

Appendix A – Revisions to grant model text

Section 23 – Revenue

Scope of this section

- G23.1 This section specifies the accounting for revenue by NPOs.
- G23.2 Section 23 applies to all **revenue** except:
- (a) equity contributions received (see Section 22 *Liabilities and equity*).
 - (b) **lease** agreements within the scope of Section 20 *Leases*;
 - (c) insurance contracts;
 - (d) financial instruments and other contractual rights or obligations within the scope of Section 9 *Consolidated and separate financial statements*, Section 11 *Financial instruments*, Section 14 *Investments in associates* and Section 15 *Joint arrangements* that are not grants and donations; and
 - (e) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.
- G23.3 A transaction may be partially within the scope of this section and partially within the scope of the other INPAG sections set out in paragraph G23.2 (for example, a lease agreement that includes the provision of services). If the other section specifies how to separate or initially measure any parts of the transaction, then an NPO shall first apply the separation or measurement requirements in that section. Otherwise, the NPO shall apply this section to separate or initially measure those parts of the transaction.

Structure of Section 23

- G23.4 This section comprises two parts: Part I *Revenue from grants and donations* and Part II *Revenue from contracts with customers* (see Figure AG23.1).
- G23.5 Part I relates to accounting for revenue from grants, donations and similar income. It is revenue that arises from a transaction in which an NPO receives cash, a service, good or other asset from another entity or individual without directly providing any cash, or a service, good or other asset in return to the provider of those resources. This form of revenue is sometimes known as non-exchange revenue, non-reciprocal revenue or unrequited revenue.
- G23.6 Part II relates to accounting for revenue from contracts with customers. This is revenue that an NPO earns from providing services, goods or other assets to

customers (be they an entity or individual), usually at a market rate. This form of revenue is sometimes known as commercial revenue, exchange revenue, reciprocal revenue or required revenue.

G23.7 The part of Section 23 that an NPO is required to apply to a revenue transaction depends on the economic substance of that transaction (see Figure G23.1). As a consequence, there may be situations where it is necessary to apply both parts of Section 23 to an individual transaction (that is, an NPO may need to separate a transaction into a grant component – accounted for using Part I – and a contract component – accounted for using Part II). For example, goods or services provided at a significant subsidy may, in substance, be the provision of a grant, along with the goods or services).

G23.8 Where an NPO receives resources to support its provision of services, and:

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

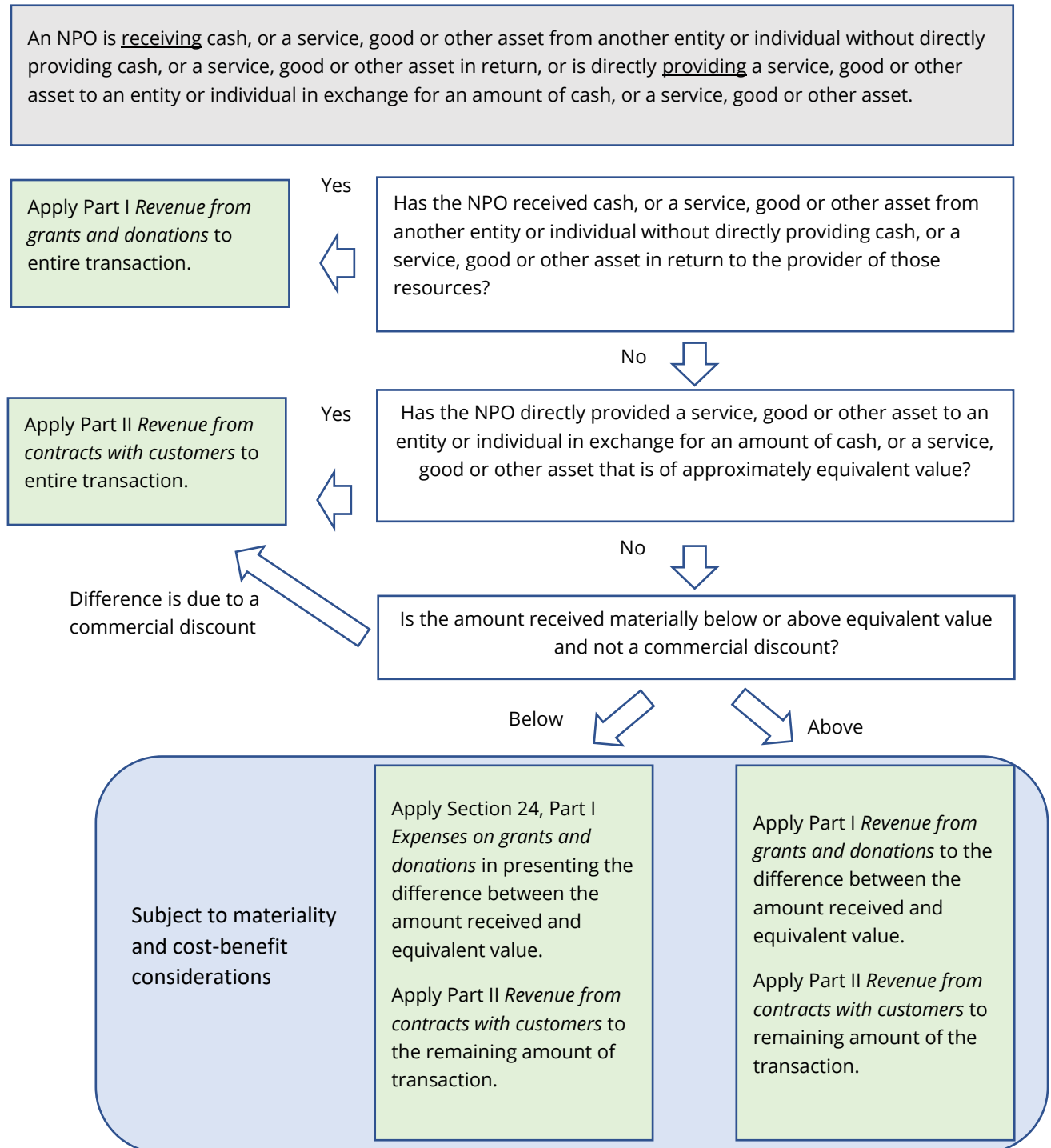
the economic substance of this transaction means that the NPO applies Part I for accounting for revenue from grants, donations and similar transfers.

G23.9 In contrast, where an NPO provides a service for a fee (including to grant providers), the economic substance of this transaction involves the NPO directly providing a service in exchange for consideration and means that the NPO applies Part II for accounting for revenue from contracts with customers.

G23.10 An NPO may be required to treat an element of a transaction as a grant expense (where Section 24, Part I *Expenses on grants and donations* will apply). For example, goods or services provided at a significant subsidy may, in substance, be the provision of a grant, along with the goods or services).



Figure G23.1: Decision trees illustrating which Part to apply to a revenue transaction



Principles for revenue recognition and measurement

- G23.11 The general principles for recognising revenue are as follows:
- (a) a revenue transaction (or component of a transaction) that does not impose specified **delivery obligations** on the NPO or does not require the satisfaction of promises in a contract with customers is recognised as revenue when the amounts are received or, if earlier, become receivable;
 - (b) a revenue transaction that imposes specified delivery obligations on the NPO or requires the satisfaction of promises in a contract with customers is recognised as revenue only when the delivery obligations or promises are met; and
 - (c) amounts received before the revenue recognition criteria are satisfied are recognised as a liability.
- G23.12 A liability recognised in accordance with paragraph G23.11(c) is subsequently derecognised, and revenue recognised, when the delivery obligations or promises are met.
- G23.13 An NPO shall measure revenue at the fair value of the asset received or receivable, or the reduction in a liability where a **grant provider** forgives an NPO's obligation.

Initial recognition of revenue from grant agreements with delivery obligations or contracts with customers

5 step model

- G23.14 For revenue transactions that impose specified delivery obligations on the NPO or require the satisfaction of promises in a contract with customers, Parts I and II share a common 5 step revenue recognition model. The objective of the model is for an NPO to recognise revenue that reflects the amount to which it expects to be entitled for meeting each delivery obligation or promise. This is applicable to revenue from grants and donations where a grant agreement includes one or more delivery obligations and to all revenue from contracts with customers. Each step is summarised below, highlighting the differences in terminology depending on which Part applies to the transaction.



Step	Part I Revenue from grant agreements with delivery obligations	Part II Revenue from contracts with customers
1 – Identify the existence and nature of grant agreements with delivery obligations and contracts.	Identify if there is an grant agreement with delivery obligations, and if so, identify the nature of the agreement, including identifying any components without a delivery obligation.	Identify the contract(s) with a customer.
2 – Identify the delivery obligations or promises.	Identify the delivery obligations in the grant agreement that arise from undertakings given by the NPO.	Identify the promises in the contract. 'Promises' is used to refer to both the actions an NPO will undertake (equivalent to undertakings in Part I) and the obligation to carry out those actions (equivalent to delivery obligations in Part I).
3 – Determine the transaction amount or price.	Determine the transaction amount (the total amount of the grant).	Determine the transaction price.
4 – Allocate the transaction amount or price to the delivery obligations or promises.	Allocate the transaction amount to delivery obligations (where there is more than one delivery obligation or other obligations that are not delivery obligations).	Allocate the transaction price to the promises in the contract (where there is more than one promise).
5 – Recognise revenue when (or as) the NPO satisfies a delivery obligation or promise.	Recognise revenue when (or as) the NPO satisfies an EGO.	Recognise revenue when (or as) the NPO satisfies a promise.

An NPO may need to refer to Part II for more complex, less common grant transactions. Paragraphs AG1–AG4 set out how Part II is to be applied to such grants..

Unsatisfied transactions

- G23.15 When a grant agreement with a delivery obligation (Part I) or a contract with a customer (Part II) is wholly unsatisfied, an NPO shall not recognise any asset, liability or revenue associated with that grant agreement or contract. The recognition of assets, liabilities and revenues commences when one party to the grant agreement or contract starts to satisfy their obligations under the arrangement.
- G23.16 Grant agreements and contracts with customers will be wholly unsatisfied if the NPO has not yet met any of its stated delivery obligations in the grant agreement or promises in a contract and the **grant provider** or customer has not yet paid, and is not yet obligated to pay consideration to the NPO.

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

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

- G23.17 An NPO may receive an amount that is either higher or lower than the value of the services, goods or other assets provided by the NPO. Where this is the case, the NPO shall determine how best to account for the substance of the transaction in accordance with paragraphs G23.18–**Error! Reference source not found..**

Value received is below approximately equivalent value

- G23.18 Where the amount received by an NPO is below approximately equivalent value, the NPO shall determine whether the lower amount is because the NPO has provided a commercial discount or has provided a grant or donation to the other party.
- G23.19 Where the goods, services or other assets are being provided at a commercial discount, the NPO shall apply Part II *Revenue from contracts with customers* in accounting for the transaction.
- G23.20 When the NPO is providing a grant or donation along with the services, goods, or other assets, the NPO shall:
- (a) apply Part II *Revenue from contracts with customers* in accounting for the revenue; and
 - (b) present or disclose the amount of grants or donations in accordance with Section 24, Part I *Expenses on grants and donations*. The grant or donation is the difference between the fair value of the services, goods or other assets provided, or to be provided, and the amount received or receivable.

Value received is above approximately equivalent value

- G23.21 When the amount received by an NPO is above approximately equivalent value, the NPO is, in substance, receiving a grant or donation in addition to the payment it receives for providing services, goods or other assets. The NPO shall recognise the fair value of the services or goods provided in accordance with Part II *Revenue from contracts with customers* and the remainder (the grant or donation received) in accordance with Part I *Revenue from grants and donations*.

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

- G23.22 An NPO that acquires goods or services for more than the fair value of the goods or services is in substance providing a grant to the other entity and shall apply Part I of Section 24 in accounting for that grant.
- G23.23 An NPO may acquire goods or services for an amount that is less than the fair value of the goods or services to be received. The NPO shall determine whether it has received a commercial discount or a grant or donation.
- G23.24 When the substance of the transaction is that the NPO has received a commercial discount, the NPO shall account for the acquisition of the services, goods or other assets in accordance with the relevant section of INPAG.
- G23.25 When the substance of the transaction is that the NPO has received a grant or donation, the grant or donation shall be recognised in accordance with Part I *Revenue from grants and donations*. The NPO shall recognise the receipt of a grant or donation for the difference between the fair value of the services and goods received and the amount transferred. The NPO shall account for the element that relates to the acquisition of the services, goods or other assets in accordance with the relevant section of INPAG.

Permitted exception

- G23.26 An NPO may elect not to reflect the grant or donation received or its intention to make a grant or donation where the difference is not material or the cost of identifying the grant or donation exceeds the likely benefit to users of the financial statements.



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

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

Yes

No

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

No

Yes

Apply Part I *Revenue from grants and donations* for the difference between fair value and amount paid and other sections for remaining amount of transaction.

Apply other sections relevant to the transaction

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

Yes

Not within the scope of Section 23.

Apply other sections.

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

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

Apply other sections relevant to the transaction.

Revenue in foreign currencies

- G23.27 An NPO may receive revenue in a foreign currency. Measurement of revenue in a foreign currency may be affected by the point at which amounts are translated from the foreign currency to the reporting currency.
- G23.28 The effect of changes in foreign exchange rates after the inception of an grant agreement or contract with a customer are accounted for in accordance with Section 30 *Foreign currency translation*.

Principal versus agent considerations

- G23.29 When another party is involved in satisfying the requirements of a grant agreement or contract with a customer, an NPO shall determine whether the nature of its

obligation is to satisfy the requirements itself (that is, the NPO is a principal) or to arrange for those requirements to be met by the other party (that is, the NPO is an agent). An NPO shall determine whether it is a principal or an agent for each delivery obligation in a grant agreement and each promise in a contract. An NPO cannot be an agent unless it has a present obligation to the grant provider or customer.

- G23.30 An NPO is a principal if:
- (a) it is primarily responsible for meeting the requirements of the delivery obligation or contract;
 - (b) when the NPO transfers goods to a service recipient or customer, the NPO obtains control of the specified goods as inventory before it transfers them to the service recipient or customer (that is, the NPO has inventory risk before the goods are transferred); or
 - (c) when the NPO provides services to a service recipient or customer, it obtains control of the specified service or right to the specified good or service before:
 - (i) it provides the services to the service recipient or customer; or
 - (ii) it directs another party who is acting on the NPO's behalf to provide the service to the service recipient or customer.

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

- G23.31 An NPO that is a principal shall recognise the gross amount of revenue to which the NPO expects to be entitled for satisfying the requirements of a grant agreement or contract.
- G23.32 An NPO that is an agent shall recognise the amount of any management or administration charge, fee or commission to which the NPO expects to be entitled in exchange for arranging for the requirements of the grant agreement or contract to be satisfied as revenue.

Presentation

- G23.33 An NPO shall apply Section 36 *Fund accounting* to determine the presentation of grant revenue as from funds with restrictions or funds without restrictions.

Part I – Revenue from grants and donations

Scope of Part I

- G23.34 Part I specifies the accounting for revenue from grants, donations and similar income (hereafter referred to as grant revenue) as described in G23.5.
- G23.35 Section 23 Part I uses the term grant to encompass any cash, service, good or other asset that is transferred by a grant provider to an NPO without the NPO directly



providing any cash, service, good or other asset in return. A grant may therefore arise not only from items commonly described as grants but also items that may otherwise be described as donations, gifts and similar transfers of resources.

G23.36 In Section 23 Part I, the term resource includes goods, services and other assets, which may encompass cash, financial assets or non-current assets. References to goods or services are to be read as incorporating references to cash and other assets.

G23.37 The accounting for expenditure on grants, donations and similar transfers by an NPO as a grant provider is specified in Section 24, Part I *Expenses on grants and donations*.

Types of grant revenue

G23.38 Grant revenue may arise:

(a) from transactions or grant agreements that:

- (i) impose no constraints on the NPO's ability to use the grant revenue; or
- (ii) impose requirements that constrain an NPO's ability to use the grant revenue, without requiring the NPO to undertake specific activities or identify distinct services, goods and other assets; or

(b) from grant agreements that have one or more distinct delivery obligations.

G23.39 A grant agreement can arise through a written grant agreement, an oral agreement or be implied by a party's or a sector's customary practices.

G23.40 Delivery obligations arise from grant agreements where both the donor and the grant recipient have both rights and obligations, enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide each entity with the ability to hold the parties accountable for the satisfaction of their obligations.

G23.41 A delivery obligation must specify:

- the outcome the NPO is expected to achieve;
- the activities that the NPO is required to undertake with the resources; or
- the distinct services, goods and other assets that the NPO will use internally or transfer externally.

G23.42 For a grant agreement or delivery obligation to be enforceable, the grant provider must be able to determine whether the recipient has complied with its obligations. If the obligations imposed on the recipient are not sufficiently specific, the grant provider will not be able to make this determination, and any obligations within the grant agreement will not be delivery obligations.



- G23.43 In determining whether a grant agreement or individual delivery obligation within a grant agreement is enforceable, an NPO must consider the substance rather than the legal form of the grant agreement. A delivery obligation creates a present obligation for the NPO.
- G23.44 A grant agreement that does not specify the outcomes, activities or identify distinct services, goods and other assets may nevertheless include requirements that constrain an NPO's ability to use the grant revenue.
- G23.45 If these requirements do not meet the definition of a delivery obligation, the requirement will not create a present obligation when resources are transferred.
- G23.46 The NPO's assessment of enforceability occurs at inception and subsequently when a significant external change indicates that there may be a change in the enforceability of that agreement.
- G23.47 An agreement that is not enforceable through legal or equivalent means and does not give both parties both rights and obligations will not give rise to delivery obligation and is categorised as a grant agreement without delivery obligations.

Enforceability

- G23.48 Grant agreements can be evidenced in several ways (see paragraphs G23.50–G23.51). The practices and processes for establishing grant agreements vary across legal frameworks, jurisdictions, sectors and entities. In addition, they may vary within an NPO (for example, they may depend on the grant provider or the nature of the NPO's delivery obligations). While enforceability usually applies to grant agreements as a whole, there may be some agreements where enforceability applies to individual delivery obligations.
- G23.49 A grant agreement is enforceable if the agreement includes:
(a) clearly specified rights and obligations for each involved party; and
(b) remedies for non-completion by each involved party, which can be enforced through the identified enforcement mechanisms.

Enforceability through legal or equivalent means

- G23.50 Whether a grant agreement is enforceable is based on an NPO's assessment of the ability to enforce the specified terms and conditions of the grant agreement and the satisfaction of the other parties' stated obligations.
- G23.51 Enforceability may be through legal systems, or there may be alternative processes that have equivalent effect, depending on the parties involved in the grant agreement and the jurisdictions in which they are based.

- G23.52 For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal system that is similar to the force of law without being legal in nature is required. This enforcement mechanism should:
- (a) establish the right of the grant provider to obligate the NPO to complete the agreed obligation or be subject to remedies for non-completion; and
 - (b) establish the right of the NPO to obligate the grant provider to pay the agreed consideration.
- G23.53 Generally, the ability of a grant provider to reduce or withhold future funding will not on its own be a valid enforcement mechanism. This is because there is no present obligation on the grant-provider to provide the future funding, and the NPO has no right to receive future funding.
- Enforceability as a result of rights and obligations*
- G23.54 Each party's enforceable right(s) and obligation(s) within the grant agreement are interdependent and inseparable. This means that the grant provider has the ability to obligate the recipient to complete the agreed obligation or be subject to remedies for not doing so, and the recipient is able to obligate the grant provider to pay the agreed grant amount even if these rights are rarely, if ever, exercised.
- G23.55 The recipients right to obligate the grant provider to pay the agreed grant amount may arise from the grant agreement providing that right, or from the grant agreement requiring the grant provider to pay the grant in advance, and the grant provider doing so. In the latter case, the absence of a remedy for non-compliance does not arise.
- G23.56 For a recipient's obligations to be sufficiently specific for the grant arrangement to be enforceable, the terms of the agreement will refer to the outcomes the recipient has undertaken to achieve, the activities the recipient is required to carry out, or the goods or services that the recipient will either transfer to service recipients or use internally.
- G23.57 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. A general statement of intent, will not create a grant agreement between a grant provider and a recipient under which both parties have rights and obligations.

Accounting for grants

- G23.58 An NPO will apply the recognition and measurement criteria in Section 23, Part I as follows:

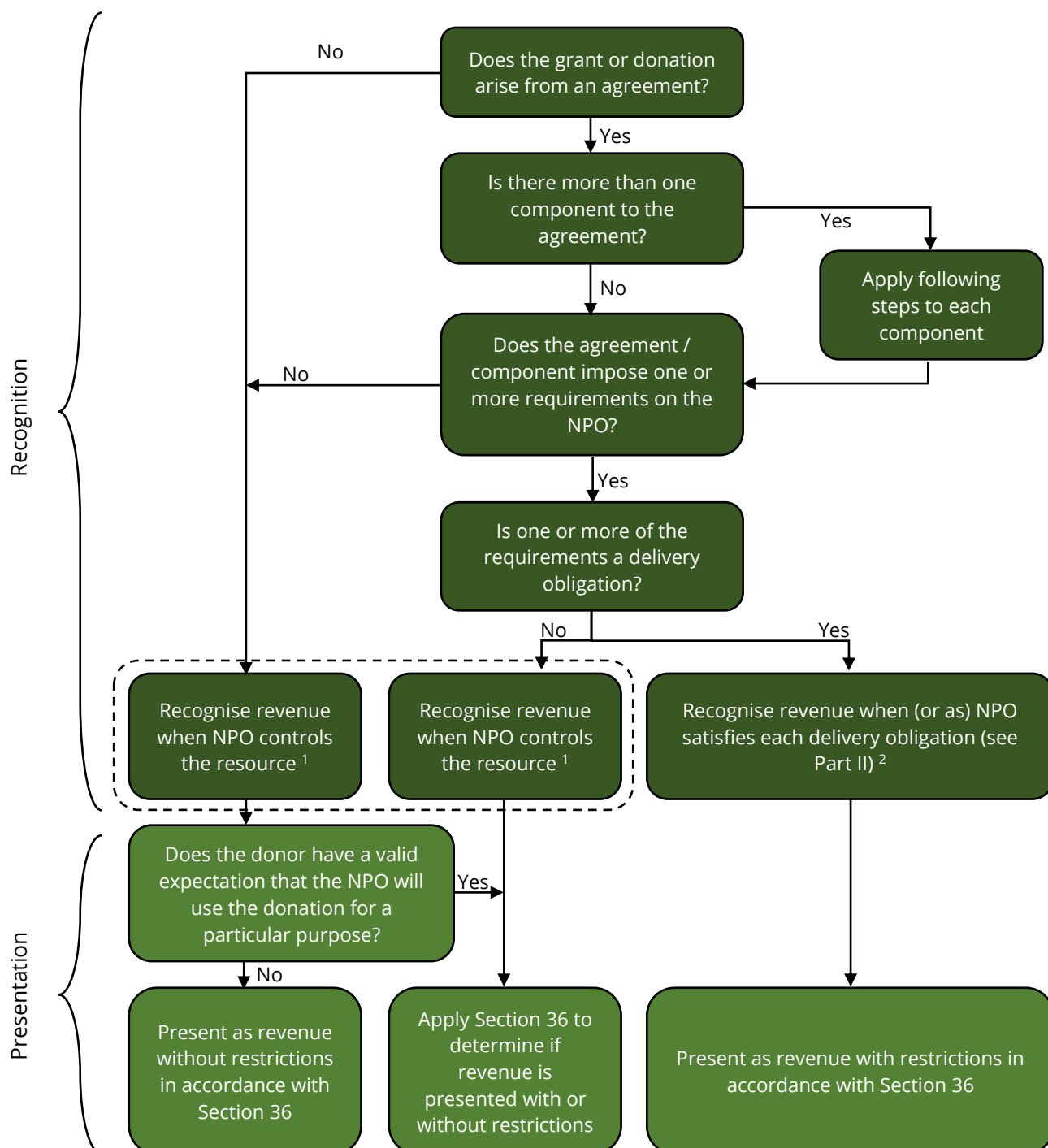


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- (a) grant revenue arising from transactions without delivery obligations is accounted for by applying paragraphs G23.60–G23.70; and
- (b) grant revenue arising from transactions with delivery obligations is accounted for by applying paragraphs G23.72–G23.91.

G23.59 Figure G23.2 below summarises the process for determining how to apply Part I of this section.

Figure G23.2: Decision tree illustrating how to apply Part I



Footnotes:

¹ An NPO will control a resource when it has taken ownership of the resource or is legally entitled to the resource. An NPO will need to consider whether the substance of any requirements (for example, a match funding requirement) affect its entitlement to a resource.

The same recognition and measurement model is used for all transactions within the dotted box.

² An NPO will need to consider whether the substance of any requirements (for example, a requirement to obtain regulatory approval) affect the timing of when the NPO satisfies its delivery obligation.

Grant revenue from transactions without delivery obligations

- G23.60 Grant revenue from transactions without delivery obligations will result in an asset (cash, goods, services or another asset) and revenue for an NPO. An NPO will not control these assets until such time as it has a right to those resources. The NPO will usually recognise both the asset and revenue when the asset is received or when the amount becomes receivable.
- G23.61 The NPO shall measure the grant revenue and the asset (cash, receivable or other asset) at the fair value of the asset at the point at which it is recognised. Fair value shall be determined in accordance with Section 12 *Fair value measurement*.
- G23.62 In circumstances where a grant agreement is required before resources can be transferred, an NPO will not control the resources until such time as the NPO has a right to those resources. This is because the NPO cannot exclude or regulate the access of the grant provider to the resources to be transferred. The NPO will need to establish that it has control of the resources before it can recognise them as an asset.

Subsequent measurement

- G23.63 After initial recognition, an NPO shall subsequently measure:
- (a) cash and receivable assets in accordance with Section 11 *Financial instruments* of INPAG; and
 - (b) all other assets in accordance with the relevant section of INPAG (examples include Section 13 *Inventories* and Section 17 *Property, plant and equipment*).

Donations in kind

- G23.64 Donations in-kind include donations of non-cash items such as property, plant and equipment, inventories and financial assets, and services such as volunteer time. Donations in-kind are recognised and measured in accordance with paragraphs G23.60–G23.61 except as outlined in paragraphs G23.65–G23.70.
- G23.65 NPOs may apply permitted exceptions to the general recognition and measurement requirements. This is because the cost of complying with the general requirements may exceed the benefits to the users of the financial statements of such compliance. These exceptions are not permitted for donations in-kind provided to meet delivery obligations.
- G23.66 An NPO may elect to depart from the general recognition and measurement requirements by:
- (a) recognising revenue from low-value items donated for resale or to be transferred to another party in the course of the NPO's fundraising activities, when the items

are sold or the fundraising activity has taken place, measured at the amount of the consideration received or receivable;

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

G23.67 An NPO shall apply materiality in determining whether a donated item is of low value.

G23.68 Services in-kind that are critical to an NPO's mission are those services in kind that are directly involved in the delivery of the NPO's mission, and where all or part of the mission could not be achieved without the receipt of the services in-kind. They do not include services in-kind that enhance a service recipient's experience. Administrative services such as accountancy or legal services provided to an NPO are only critical to an NPO's mission if such services are used to provide advice to service recipients. Otherwise, administrative services are not critical. This is the case even if they are necessary to the operation of the NPO as a whole, for example by enabling the NPO to meet its legal obligations.

G23.69 When applying a permitted exception, the NPO shall apply that exception to all items within a class of assets.

G23.70 Donations in-kind may only be recognised when they can be measured reliably. Where donations in-kind are not recognised by an NPO, the NPO is required to make the disclosures in paragraph G23.93.

Disclosure

G23.92 An NPO shall disclose the revenue recognised from grants, donations and other income, disaggregated into categories, showing separately, as a minimum, revenue without delivery obligations and revenue with delivery obligations. Each category of grants, donations and other income disclosed shall be further analysed to show revenue received or receivable:

- (a) in cash;
- (b) as gifts in-kind; and
- (c) as services in-kind.

G23.93 When an NPO receives donations in-kind but does not recognise those donations in-kind on receipt (whether as revenue, inventories or other assets), the NPO shall:

- (a) disclose a description of the donations in-kind received and their significance to the NPO;
- (b) disclose an explanation of why the donations in-kind have not been recognised – that is, why the NPO either:
 - (i) has elected to use a permitted exception in accordance with paragraph G23.66, disclosing the exception or exceptions used; or
 - (ii) is unable to reliably measure the value of the donations in-kind; and
- (c) consider disclosing any other information it holds that would help users of the financial statements understand the benefits to the NPO of the donations in-kind it receives. In particular, the NPO shall consider disclosing any quantitative information available to the NPO – for example, the number of hours or days of each type of service in-kind received. An NPO is not required to consider generating any quantitative information that it does not already hold for other purposes.

Grant revenue without delivery obligations

- G23.94 An NPO shall disclose the opening and closing balances of any receivables from grants, donations and similar income without delivery obligations if not otherwise separately presented or disclosed.

Grant revenue with delivery obligations

- G23.95 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 for the reporting period on any receivables or assets arising from an NPO's delivery obligations, which the NPO shall disclose separately from other impairment losses for the reporting period.
- G23.96 An NPO shall disclose:
- (a) the opening and closing balances of receivables, delivery obligation assets and delivery obligation liabilities, if not otherwise separately presented or disclosed;
 - (b) revenue recognised in the reporting period that was included in the delivery obligation liability balance at the beginning of the period; and
 - (c) revenue recognised in the reporting period from delivery obligations satisfied or partially satisfied in previous periods.
- G23.97 An NPO shall disclose information about its delivery obligations, including a description of:
- (a) when the NPO typically satisfies its delivery obligations (for example, upon delivery, as services are rendered or upon completion of service); and
 - (b) the significant grant payment terms.



INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

- G23.98 For delivery obligations that an NPO satisfies over time, the NPO shall disclose the methods it used to recognise revenue.
- G23.99 An NPO shall provide a quantitative or qualitative explanation of the significant unsatisfied delivery obligations and when they are expected to be satisfied. However, an NPO need not disclose such information if the delivery obligation is part of a grant agreement that has an original expected duration of one year or less.