services that forms part of a single promise in accordance with paragraph G23.171, unless this basis does not depict the amount of consideration to which the NPO expects to be entitled in exchange for transferring the goods or services promised to the customer. In that case, the NPO shall allocate the variable consideration using a method that reflects such an amount.

Changes in the transaction price

G23.226 After contract inception, an NPO's estimate of the amount of consideration to which it expects to be entitled in exchange for transferring goods or services may change. For example, an NPO updates its estimate of variable consideration included in the transaction price to reflect any relevant changes in circumstances.

G23.227 To account for changes in the estimate of the transaction price, an NPO shall allocate any changes to promises in the contract on the same basis as at contract inception. Consequently, an NPO shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a promise that has been satisfied shall be recognised as revenue, or as a reduction of revenue, in the period in which the estimate of the transaction price changes.

G23.228 A change in transaction price as a result of a contract modification arises from separate and subsequent negotiation between the parties to the contract that changes the enforceable rights and obligations of those parties. Such a change shall be accounted for in accordance with paragraphs G23.167–G23.169.

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

G23.229 An NPO shall recognise revenue when (or as) the NPO satisfies a promise to transfer a good or service or bundle of goods or services to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service.

G23.230 For each promise identified in accordance with paragraphs G23.170–G23.178, an NPO shall determine at contract inception whether the promise is satisfied over time (in accordance with paragraphs G23.232–G23.111) or satisfied at a point in time (in accordance with paragraphs G23.237–G23.241).

G23.231 Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining economic benefits that may flow from, the asset.

Promises satisfied over time

G23.232 An NPO transfers control of a good or service over time, and therefore satisfies a promise over time, if one of the following criteria is met:

a) the customer receives and consumes the benefits of the NPO's performance as the NPO performs (for example, routine or recurring services such as a cleaning service);

b) the NPO's work carried out to date would not need to be substantially reperformed if another entity were to fulfil the remainder of the promise to the customer (for example, a freight logistics contract);

c) the NPO's performance creates or enhances an asset that the customer obtains control of as the asset is created or enhanced (for example, in the case of a construction contract in which the customer controls the work in progress); or

d) the NPO's performance creates an asset that cannot be readily redirected to another customer and the customer is obliged to compensate the NPO for work carried out to date (see paragraphs G23.110–G23.111).

G23.233 An asset created by an NPO's performance cannot be readily redirected to another customer if:

a) to sell the asset in its completed state, the NPO would either recognise a significant loss or incur significant costs to rework the asset (for example, if an asset was highly customised for a particular customer); or

b) substantial contractual restrictions exist that preclude the NPO from selling the asset to another customer during the creation or enhancement of that asset (for example, if the NPO is legally obliged to sell the asset to the customer).

G23.234 An assessment of whether an asset can be readily redirected to a customer is made at contract inception. Reassessment of whether an asset can be readily redirected to a customer shall occur only if there is a contract modification that substantially changes the promise.

G23.235 An obligation for a customer to compensate an NPO for work carried out to date may arise from specific terms in the contract or laws that apply to that contract. An obligation for a customer to compensate the NPO exists if the NPO has either:

a) a present unconditional right to payment for work carried out to date; or

b) an enforceable right to demand or retain payment for work carried out to date if the contract were to be terminated before completion for reasons other than the NPO's failure to perform as promised.

G23.236 An amount that would compensate an NPO for work carried out to date would be an amount that approximates the selling price of the goods or services transferred to date (for example, recovery of the cost incurred by the NPO in satisfying the promise plus a reasonable profit margin).

Promises satisfied at a point in time

G23.237 If a promise is not satisfied over time, an NPO satisfies the promise at a point in time. To determine the point in time at which a customer obtains control of a promised asset, an NPO shall consider indicators of the transfer of control, which include but are not limited to the following:

a) the NPO has a present right to payment for the asset;

b) the customer has legal title to the asset;

c) the customer has physical possession of the asset;

d) the customer has the significant risks and rewards of ownership of the asset; and

e) the customer has accepted the asset (see paragraphs G23.240–G23.241).

G23.238 The existence or absence of an indicator in paragraph G23.237 does not determine whether control of a promised asset has transferred. For example, an NPO may retain legal title of an asset that a customer controls as protection against the customer's failure to pay. Conversely, in a consignment arrangement, the other party (for example a dealer or distributor) has physical possession of a product that an NPO controls. An NPO shall not recognise revenue upon delivery of a product to another party if the delivered product is held on consignment.

G23.239 Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:

a) the product is controlled by the NPO until a specified event occurs, such as the sale of the product to a customer of the distributor or until a specified period expires;

b) the NPO is able to require the return of the product or transfer the product to a third party (such as another distributor); and

c) the distributor does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

Customer acceptance

G23.240 Customer acceptance clauses allow a customer to cancel a contract or require an NPO to take remedial action if a good or service does not meet agreed-upon specifications. If a contract includes a customer acceptance clause, an NPO shall consider the effect of the clause when evaluating when a customer obtains control of the asset.

G23.241 If an NPO can objectively determine (that is, determine based on information available to the NPO) that control of a good or service has been transferred to the customer in accordance with the agreed-upon specifications in the contract, then customer acceptance is a formality that would not affect the NPO's determination of when the customer has obtained control of the good or service. However, if an NPO cannot objectively determine that the good or service provided to the customer is in accordance with the agreed-upon specifications in the contract, then the NPO would not be able to conclude that the customer has obtained control until the NPO receives the customer's acceptance.

Measuring progress towards complete satisfaction of a promise

G23.242 For each promise satisfied over time in accordance with paragraphs G23.232–G23.111, an NPO shall recognise revenue over time by measuring its progress towards complete satisfaction of that promise.

G23.243 An NPO shall select a method of measuring progress that depicts the NPO's performance in transferring control of goods or services promised to a customer (that is, the satisfaction of the promise). An NPO shall apply a single method of measuring progress for each promise satisfied over time and shall apply that method consistently to similar promises and in similar circumstances.

G23.244 At the end of each reporting period, an NPO shall remeasure its progress towards complete satisfaction of a promise satisfied over time and update its measure of progress. Such changes to an NPO's measure of progress shall be accounted for as a change in accounting estimate in accordance with paragraphs G10.18–G10.22.

G23.245 In determining a method of measuring progress, an NPO shall consider the nature of the good or service that the NPO will transfer to the customer. Appropriate methods of measuring progress include methods that recognise revenue based on:

a) measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services to be transferred under the contract (referred to as output methods); and

b) the NPO's efforts or inputs to the satisfaction of a promise relative to the total expected inputs to satisfy the promise (referred to as input methods).

G23.246 Common methods, and circumstances when they may be appropriate, include:

a) an output method based on surveys of work completed, when the surveys provide an objective measure of an NPO's performance to date;

b) an output method based on units delivered, when each item transfers an equal amount of value to the customer on delivery;

c) an output method based on time elapsed, when control of the goods or services is transferred evenly over time;

d) an input method based on time elapsed, when an NPO's efforts or inputs are expended evenly throughout the performance period; and

e) an input method based on costs incurred, when there is a relationship between costs incurred and the transfer of control of goods or services to a customer.

G23.247 If an NPO has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the NPO's work to date (for example, a service contract in which an NPO bills a fixed amount for each hour of service provided), the NPO may recognise revenue in the amount to which the NPO has a right to invoice.

Licensing

G23.248 A licence establishes a customer's rights to the intellectual property of an NPO (such as software, technology, trademarks, patents, franchises, music and motion picture films).

G23.249 If a contract with a customer includes a promise to grant a licence (or licences) in addition to other goods or services, an NPO shall apply paragraphs G23.170–G23.178 to identify each of the promises in the contract. If the promise to grant a licence is not distinct from the other goods or services in the contract, an NPO shall apply paragraphs 0–G23.241 to determine whether the promise (which includes the licence) is satisfied either over time or at a point in time. If the promise to grant a licence is distinct from the other goods or services in the contract, an NPO shall apply paragraphs G23.250–G23.255 to determine whether the promise is satisfied over time or satisfied at a point in time.

G23.250 To determine if the promise to grant a licence is satisfied over time or satisfied at a point in time, an NPO shall consider whether the nature of the NPO's promise in granting the licence provides the customer with either:

a) a right to access the NPO's intellectual property as it exists throughout the licence period; or

b) a right to use the NPO's intellectual property as it exists at the point in time at which the licence is granted.

G23.251 A licence provides a customer with a right to access an NPO's intellectual property if the NPO expects to undertake activities that either:

a) will significantly affect the benefit the customer obtains from the intellectual property by changing the substance of the intellectual property; or

b) could significantly affect the benefit the customer obtains from the intellectual property by directly exposing the customer to any positive or negative effects of those activities.

G23.252 An NPO's expected activities may be included in the terms of a contract or arise from those activities that the customer reasonably expects the NPO will undertake. The assessment of whether a licence provides a customer with a right to access an NPO's intellectual property shall not include activities that result in the transfer of a good or service to the customer as those activities occur.

G23.253 Activities that change the substance of the intellectual property include activities that change the intellectual property's design, content or ability to perform a function or task (for example, development activities that change the content to which the customer has rights). Activities that expose the customer to positive or negative effects of those activities include activities that support or maintain the value of intellectual property (for example, ongoing activities that maintain the value of the brand to which the customer has rights).

G23.254 If the criteria in paragraph G23.251 are met, the promise to grant a licence is satisfied over time because a customer receives and consumes the benefits of an NPO's performance of providing access to its intellectual property as the NPO performs. An NPO shall apply paragraphs G23.242–G23.121 to select an appropriate method to measure its progress towards complete satisfaction of that promise.

G23.255 If the criteria in paragraph G23.251 are not met, the licence provides the customer with a right to use the NPO's intellectual property as it exists at the point in time at which the licence is granted. Types of licences that often provide customers with a right to use an NPO's intellectual property include licences relating to software, biological compounds or drug formulas, and completed media content (for example, motion picture films, television shows and music recordings). An NPO shall apply paragraphs G23.237–G23.241 to determine the point in time at which the licence transfers to the customer. Revenue cannot be recognised for a licence that provides a right to use the NPO's intellectual property before the beginning of the period during which the customer is able to use and benefit from the licence.

Contract costs

Costs to obtain a contract

G23.256 An NPO may incur costs in its effort to obtain a contract with a customer. An NPO shall recognise such costs as an asset if:

a) the costs would not have been incurred by the NPO if the contract had not been obtained (for example, a sales commission payable on obtaining a contract); and

b) the costs are expected to be recovered.

G23.257 If an NPO is unable to identify whether costs to obtain a contract meet the criteria in paragraph G23.123 without undue cost or effort, the NPO shall recognise such costs as an expense when incurred.

G23.258 Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

G23.259 An NPO may recognise the costs to obtain a contract that meet the criteria in paragraph G23.123 as an expense when incurred if the amortisation period of the assets that the NPO otherwise would have recognised is one year or less.

Costs of fulfilling a contract

G23.260 An NPO shall account for the costs incurred in fulfilling a contract with a customer in accordance with the relevant Section of INPAG for those costs (for example, Section 13 *Inventories*, Section 17 *Property, Plant and Equipment*, Section 18 *Intangible Assets other than Goodwill*).

G23.261 If the costs incurred in fulfilling a contract are not within the scope of another Section of INPAG, an NPO shall recognise those costs as an asset if:

a) the costs relate directly to a contract or to an anticipated contract that the NPO can specifically identify (for example, direct costs of a specific anticipated contract);

b) the costs generate or enhance resources of the NPO that will be used in satisfying (or in continuing to satisfy) promises in the future; and

c) the costs are expected to be recovered.

G23.262 An asset recognised in accordance with paragraph G23.128 gives rise to resources that the NPO will use to satisfy future promises in the contract. Conversely, costs that relate to promises that are satisfied (or partially satisfied) shall be recognised as expenses when incurred, as those costs relate to past performance.

Measurement after recognition

G23.263 After initial recognition, an NPO shall measure assets recognised in accordance with paragraph G23.123 or G23.128 at cost less accumulated amortisation and any accumulated impairment losses.

G23.264 An asset recognised in accordance with paragraph G23.123 or G23.128 shall be amortised in accordance with the pattern of transfer and revenue recognition of the goods or services to which the asset relates.

G23.265 If an asset has been recognised in accordance with paragraph G23.123 or G23.128, an NPO shall follow Section 27 *Impairment of Assets* for recognising and measuring the impairment of the asset. However, an NPO shall apply paragraph G23.133 instead of paragraphs 27.11–27.20 to estimate the recoverable amount of such an asset.

G23.266 The recoverable amount of an asset recognised in accordance with paragraph G23.123 or G23.128 is:

a) the remaining amount of consideration that the NPO expects to receive in exchange for the goods or services to which the asset relates; less

b) the costs that relate directly to providing those goods or services and that have not been recognised as expenses.

G23.267 In applying paragraph G23.133 a), an NPO shall determine the amount of consideration that the NPO expects to receive by adjusting the transaction price for any consideration received to date and the effects of the customer's credit risk.

Contract balances

G23.268 When either party to a contract has performed, an NPO shall present the contract in the Statement of Financial Position as a contract asset or a contract liability, depending on the relationship between:

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

b) the customer's payment.

G23.269 If an NPO has received consideration (or consideration is due) from the customer before the NPO transfers a good or service to the customer, the NPO shall recognise a contract liability when the payment is made or the payment is due (whichever is earlier). A contract liability is an NPO's obligation to transfer goods or services to a customer for which the NPO has received consideration (or the amount is due) from the customer. When (or as) the NPO transfers those goods or services to the customer, the NPO shall derecognise the contract liability (or part of a contract liability) and recognise revenue, in accordance with paragraphs 0–G23.121.

G23.270 If an NPO transfers a good or service to a customer before the customer pays consideration (or before payment is due), the NPO shall recognise a contract asset, excluding any amounts presented as a receivable. A contract asset is an NPO's right to consideration in exchange for goods or services that the NPO has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the NPO transferring other goods or services promised in the contract). When the customer pays the consideration (or the consideration becomes due), the NPO shall derecognise the contract asset. An NPO shall assess a contract asset for impairment, and recognise any impairment loss, in accordance with Section 11.

G23.271 A receivable is an NPO's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an NPO would recognise a receivable if it has a present right to payment even though that amount may be subject to refund in the future.

G23.272 An NPO shall present contract assets and receivables separately.

Customers' unexercised rights

G23.273 When an NPO receives an upfront non-refundable payment that gives the customer a right to receive a good or service in the future (for example, a gift card), this gives rise to a contract liability. However, customers might not exercise all of their contractual rights. Those unexercised rights are often referred to as breakage.

G23.274 If an NPO expects to be entitled to a breakage amount in a contract liability, the NPO shall recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer when those future goods or services are transferred. If an NPO does not expect to be entitled to a breakage amount, the NPO shall recognise the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote.

Disclosures

G23.275 An NPO shall disclose the revenue it recognised from contracts with customers disaggregated into categories, showing separately, at a minimum, revenue arising from:

a) the sale of goods;

b) the rendering of services;

c) royalties;

d) commissions; and

e) any other significant types of revenue from contracts with customers.

G23.276 Unless the amounts are presented separately in the Statement of Income and Expenses by applying other Sections of INPAG, an NPO shall disclose the amount of impairment losses recognised (by applying Section 11) for the reporting period on any receivables or contract assets arising from an NPO's contracts with customers, which the NPO shall disclose separately from impairment losses from other contracts for the reporting period.

G23.277 An NPO shall disclose:

a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;

b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and

c) revenue recognised in the reporting period from promises satisfied or partially satisfied in previous periods (for example, changes in estimates of variable consideration).

G23.278 An NPO shall disclose information about its promises in contracts with customers, including a description of:

a) when the NPO typically satisfies its promises (for example, upon shipment, upon delivery, as services are rendered or upon completion of service);

b) the significant payment terms (for example, when payment is typically due, whether the contract includes a financing transaction, and whether the consideration amount is variable);

c) obligations for returns, refunds and other similar obligations; and

d) types of warranties and related obligations.

G23.279 For promises that an NPO satisfies over time, the NPO shall disclose the methods it used to recognise revenue—for example, a description of the output methods or input methods used and how those methods are applied.

G23.280 An NPO shall provide a quantitative or qualitative explanation of the significance of unsatisfied promises and when they are expected to be satisfied. However, an NPO need not disclose such information for a promise if either of the following conditions is met:

a) the promise is part of a contract that has an original expected duration of one year or less; or

b) the NPO recognises revenue from the satisfaction of the promise in accordance with paragraph G23.121.

G23.281 An NPO shall disclose:

a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraphs G23.123 and G23.128), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and set-up costs); and

b) the amount of amortisation and any impairment losses recognised in the reporting period.

G23.282 If an NPO elects to use the options in paragraph G23.213 (making no adjustment for the time value of money) or paragraph G23.126 (costs of obtaining a contract), the NPO shall disclose that fact.

G23.283 If an NPO recognises the costs to obtain a contract as expenses when incurred because it is unable to identify whether those costs meet the criteria in paragraph G23.123 without undue cost or effort, the NPO shall disclose that fact and the reasons why identifying the costs that meet the criteria in paragraph G23.123 would involve undue cost or effort.

Terms for the Glossary

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

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.

Binding grant arrangement asset – an NPO's right to consideration for satisfying its compliance obligations in a binding grant arrangement prior to the grant provider transferring resources.

Binding grant arrangement liability – an NPO's obligation to satisfy its compliance obligation in a binding grant arrangement for which the NPO has received consideration (or the amount is due) from the grant provider.

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

Compliance obligation – an NPO's promise in a binding grant arrangement to either use resources internally for distinct services, goods or other assets or to transfer distinct services, goods, cash or other assets to beneficiary.

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

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

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

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

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

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

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

Application Guidance: Section 23 – Revenue

Scope of this Section

Which Section to apply?

AG23.1 Whether to use Part I – *Grants and donations* or Part II – *Revenue from contracts with customers* depends on the economic substance of each revenue transaction.

AG23.2 Where, for example, an organisation provides an NPO A with cash to support its provision of services, and

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

AG23.3 the economic substance of this transaction means that the NPO should apply Part I for accounting for revenue from grants, donations and similar transfers.

AG23.4 In contrast where, for example, an organisation asks an NPO to provide training courses for external participants at a fixed fee for each course, the economic substance of this transaction involves NPO directly providing a service to the organisation in exchange for consideration, and means that the NPO should apply Part II for accounting for revenue from contracts with customers.

Nominal consideration and goods or services received for nominal value

AG23.5 An NPO may provide goods or services for nominal value. The substance of such a transaction is that the NPO has given a grant for the difference between the fair value of the goods or services received and the consideration it transfers. The NPO shall account for revenue in accordance with Part II of Section 23, and shall account for the grant given in accordance with Section 24.

AG23.6 Also, the requirements of Part 1 of Section 23 applies where an NPO acquires goods or services for nominal value. The substance of such a transaction is that the NPO has received a grant for the difference between the fair value of the goods or services received and the consideration it transfers. The NPO shall recognise the goods or services when it gains control of the goods or services, measured at their fair value. An NPO shall not apply any of the permitted exceptions to the general recognition and measurement principles in paragraphs G23.39–G23.48 (gifts in-kind and services in-kind) to goods or services received for nominal consideration.

Part I – Revenue from grants and donations

Terminology

AG23.7 NPOs may receive funds in the form of grants, donations, and similar income. Part I of Section 23 uses the term grant to encompass any cash, service, good or other asset that is transferred by a grant provider to a NPO without the NPO directly providing any cash, service, good or other asset in return. A grant may therefore arise not only from items commonly described as grants but also items that may otherwise be described as donations, gifts, and similar transfers of resources.

AG23.8 In Part I of Section 23, the term resource includes goods, services, and other assets, which may encompass cash or non-current assets. References to goods and services or goods or services are to be read as incorporating references to cash and non-current assets.

Identifying whether a binding grant arrangement exists

AG23.9 For a grant arrangement (which in line with AG23.4 may include donations, gifts or similar transfers of resources) to be binding, it must be enforceable through legal or equivalent means. To be a binding grant arrangement, the interdependent rights and obligations in a grant arrangement must be enforceable. This means that the grant provider is able to obligate the NPO recipient to complete the agreed obligation or be subject to remedies for not doing so, and the NPO is able to obligate the grant provider to pay the agreed consideration.

AG23.10 For a grant arrangement to be binding, the grant provider must be able to determine whether the NPO has complied with its obligations. If the obligations imposed on the NPO are not sufficiently specific, the grant provider will not be able to make this determination, and the grant agreement will not be binding grant agreement.

AG23.11 For an NPO’s obligations to be sufficiently specific for the grant arrangement to be binding, they will refer, directly or indirectly to the goods or services that are developed or purchased by the NPO either for its own use or to be provided to beneficiaries. An indirect reference to the goods or services may occur when the agreement refers to the projects, activities or objectives that the agreement to be supported by the NPO.

AG23.12 An arrangement with a grant provider that is not binding because it does not specify the projects, activities or objectives that that the NPO is to undertake may nevertheless restrict the NPO’s ability to use the grant. For example an arrangement with a grant provider would not be a binding grant arrangement if the arrangement gave the NPO the right to determine which activities would be undertaken. However, the arrangement might impose a restriction on the NPO if it limited the use of the grant to, for example, a particular geographic area.

AG23.13 A general statement of intent by a grant provider that it may transfer cash, or deliver goods, services or other assets in a certain way is not usually in and of itself an enforceable arrangement. As the declaration is a general statement of intent it will not create a binding grant arrangement between a grant provider and a NPO under which both parties have rights and obligations.

Revenue from transactions with binding grant arrangements

Multi-year grants

AG23.14 Multi-year arrangements, which may arise from transactions with binding grant arrangements, generally involve the provision of resources over multiple years for a specific purpose or project. Funding may occur at multiple dates throughout a year and/or across multiple years.

AG23.15 While these arrangements are longer term, the application of accounting principles is consistent with the accounting for other revenue transactions. An NPO shall consider whether the multi-year arrangement is a binding grant arrangement and apply the principles to reflect the substance of the transaction. The NPO shall consider whether an inflow, or a right to a future inflow, of resources gives rise to an asset. Revenue recognition is assessed independently from the timing of funding.

AG23.16 In accordance with paragraph G23.100, when a binding grant arrangement is wholly unsatisfied, an NPO shall not recognise any asset, liability or revenue associated with the binding grant arrangement.

AG23.17 Similarly, where parts of the binding grant arrangement remain equally unsatisfied, the NPO shall not recognise any asset, liability or revenue for the equally unperformed parts of the binding grant arrangement. Such equally unsatisfied parts of the binding grant arrangement continue to constitute a single asset or liability that is measured at zero.

AG23.18 In considering whether any expected inflow of resources in subsequent years meets the definition of an asset, the NPO shall consider whether that part of the binding grant arrangement relating to the subsequent years is equally unsatisfied. Where this is the case, the NPO shall not recognise any asset, liability or revenue for the equally unperformed parts of the binding grant arrangement.

Capital grants

AG23.19 A capital grant arises from a binding grant arrangement (in which a grant provider transfers cash or another asset to an NPO) that includes a requirement that the NPO acquires or constructs a non-financial asset that the NPO will then control.

AG23.20 An NPO shall follow the same approach to recognising revenue from a binding grant arrangement involving a capital grant as with any other revenue from a binding grant arrangement.

AG23.21 Capital grants typically include substantial details about the various stages in the project (e.g., conception and planning, design, procurement, construction, etc.). These details provide a basis for identifying the compliance obligations in the binding grant arrangement. For example, these binding grant arrangements typically entail a large range of available information related to the inputs and outputs of the transaction, such as specific detailed activities related to the construction (clearing the site, building foundations and framing, and pouring concrete, etc.).

AG23.22 An NPO shall identify the individual compliance obligations in the binding grant arrangement, and carefully determine the appropriate measure of progress for each compliance obligation. The NPO shall also consider revenue recognition independently from the timing of the receipt of resources from the grant provider.

Foreign exchange gains and losses

AG23.23 A binding grant arrangement may require a grant-provider to pay a NPO in a foreign currency, and an NPO may recognise foreign currency assets or liabilities (for example, a receivable where the NPO is entitled to consideration that has yet to be paid).

AG23.24 An NPO shall restate foreign currency assets and liabilities into the reporting currency in accordance with Section 30 *Foreign Currency Translations*. Any exchange differences shall be recognised in accordance with Section 30 *Foreign Currency Translations*.

Compliance obligations to use resources for goods or services internally

AG23.22A Examples of an NPO using resources internally for distinct services, goods or other assets include the NPO employs additional staff to undertake a specific programme, project or activity, and purchasing specific goods that are used when undertaking a specific programme, project or activity..

Simultaneous receipt and consumption of the economic benefits or service potential

AG23.25 For some types of compliance obligations, the assessment of whether the NPO receives the economic benefit or service potential provided by the NPO's performance as the NPO performs and simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a daily volunteer services) in which the receipt and simultaneous consumption of the economic benefits or service potential by the NPO as it satisfies its compliance obligation can be readily identified.

AG23.26 For other types of compliance obligations, an NPO may not be able to readily identify whether the entity simultaneously receives and consumes the economic benefits or service potential from the NPO's performance as the NPO performs. In those circumstances, a compliance obligation is satisfied over time if an NPO determines that another NPO would not need to substantially re-perform the work that the NPO has completed to date if that other NPO were to satisfy the remaining compliance obligation. In determining whether another NPO would not need to substantially re-perform the work the entity has completed to date, an NPO shall make both of the following assumptions:

a) Disregard potential restrictions or practical limitations in the binding grant arrangement that otherwise would prevent the NPO from transferring the remaining compliance obligation to another entity; and

b) Presume that another entity satisfying the remainder of the compliance obligation would not have the economic benefit or service potential of any asset that is presently controlled by the NPO and that would remain controlled by the NPO if the compliance obligation were to transfer to another entity.

Compliance obligations to transfer goods or services to a beneficiary

Simultaneous receipt and consumption of the economic benefits or service potential

AG23.27 For some types of compliance obligations, the assessment of whether a beneficiary receives the economic benefit or service potential of an NPO's performance will be straightforward. Examples include routine or recurring services (such as a cleaning service) in which the receipt and simultaneous consumption by the beneficiary of the economic benefits or service potential of the NPO's performance can be readily identified.

AG23.28 For other types of compliance obligations, an NPO may not be able to readily identify whether a beneficiary simultaneously receives and consumes the economic benefits or service potential from the NPO's performance as the NPO performs. In those circumstances, a compliance obligation is satisfied over time if an NPO determines that another entity would not need to substantially re-perform the work that the NPO has completed to date if that other entity were to satisfy the remaining compliance obligation to the beneficiary. In determining whether another entity would not need to substantially re-perform the work the NPO has completed to date, an NPO shall make both of the following assumptions:

a) Disregard potential restrictions or practical limitations in the binding grant arrangement that otherwise would prevent the NPO from transferring the remaining compliance obligation to another entity; and

b) Presume that another entity satisfying the remainder of the compliance obligation would not have the economic benefit or service potential of any asset that is presently controlled by the NPO and that would remain controlled by the NPO if the compliance obligation were to transfer to another entity.

Methods for measuring progress towards complete satisfaction of a compliance obligation

AG23.29 Methods that can be used to measure an NPO's progress towards complete satisfaction of a compliance obligation satisfied over time include the following:

a) Output methods; and

b) Input methods.

Output Methods

AG23.30 Output methods recognise revenue on the basis of direct measurements of the value to the entity receiving the outputs from the compliance obligations satisfied to date relative to the remaining compliance obligations under the binding grant arrangement. Output methods include methods such as specified activities performed to date, surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered.

AG23.31 A specified activity is a particular action, stated in a binding grant arrangement, that the NPO must perform and for which the grant provider can compel the NPO to perform.

AG23.32 When an NPO evaluates whether to apply an output method to measure its progress, the NPO shall consider whether the output selected would faithfully depict the NPO's performance towards complete satisfaction of the compliance obligation. An output method would not provide a faithful depiction of the NPO's performance if the output selected would fail to measure some of the promises to use resources in the specified manner. For example, output methods based on units produced or units delivered would not faithfully depict an NPO's performance in satisfying a compliance obligation if, at the end of the reporting period, the entity's performance has produced work in progress or finished goods controlled by a beneficiary that are not included in the measurement of the output.

AG23.33 As a practical expedient for compliance obligations where the NPO is required to transfer a distinct good or service to a beneficiary, if an NPO has a right to consideration from a grant provider in an amount that corresponds directly with the value to the grant provider of the entity's compliance obligations completed to date (for example, a binding grant arrangement to render or provide a service in which an NPO bills a fixed amount for each hour of service provided), the NPO may recognise revenue in the amount to which the entity has a right to invoice.

AG23.34 The disadvantages of output methods are that the outputs used to measure progress may not be directly observable and the information required to apply them may not be available to an NPO without undue cost. Therefore, an input method may be necessary.

Input Methods

AG23.35 Input methods recognise revenue on the basis of the NPO's efforts or inputs to the satisfaction of a compliance obligation (for example, resources consumed, labour hours expended, eligible expenditures incurred, or time elapsed) relative to the total expected inputs to the satisfaction of that compliance obligation. If the NPO's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the NPO to recognise revenue on a straight-line basis.

AG23.36 An eligible expenditure is a transfer of resources incurred in accordance with the requirements set out in a binding grant arrangement. A binding grant arrangement may require an NPO to use resources for a particular purpose, such as to further the NPO's objectives, and incur eligible expenditure for that purpose, but does not have an identifiable specified activity. For example, funding may be provided to a NPO to employ a manager to promote the NPO's courses to potential beneficiaries. The binding grant arrangement specifies that the funding is to be spent on promoting the NPO's activities and that the manager's salary, expenses and any promotional materials used would all be classified as eligible expenditures. The enforceability of the binding arrangement enables the grant provider to require the NPO to use resources to incur the eligible expenditure, or face consequences stated in the binding grant arrangement for non-compliance (such as the return of resources, or another form of redress).

AG23.37 The grant provider needs to be able to confirm that the NPO's compliance obligations in the binding arrangement have been satisfied in the specified manner. Therefore, the NPO needs to keep appropriate documentation to show that the inputs, such as any eligible expenditures was incurred by the NPO and directly related to the NPO's satisfaction of the promises in the specified manner.

AG23.38 A shortcoming of input methods is that there may not be a direct relationship between an NPO's inputs and the satisfaction of its compliance obligation. Therefore, an NPO shall exclude from an input method the effects of any inputs that do not depict the NPO's performance in satisfying its compliance obligations. For instance, when using a cost-based input method, an adjustment to the measure of progress may be required in the following circumstances:

a) When a cost incurred does not contribute to an NPO's progress in satisfying the compliance obligation. For example, an NPO would not recognize revenue on the basis of costs incurred that are attributable to significant inefficiencies in the NPO's performance that were not reflected in the transaction consideration of the binding grant arrangement (for example, the costs of unexpected amounts of wasted materials, labour or other resources that were incurred to satisfy the compliance obligation).

b) When a cost incurred is not proportionate to the NPO's progress in satisfying the compliance obligation. In those circumstances, the best depiction of the NPO's performance may be to adjust the input method to recognise revenue only to the extent of that cost incurred. For example, a faithful depiction of an NPO's performance might be to recognise revenue at an amount equal to the cost of a good used to satisfy a compliance obligation if the NPO expects at the inception of the binding arrangement that all of the following conditions would be met:

   i) The good is not distinct;

   ii) The beneficiary receiving the good or service is expected to obtain control of the good significantly before receiving services related to the good;

   iii) The cost of the transferred good is significant relative to the total expected costs to completely satisfy the compliance obligation; and

   iv) The NPO procures the good from a third party and is not significantly involved in designing and manufacturing the good (but the NPO is acting as a principal).

Part II – Revenue from Contracts with Customers

Applying the revenue recognition model to simpler transactions

AG23.39 Part II establishes the revenue recognition model for all revenue from contracts with customers, and as a consequence includes requirements for many complex features of revenue transactions that are not relevant for many NPO revenue transactions. For complex transactions, NPOs will need to apply all of the requirements in this Section. For simpler transactions, NPOs need only apply the relevant requirements. The following table provides guidance on when certain requirements will not be relevant to simpler transactions.

Paragraphs	**Guidance**
Step 1—Identify the contract(s) with a customer	
G23.160–G23.169	For many simpler transactions, the contract will be the sale to the customer and no further analysis is required for Step 1. For more complex transactions, reference should be made to the detailed requirements. Some paragraphs (shown below) relate to specific circumstances and need only be applied where relevant.

Paragraphs	Guidance
G23.166	Combination of contracts – consider only where two or more contracts are entered into at or near the same time with the same customer (or a related party).
G23.167–G23.169	Contract modification – only applies where the original contract has been amended.
Step 2—Identify the promises in the contract	
G23.170–G23.194	For many simpler transactions, the contract will include a single promise (for example, to transfer to goods to a customer), and no further analysis is required for Step 2. For more complex transactions, reference should be made to the detailed requirements. Some paragraphs (shown below) relate to specific circumstances and need only be applied where relevant.
G23.179–G23.182	Warranties – requirements are only relevant when the contract includes a warranty.
G23.183–G23.185	Non-refundable upfront fees – requirements are only relevant when the NPO charges non-refundable upfront fees, for example joining fees in respect of memberships.
G23.186–G23.190	Customer options for additional goods or services – requirements only apply where the original contract gives the customer the option to acquire additional goods or services for free or at a discount.
Step 3—Determine the transaction price	
G23.195–G23.214	The transaction price is the total amount expected to be received under the contract. For many simpler transactions, the transaction price will be the amount paid at the time of the sale, and no further analysis is required for Step 3. For more complex transactions, especially those transactions that include variable consideration, reference should be made to the detailed requirements. Some paragraphs (shown below) relate to specific circumstances and need only be applied where relevant.
G23.202	Only relevant when the contract includes sales-based or usage-based royalties.
G23.203–G23.204	Only relevant when the contract includes refund liabilities (for example, where the terms of a fixed-price service contract require a customer to pay upfront and provide the customer with a full refund of the amount paid if the customer is dissatisfied with the service at any time).
G23.205–G23.211	Only relevant when the contract gives the customer a right to return purchased goods for a full or partial refund, a credit, or other goods in exchange.
Step 4—Allocate the transaction price to the promises in the contract	

Paragraphs	Guidance
G23.215–G23.99	For many simpler transactions, the contract will include a single promise (for example, to transfer to goods to a customer), and the full transaction price is allocated to that one promise. No further analysis is required for Step 4. For more complex transactions, reference should be made to the detailed requirements. Some paragraphs (shown below) relate to specific circumstances and need only be applied where relevant.
G23.222–G23.223	Only relevant where the contract includes a discount and more than one promise.
G23.95–G23.96	Only relevant where the contract includes variable consideration and more than one promise.
G23.226–G23.99	Only relevant where there is a change in the transaction price, for example a revised estimate of variable consideration between the commencement and completion of the contract, and as such this will not affect many simpler transactions such as sales in shops.
Step 5—Recognise revenue when (or as) the NPO satisfies a promise	
0–G23.255	For many simpler transactions, revenue will be recognised at a point in time, and the more complex requirements relating to recognition of revenue over time will not be relevant.

Implementation Guidance and Examples: Section 23 – Revenue

IG23.1 The different economic substance of revenue transactions can be highlighted as follows.

Example 1

IG23.2 NPO A has the primary objective of improving the healthcare of mothers and children under the age of five. It aims to achieve this mainly through providing free primary care to mothers and children in its own network of healthcare facilities. It has also recently begun to provide consultancy and training services aimed at other healthcare providers for which it charges fees.

IG23.3 A philanthropic organisation provides NPO A with CU1m in cash to support its provision of primary care services. NPO A has control of the economic resources transferred because although is required to use the cash to provide primary care services and give the philanthropic organisation information on how the cash has been used, it has discretion over how the cash is utilised without requiring further authorisation from the philanthropic organisation. As the philanthropic organisation does not receive directly cash, a service, good or other asset in return by NPO A (it is those that are receiving the primary care services that benefit), the economic substance of this transaction means that NPO A should apply Part I for accounting for revenue from grants, donations and similar transfers.

IG23.4 In addition to the transaction involving the CU1m transfer of cash, the philanthropic organisation asks NPO A to provide it with a series of training courses. These training courses are attended by other healthcare organisations that the philanthropic organisation supports. The overall aim of the courses is to ensure that the philanthropic organisation's grants to these healthcare organisations are more effectively utilised. As part of the agreement, the philanthropic organisation determines who the organisations are that NPO A will deliver the training courses to and has the overall responsibility for approving the content of the training to ensure it achieves its aim. NPO A and the philanthropic organisation agree a fixed fee of CU10k for each course to be delivered. NPO A is not required to provide the philanthropic organisation with any further information on how that fee is being used to deliver the training. The economic substance of this transaction, as it involves NPO A directly providing a service to the philanthropic organisation in exchange for consideration, means that NPO A should apply Part II for accounting for revenue from contracts with customers.

IG23.5 In both of the transactions NPO A controls the economic resources provided to it by the philanthropic organisation. This control arises because NPO A has the present ability to direct the use of the economic resources and obtain the economic benefits or service potential that may flow from it. In situations such as these an NPO is deemed to be acting as a principal.

[Further examples to be developed]