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International Non-Profit Accounting Guidance Part 2

Implementation Guidance

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Contents

Not all sections have Implementation Guidance. The Implementation Guidance and illustrative examples where relevant for the Preface, Sections 1 to 10 and Section 35 were published as drafts in **Exposure Draft 1**. Implementation Guidance and illustrative examples where relevant for the remaining sections will be published in Exposure Draft 3.

[1] Status refers to whether the *IFRS for SMEs* Standard has been updated to reflect NPO specific requirements. Further explanation can be found in the Invitation to comment.

Section 11 – Financial instruments

Illustrative examples

Examples – financial assets

1. For a long-term loan made to another entity, a receivable is recognised at the present value of cash receivable (including interest payments and repayment of principal) from that entity.
2. For goods sold to a customer on short-term credit, a receivable is recognised at the undiscounted amount of cash receivable from that entity, which is normally the invoice price.
3. For an item sold to a customer on two-year interest-free credit, a receivable is recognised at the current cash sale price for that item. If the current cash sale price is not known, it may be estimated as the present value of the cash receivable discounted using the prevailing market rate(s) of interest for a similar receivable.
4. For a cash purchase of another entity's ordinary shares, the investment is recognised at the amount of cash paid to acquire the shares.
5. For the unconditional right to a refund or a return of previously transferred resources where an enforceable grant obligation has not been met, a receivable is recognised at the undiscounted amount of cash receivable, or value of resources to be transferred, from the grant recipient.

Examples – financial liabilities

1. For a loan received from a bank, a payable is recognised initially at the present value of cash payable to the bank (for example, including interest payments and repayment of principal).
2. For goods purchased from a supplier on short-term credit, a payable is recognised at the undiscounted amount owed to the supplier, which is normally the invoice price.
3. For cash amounts owed to grant recipients because an enforceable grant obligation has been met, a grant payment liability is recognised at amortised cost.
4. For a financial guarantee contract issued, for example, to a third party on behalf of a related party of the entity, a liability is recognised initially at the premium received plus the present value of any future premium payments receivable, if any.

Example of determining amortised cost for a five-year loan using the effective interest method

On 1 January 20X0, an NPO acquires a bond for CU900, incurring transaction costs of CU50 (a). Interest of CU40 is receivable annually, in arrears, over the next five years (31 December 20X0–31 December 20X4). The bond has a mandatory redemption of CU1100 on 31 December 20X4.

Year	**Carrying amount at beginning of period****	**Interest income at 6.9584%***	**Cash inflow**	**Carrying amount at end of period****
	CU	**CU**	**CU**	**CU**[2]
20X0	950.00	66.11	(40.00)	976.11
20X1	976.11	67.92	(40.00)	1,004.03
20X2	1,004.03	69.86	(40.00)	1,033.89
20X3	1,033.89	71.94	(40.00)	1,065.83
20X4	1,065.83	74.17	(40.00)	1,100.00
			(1,100.00)	–

* The effective interest rate of 6.9584% is the rate that discounts the expected cash flows on the bond to the initial carrying amount:

40 ÷ (1.069584)1 + 40 ÷ (1.069584)2 + 40 ÷ (1.069584)3 + 40 ÷ (1.069584)4 + 1,140 ÷ (1.069584) 5 = 950

**The carrying amount is shown before the allowance for expected credit losses.

Example – transfer that qualifies for derecognition

An NPO sells a group of its accounts receivable to a bank at less than their face amount. The NPO continues to handle collections from the debtors on behalf of the bank, including sending monthly statements, and the bank pays the NPO a market-rate fee for servicing the receivables. The NPO is obliged to remit promptly to the bank any and all amounts collected, but it has no obligation to the bank for slow payment or non-payment by the debtors. In this case, the NPO has transferred to the bank substantially all of the risks and rewards of ownership of the receivables. Accordingly, it removes the receivables from its Statement of Financial Position (ie derecognises them) and it shows no liability in respect of the proceeds received from the bank. The NPO recognises a loss calculated as the difference between the carrying amount of the receivables at the time of sale and the proceeds received from the bank. The NPO recognises a liability to the extent that it has collected funds from the debtors but has not yet remitted them to the bank.

Example – transfer that does not qualify for derecognition

The facts are the same as the preceding example except that the NPO has agreed to buy back from the bank any receivables for which the debtor is in arrears as to principal or interest for more than 120 days. In this case, the NPO has retained the risk of slow payment or non-payment by the debtors – a significant risk with respect to receivables. Accordingly, the NPO does not treat the receivables as having been sold to the bank, and it does not derecognise them. Instead, it treats the proceeds from the bank as a loan secured by the receivables. The NPO continues to recognise the receivables as an asset until they are collected or written off as uncollectable.

2 (a) In this publication, monetary items are denominated in 'currency units' (CU).

Section 13 – Inventories

Illustrative examples

Classes of inventories

Example 1 – donated perishable inventories

NPO A operates a medical clinic. Its inventories include flu vaccines. Some vaccines are purchased and have a typical shelf life of one year. Other vaccines are donated by health providers when these providers are unable to use the vaccines prior to their expiry date. These vaccines have a typical shelf life of two weeks.

NPO A concludes that, because of their short-term use requirements, the nature of the donated vaccines is different to that of the purchased vaccines. Consequently, it identifies two classes of inventories – purchased flu vaccines and donated flu vaccines.

The purchased vaccines are initially recognised at cost. The donated vaccines are initially recognised at fair value. The fair value of the vaccines reflects their expiry date and is significantly lower than the cost of the purchased vaccines. An analysis of market prices for the vaccine indicates that once a vaccine has a shelf life of 16 weeks or less, the price the market is willing to pay decreases to zero on a straight line basis, reflecting the increasing likelihood that the vaccine will be unused. The fair value of a vaccine with a two-week shelf life would therefore be 12.5% (2/16 weeks) of the price for a vaccine with a one-year shelf life. NPO A has stock control processes in place to ensure that short-dated vaccines are used first.

The purchase price of the vaccines is volatile. NPO A applies the weighted average cost model in accounting for the purchased inventories as it considers this provides the most representative information on the value of its purchased vaccines.

NPO A applies the first in, first out cost model in accounting for the donated inventories. This reflects the short-term nature of the vaccines and therefore provides the most representative information on the value of its donated vaccines.

Assessing loss of service potential

Example 2 – loss of service potential due to physical obsolescence

NPO B operates a food bank. NPO B purchases items of food to be included in food parcels, and also receives donations of food from supermarkets and individuals. Because the donations it receives are unpredictable, it can have a surplus of certain food items.

These food items may become limited in their use and so suffer a loss of service potential due to their age as they approach their expiry date. If NPO B has more items than are required for the food parcels, NPO B may have to either sell the items at a discount or dispose of them once the expiry date has passed.

At the reporting date, NPO B will assess whether any inventories that it has purchased have suffered a loss of service potential. This will not include the food that was donated, as NPO B elected not to recognise these donations. For those inventories that have been recognised because they were purchased, NPO B estimates the amount of the inventories that it will not be able to use in the food parcels, and adjusts the carrying amount of the inventories by this amount, adjusted for any expected sales proceeds, and recognises a corresponding expense.

Example 3 – loss of service potential due to functional obsolescence

NPO C operates a medical clinic. Its inventories include a stock of a drug that is used to treat a respiratory disease. A number of doses of the drug are required to successfully treat the disease.

A new drug has been developed that will successfully treat the disease with a single dose. The inventories of the drug held by NPO C may suffer a loss of service potential due to functional obsolescence. This will be the case if the cost of treating patients with the new drug is less than the cost of treating patients with the existing drug.

At the reporting date, NPO C will assess whether any inventories have suffered a loss of service potential. NPO C estimates the amount it would cost to replace its inventories of the existing drug with the amount of the new drug required to treat the same number of patients. If this is less than the carrying amount of the inventories of the existing drug, NPO C adjusts the carrying amount of the inventories downward to the estimated cost of the amount of the new drug required to treat the same number of patients, and recognises a corresponding expense.

Example 4 – loss of service potential due to economic obsolescence

NPO D has the objective of helping long-term unemployed people find work and runs courses on interview preparation. NPO D has prepared course materials that are provided to all participants and has sufficient stock for the expected life of the current course.

The courses are subsidised by the government, and as a result the NPO is able to offer the courses for no charge.

As a result of a change of government policy, the courses are no longer subsidised by the government. NPO D has insufficient resources to cover all the costs itself, and introduces a small charge for the courses to cover the cost of hiring the venue and providing lunch.

Because of the introduction of the small charge, the number of participants reduces, and NPO D runs the courses less frequently. As a result, it is likely that NPO D may not be able to use all of the course materials. At the reporting date, NPO D will assess whether any inventories have suffered a loss of service potential. NPO D estimates the amount of the course materials that it will not be able to use before the course needs to be redeveloped. NPO D adjusts the carrying amount of the inventories of course materials in proportion to the amount it estimates will be unused, and recognises a corresponding expense.

Section 21 – Provisions and Contingencies

Onerous contracts

IG21.1 Where an NPO has a present obligation that arises from past events, then it may need to recognise a provision. Provisions may be required for a number of reasons. This includes the consequences of decisions made by an NPO that have not yet been implemented, such as staff redundancies or onerous contracts.

IG21.2 An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

IG21.3 Where an NPO has an onerous contract, a provision will need to be recognised for the unavoidable costs as outlined in IG21.1. Such contracts may exist where an NPO has a grant agreement paid in a currency other than the NPO's functional currency and the operation of currency movements over the period of the grant agreement require the NPO to provide services that cost in excess of the amount payable under the grant agreement. In such circumstances a provision for an onerous contract will need to be recognised.

Illustrative examples

All of the NPOs in the examples have 31 December as their reporting date. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. In some examples the circumstances described may have resulted in impairment of the assets; this aspect is not dealt with in the examples. References to 'best estimate' are to the present value amount, when the effect of the time value of money is material.

Example 1 Future operating losses

An NPO determines that it is probable that a segment of its operations will incur future operating losses for several years.

There is no present obligation as a result of past events – there is no past event that obliges the NPO to pay out resources.

Conclusion – the NPO does not recognise a provision for future operating losses. Expected future losses do not meet the definition of a liability. The expectation of future operating losses may be an indicator that one or more assets are impaired – see Section 27 *Impairment of assets*.

Example 2 Onerous contracts

An NPO may be contractually required under an operating lease to make payments to lease an asset for which it no longer has any use.

There is a present obligation as a result of past events – the NPO is contractually required to pay out resources for which it will not receive commensurate benefits.

Example 3 Onerous grant agreement

An NPO may be contractually required under a grant agreement to construct ten water wells for local communities in a designated jurisdiction. The funds for the construction costs will be provided by the grantor based on the exchange rate at the date that the agreement was signed. The exchange rate changes between the date of signing the agreement and the date of commencement of the construction work, such that the amount in the local currency is no longer sufficient to cover the costs of construction.

There is a present obligation as a result of past events – the NPO is contractually required to pay out resources for which it will not receive commensurate benefits.

Conclusion – if an NPO has a contract that is onerous, the NPO recognises and measures the present obligation under the contract as a provision.

Example 4 Closure of a division – no implementation before end of reporting period

On 12 December 20X0 the governing body of an NPO decided to close down its operations in a specific geographic area. Before the end of the reporting period (31 December 20X0) the decision was not communicated to any of those affected and no other steps were taken to implement the decision.

Present obligation as a result of past events – there has been no obligating event, and so there is no obligation.

Conclusion – the NPO does not recognise a provision.

Example 5 Closure of a division – communication and implementation before end of reporting period

On 12 December 20X0 the governing body of an NPO decided to close its operations in a specific geographic area. On 20 December 20X0 a detailed plan for closing the operations was agreed by the governing body, letters were sent to service beneficiaries warning them that services would cease and they should seek alternatives, and redundancy notices were sent to the staff of the operations.

Present obligation as a result of past events – the obligating event is the communication of the decision to the service recipients and employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the operations will be closed.

An outflow of resources embodying economic benefits in settlement – probable.

Conclusion – the NPO recognises a provision at 31 December 20X0 for the best estimate of the costs that would be incurred to close the operations.

Example 6 Staff retraining as a result of changes in regulations

The government introduces changes to the regulation of NPOs. As a result of those changes, an NPO will need to retrain a large proportion of its workforce in order to ensure continued compliance with regulations. At the end of the reporting period, no retraining of staff has taken place.

Present obligation as a result of past events – the regulatory change does not impose an obligation on an NPO to do any retraining. An obligating event for recognising a provision (the retraining itself) has not taken place.

Conclusion – the NPO does not recognise a provision.

Example 7 A court case

A service beneficiary has sued NPO X, seeking damages for injury the service beneficiary allegedly sustained from a service provided by NPO X. NPO X disputes liability on grounds that the service beneficiary did not declare required information relating to the provision of the services. Up to the date the governing body authorised the financial statements for the year to 31 December 20X1 for issue, the NPO's lawyers advise that it is probable that the NPO will not be found liable. However, when the NPO prepares the financial statements for the year to 31 December 20X2, its lawyers advise that, owing to developments in the case, it is now probable that the NPO will be found liable:

(a) at 31 December 20X1

Present obligation as a result of past events – on the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion – no provision is recognised. The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

(b) at 31 December 20X2

Present obligation as a result of past events – on the basis of the evidence available, there is a present obligation. The obligating event is the provision of services to the service beneficiary.

An outflow of resources embodying economic benefits in settlement – probable.

Conclusion – a provision is recognised at the best estimate of the amount to settle the obligation, and the expense is recognised in surplus or deficit. It is not a correction of an error in 20X1 because, on the basis of the evidence available when the 20X1 financial statements were approved, a provision should not have been recognised at that time.

Section 23 – Part I Revenue from grants and donations

Identifying the revenue transaction

Enforceability

What should an NPO consider in assessing enforceability?

IG23.1 Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires judgement. This assessment is integral to identifying whether an NPO has:

(a) an enforceable grant arrangement (EGA) (that is, with both enforceable rights and enforceable obligations);

(b) only enforceable rights (in which case the NPO may have an other funding arrangement (OFA) because it has a grant without an EGA); or

(c) only enforceable obligations, through legal or equivalent means (in which case the NPO should consider whether it is required to recognise a provision in accordance with Section 21 *Provisions and contingencies*).

IG23.2 At inception, an NPO will need to use its judgement and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations. In other words, the NPO will need to determine what can be enforced. It will need to consider the implicit or explicit consequences of not satisfying those rights and/or not satisfying those obligations. Relevant factors include, but are not limited to:

(a) the substance (practical effects), rather than the legal form, of the arrangement;
(b) terms that are written, oral or implied by an NPO's customary practices;
(c) whether it is enforceable through legal means (eg by the legal system, enforced through the courts, judicial rulings and case law precedence), or compliance through equivalent means (for example, by arbitration, action taken by a regulator);
(d) implicit or explicit consequences of not satisfying the obligations in the arrangement;
(e) the specific jurisdiction, sector, and operating environment; and
(f) past experience with the other parties in the arrangement.

Table IG23.1: Enforceability of different types of grant arrangement

	Nature of the arrangement	Performance requirement	Administrative requirement
Enforceable grant arrangement	Both parties to the arrangement have both rights and obligations that are enforceable through legal or equivalent means, whether the parties choose to enforce the arrangement or not. There is at least one EGO.	**Breach** – Sanctions are possible in line with the terms of the enforceable grant agreement. Sanctions may include repayment of funds received, or non-payment or lower payment of future amount than specified in the agreement. **Accounting** – Revenue is recognised when (or as) each EGO is achieved.	**Breach** – Sanctions are possible in line with the terms of the enforceable grant agreement. Sanctions may include penalties, or the withholding of funds by the grant provider. Breach of an administrative requirement that is not an EGO has no effect on revenue recognition. **Accounting** – An expense and provision are recognised when there is a present obligation as a result of the breach.
Other funding arrangement with constraints	The funder and the recipient may or may not have obligations and/or rights, but both parties will not have both rights and obligations. The agreement may or may not be enforceable through legal or equivalent means. There are no EGOs, but there may be constraints on the use of resources.	**Breach** – In the event of a breach of the constraints, a repayment may be required if the grant is paid in advance or a reduced or nil amount may be received if the grant is paid in arrears **Accounting** – Revenue is recognised when the NPO controls or is entitled to the resources. A requirement to make a refund would be recognised when a present obligation arises.	**Breach** – sanctions may be possible in line with the terms of the OFA. Sanctions may include penalties, or the withholding of funds by the grant provider. **Accounting** – An expense and provision are recognised when there is a present obligation as a result of the breach.
Other funding arrangement with no constraints	The funder and the recipient may or may not have obligations and/or rights. The agreement may or may not be enforceable through legal or equivalent means. There are no EGOs or constraints on the use of resources.	**Breach** – Not relevant as there are no performance requirements or constraints. **Accounting** – Revenue is recognised when the NPO controls or is entitled to the resources.	**Breach** – Sanctions may be possible in line with the terms of the OFA. Sanctions may include penalties or the withholding of funds by the grant provider. **Accounting** – An expense and provision are recognised when there is a present obligation as a result of the breach.

Revenue from transactions with enforceable grant arrangements

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

How does an NPO determine the individual enforceable grant obligations in an EGA in order to appropriately account for transactions with EGAs?

IG23.4 An NPO must use judgement as it applies paragraphs G23.45–G23.50 to determine the individual enforceable grant obligations (EGOs) in its EGA. An EGA has to have at least one EGO.

IG23.5 An NPO should first identify all of the undertakings it has given in its EGA that require it to use resources in a specific manner. These may be explicit or implicit and require the NPO to achieve a specific outcome, to carry out specific activities, to use resources internally for a good or service, or to transfer a good or service to a service recipient. A thorough assessment is necessary to identify all of the obligations in the arrangement (paragraphs G23.48–G23.50).

IG23.6 EGOs are likely to be subject to monitoring by the grant provider to determine if, when and how the EGO has been met. Generally, monitoring on its own is not sufficient to create an EGO. The features of agreements such as not funding terrorism or money laundering that are not specific to a distinct outcome, activity, good or service are not EGOs (see also paragraphs AG23.60–AG23.61).

IG23.7 An NPO must then consider each identified obligation to determine if individually it creates an EGO, or whether it should be grouped with other obligations, which might collectively make up a single EGO. An EGA is separate and distinct if both of the following criteria are met:

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

IG23.8 Whether an obligation is capable of being distinct will be based on its characteristics and will require judgement. This judgement is needed to ensure that the identification of individual EGOs will meaningfully represent the nature of the NPO's transaction with the grant provider and provide a useful depiction of the NPO's performance.

IG23.9 Any distinct obligation, or distinct group of obligations, identified by the NPO through this analysis will be an individual EGO. In many cases, an NPO will need to report progress on individual EGOs to its grant provider.

Satisfaction of enforceable grant obligations: methods of measuring progress

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

IG23.10 After the NPO identifies its EGOs, the NPO will need to consider the nature of what it is required to do and the specific terms of the EGA to determine the appropriate method of measuring progress. Methods of measuring progress include output methods and input methods (see paragraphs AG23.52–AG23.59).

IG23.11 Firstly, all observable and available information associated with satisfying the EGO should be considered. This information will be useful for all parties in the EGA to confirm whether its terms are being met. Observable and available information may be explicitly required in the EGA and includes, but is not limited to:

(a) the achievement of specified outcomes;

(b) the performance of specified activities;
(c) incurring eligible expenditures;
(d) the requirement to track progress towards achieving outlined milestones;
(e) the production or delivery of specific quantities of goods or services; and
(f) the volume of resources consumed (eg labour, materials, machine hours, etc).

IG23.12 Some types of information are considered output methods. Output methods are based on the outputs and outcomes achieved in satisfying the EGO. Other types of information are considered input methods. Input methods are based on the NPO's efforts or inputs into the satisfaction of the EGO.

IG23.13 The NPO should use professional judgement to determine what information most faithfully depicts the NPO's performance towards complete satisfaction of the EGO. In making this assessment, the NPO should also consider which method of measuring progress:

(a) better reflects the nature and intent of the NPO's promise in the enforceable arrangement;
(b) more clearly captures the relationship with, and communicates the progress toward, the satisfaction of the EGO;
(c) uses information that is more reliable and directly observable;
(d) reflects all relevant performance associated with satisfying the EGO; and
(e) provides benefits that outweigh the costs of obtaining and tracking the necessary information.

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

Allocation based on stand-alone values

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

How should an NPO determine the most suitable method for estimating the stand-alone value of an EGO?

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

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

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

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

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

IG23.21 Based on the reasonably available information, the NPO will then determine which method to use for estimating the stand-alone value. The method chosen should most faithfully represent the value of the goods or services promised in the EGA.

IG23.22 The stand-alone values of EGOs are determined at the inception of the EGA and, unless the arrangement is subsequently modified, the stand-alone values are not changed to reflect changes in circumstances.

IG23.23 The transaction amount (the total amount of the grant) is allocated to EGOs on based on their relative stand-alone amounts. For example, if the stand-alone value of one enforceable grant objective is CU60,000 and the stand-alone value of another objective is CU40,000, 60% of the transaction amount is allocated to the first EGO, and 40% to the second EGO. The amount allocated to each EGO will only be the same as the stand-alone value if the transaction amount is exactly CU100,000.

Illustrative examples

Determining which Part of Section 23 applies

Revenue transactions are classified as either revenue from grants or donations (covered in Section 23 Part I) or revenue from contracts with customers (Section 23 Part II). The different economic substance of revenue transactions is illustrated by the examples below.

Example 1 – guidance applicability

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

A philanthropic organisation provides NPO A with CU1m in cash to support its provision of primary care services. NPO A is required to use the cash to provide primary care services and give the philanthropic organisation information on how the cash has been used. NPO A 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. As the philanthropic organisation does not directly receive cash, a service, good or other asset in return from NPO A (it is those that are receiving the primary care services that benefit), the economic substance of this transaction means that NPO A should apply Part I for accounting for revenue from grants, donations and similar transfers.

In addition to the transaction involving the CU1m transfer of cash, the philanthropic organisation asks NPO A to provide it with a series of training courses. These training courses are attended by other healthcare organisations that the philanthropic organisation supports. The overall aim of the training is to ensure that the grants made by the philanthropic organisation to these healthcare organisations are more effectively utilised. As part of the agreement, the philanthropic organisation determines which organisations will receive the training courses and has 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 involves NPO A directly providing a service to the philanthropic organisation in exchange for consideration, and therefore means that NPO A should apply Part II for accounting for revenue from contracts with customers.

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

Example 2 – guidance applicability

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

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

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

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

Accounting for grants and donations

Identify the revenue transaction

Examples 3–5 illustrate the requirements in paragraphs AG23.16–AG23.31 and Figure AG23.2 on the determination of whether an NPO has entered into a revenue transaction with an EGA.

Example 3 – Existence of rights and obligations

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

NPO C (an environmental organisation) receives funding of CU10,000 from a grant provider (Donor A) to fund environmental programmes. The agreement requires funding to be spent on programmes with the goal of improving biodiversity in the region. If NPO C incurs expenses to improve biodiversity in the region, it is able to enforce its right to receive funding from Donor A. The agreement does not specify the time period in which the funds are to be spent, any requirement to fund specific biodiversity programmes, or how Donor A will receive or verify information on how the funds were spent.

Analysis

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

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

Conclusion

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

Case B – Specified time period to spend funds

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

Analysis

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

Enforceable grant obligation – The requirement to spend the CU10,000 within five years does not change NPO C's conclusion that it has an OFA and it does not have an EGO. This is because Donor A is not able to confirm if and when NPO C spends the funds as stated in the agreement.

Conclusion

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

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

The same facts as in Case B apply to Case C, except the agreement also specifies how NPO C is to report its spending to Donor A, and that any misused or unused funds are to be returned to Donor A. NPO C continues to have full discretion over how to use the funds, as long as the funds are spent within five years on activities that reasonably relate to improving biodiversity in the region, which NPO C considers could apply to almost all its activities.

Analysis

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

Enforceable grant obligation – NPO C does not have an EGO. In accordance with paragraphs AG23.60–AG23.61, the reporting requirements are a formality and not a separate EGA. The wording of the EGA does not identify specific outcomes, activities or resources to be used internally, and therefore does not give rise to EGOs. While the requirement to return unused funds could give rise to an EGO, it does not do so in this case. This is because the requirement is not specific, almost all NPO C's activities would meet the definition and NPO C will always be able to identify relevant spending.

Conclusion

NPO C concludes that the OFA is not an EGA. Although NPO C has an enforceable right to resources and is required to report its spending to Donor A, the OFA does not have an EGO. Because no specific objectives, activities or resources are identified, Donor A has no realistic way to identify the resources spent separately from any other expenses of NPO C. As a result, NPO C accounts for the revenue as revenue from a transaction without an EGA.

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

The same facts as in Case C apply to Case D, except that the agreement also specifies that NPO C is to report its activities and a series of metrics measuring the changes in biodiversity in the region. Donor A is entitled to a full or partial refund if it does not receive this report or if it considers that the report shows that NPC C has not employed best endeavours to implement additional activities that have had an impact on biodiversity. In accordance with paragraphs AG23.60–AG23.61, NPO C concludes that the reporting requirements have substance because satisfaction of its EGO cannot be certain until it receives Donor A's confirmation that Donor A considers best endeavours have been employed.

Conclusion

NPO C concludes that it has an EGA because both the donor and the grant recipient have an enforceable right and enforceable obligation. NPO C accounts for the revenue as revenue from a transaction with an EGA. Because Donor A does not specify individual programmes, it is probable that NPO C has a single EGO and can therefore apply the simplified procedures in paragraphs G23.42–G23.43.

Example 4 – Research grant arising from an enforceable grant arrangement

NPO D has a research lab that enters into an arrangement and receives CU10m from the government (the Government) to conduct research into a potential cure for a widespread disease. This research project is expected to result in the development of intellectual property that consists of a drug formula and manufacturing know-how. The agreement contains specific and measurable milestones that must be met by NPO D. If these milestones are not met, NPO D is required to return all, or a portion, of the funds to the Government. Once the research is complete, there is no requirement in the agreement for NPO D to transfer the findings or any resulting intellectual property to the Government. NPO D is also able to ensure that payment is received from the Government for research work planned or completed.

Based on these terms, NPO D has concluded that the agreement is an EGA, as it has an EGO to conduct the research project in accordance with the specified milestones in order to retain the funds, and an enforceable right to payment of the grant for conducting this research project. NPO D shall apply the accounting principles in paragraphs G23.41–G23.60 to account for this revenue from a transaction with an EGA.

Example 5 – Online donations

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

Case A – No promises in the appeal

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

Analysis

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

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

Conclusion

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

Case B – The appeal includes specific promises

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

Analysis

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

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

Conclusion

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

Example 6 – Requirement to raise match funding

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

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

Analysis

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

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

Conclusion

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

However, an NPO only recognises an EGA if it is probable that it will collect the grant amount to which it will be entitled for satisfying its EGOs. Prior to the match funding being received, NPO F will only recognise revenue if it is probable that the match funding will be received (see paragraph G23.74e)).

Recognition of revenue transactions without an enforceable grant arrangement

Example 7 – Gifts in-kind

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

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

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

INPAG permits an NPO to apply a permitted exception to both items donated for resale and for use (see paragraphs G23.37a) and G23.7b)). Consequently, NPO G:

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

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

Also, although not the case in this example, NPO G may not recognise a revenue and expense in respect of the office supplies if it is not able to reliably measure the gifts in-kind (for example, because the goods are not readily available on the market and are not regularly used by NPO G) (see paragraph G23.40).

Example 8 – Services in-kind

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

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

NPO H can elect to either:

- apply the permitted exception and recognise no revenue or expense in relation to the cleaning (see paragraph G23.37c)); or
- apply the general recognition and measurement principles, and recognise revenue and an expense of CU500 each month as it receives the cleaning services.

Recognition of revenue transactions with an enforceable grant arrangement

Example 9 – Allocating the transaction consideration to enforceable grant obligations

The facts are the same as in Example 6, where NPO F had concluded that it has an EGA. NPO F is now required to allocate the transaction amount to its various EGOs and determine whether its EGOs are satisfied over time or at a point in time.

NPO F considers all the circumstances to determine if it has a single EGO for the whole restoration work, or a series of EGOs for each stage of the work. In this example, it is assumed there are a number of EGOs.

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

Assuming the match funding has been raised, NPO F is entitled to payment for work done to date (as any refund is based on the work that has not been carried out). It therefore concludes that its obligation or obligations are satisfied over time.

It should be noted that NPO F has concluded that the obligation to raise match funding is not an EGO as without the match funding NPO F is not entitled to any grant revenue. As a consequence, NPO F concludes that no amount should be allocated to the pre-requisite to put match funding in place.

NPO F therefore concludes that the transaction amount should be allocated to the various stages of restoration work, which it will be able to do once the match funding has been raised.

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

Case A – Satisfaction of EGO to use resources for goods or services internally

An international organisation (the Organisation) enters an EGA to provide CU1.2m to NPO I (a hospital), with a single EGA that requires NPO I to use the CU1.2m in for defined operations within its x-ray department.

The use of funds in the x-ray department is a single EGO in accordance with paragraph G23.45. The EGO is satisfied over time because NPO I becomes entitled to the resources received as it operates the x-ray department over time. NPO I recognises revenue over time by measuring its progress towards complete satisfaction of that EGO in accordance with paragraphs AG23.52–AG23.59.

Case B – satisfaction of EGO to transfer goods or services to service recipient

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

The promised training services are accounted for as a single EGO in accordance with paragraph G23.47.

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

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

NPO J recognises revenue over time by measuring its progress towards complete satisfaction of that EGO in accordance with paragraphs AG23.50–AG23.57.

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

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

NPO K has signed an agreement with the Region to expand a number of programmes that aim to protect environmental habitats while also providing employment for indigenous communities. The agreement between NPO K and the Region provides NPO K with CU2m of budget support each year for five years provided that NPO K funds the agreed programmes over five years.

In total the Region has agreed to provide CU10m to NPO K provided that NPO K's Board funds the agreed programmes over the five year period. NPO K subsequently agrees a five-year budget that dedicates CU10m to these projects based on receiving the same amount in budget support over that period. NPO K has concluded that the agreement between NPO K and the Region is an EGA, with the agreement enforceable under the laws of the jurisdiction in which the regional government is based.

Case A – NPO K has a single EGO (the agreement of the five-year budget)

Although the arrangement spans five years, with the transfer of CU2m due each year, the recognition of revenue must be considered independently from the timing of when the resources are transferred. For the recognition of revenue, NPO K must consider whether it has performed under the terms of the EGA and met its EGO.

Once the five-year budget has been agreed by NPO K's Board, NPO K will have satisfied the entire EGO. NPO K will need to recognise as revenue the entire amount that the Region is obliged to transfer, and a matching EGA asset of CU10m.

The EGA asset will be reduced by CU2m each year as the resources are transferred from the Region to NPO K. Any amounts that become due prior to the resources being transferred will be recognised as a receivable, with an equivalent reduction in the EGA asset.

Case B – the EGA contains multiple EGOs

NPO K is required to reconfirm the budget agreement every year. Consequently, it has a series of obligations (to reconfirm the budget annually), and the Region has a series of obligations (to pay CU2m annually). NPO K considers paragraphs AG23.41–AG23.45 in determining whether parts of the EGA remain equally unsatisfied, and whether NPO K should recognise or not any asset, liability or revenue for the equally unperformed parts of the EGA.

NPO K concludes that each year of the EGA creates a separate EGO, as NPO K will not have reconfirmed the budget for those years and the Region will not have made payment for those years. Consequently, NPO K does not recognise any revenue for future years, but recognises CU2m at the inception of the arrangement. It will subsequently recognise CU2m for each future year as the budget is reconfirmed.

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

A Fund set up to support local sports organisations (the Fund) has signed an agreement with NPO L (a community athletics organisation) to upgrade its facilities. Both organisations are subject to oversight by a regulator that the entities can appeal to if agreements are not upheld. The agreement provides NPO L with CU5m of upfront funding for major building work including a new changing facility, a small grandstand for spectators and the installation of an all-weather running track. Under the agreement a final report of the amount spent must be provided to the Fund by NPO L and any unspent funds are to be returned to the Fund.

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

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

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

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

Variable consideration

Example 13 – Estimating variable consideration

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

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

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

- consideration as grant amount;
- contract with a customer as EGA; and
- transaction price as transaction amount.

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

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

Significant financing component

Example 14 – Advance receipt and assessment of discount rate

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

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

NPO M determines that the rate that should be used in adjusting the promised consideration is 5%, which is the rate at which NPO M could have borrowed the funds on the market at the inception of the EGA.

In accounting for the significant financing component, NPO M applies paragraphs G23.122–G23.123, adjusted to allow for the grant being paid in advance of the EGO being satisfied, which gives rise to an interest expense (see paragraph AG23.40). NPO M applies this guidance reading the references to:

- consideration as grant amount;
- contract with a customer as EGA; and
- customer as grant provider.

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

(a) Recognise an EGA liability for the CU100,000 payment received at inception of the EGA:

Cash CU100,000
Enforceable arrangement liability CU100,000

(b) During the two years from inception of the enforceable arrangement until the delivery of the conference, NPO M adjusts the promised amount of consideration and builds up the enforceable arrangement liability by recognising interest on CU100,000 at 5% for two years:

Year 1 – interest of CU5,000 (EGA liability of CU100,000 x 5%)
Interest expense CU5,000
Enforceable arrangement liability CU5,000
Year 2 – interest of CU5,250 (EGA liability of CU105,000 x 5%)
Interest expense CU5,250
Enforceable arrangement liability CU5,250

(c) Recognise revenue when the conference is delivered:

Enforceable arrangement liability CU110,250
Revenue CU110,250

Section 24 – Part 1 Expenses on grants and donations

Identifying the grant expense transaction

Identifying whether an enforceable grant arrangement exists

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

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

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

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

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

Enforceability

What should an NPO consider in assessing enforceability?

IG24.4 Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and require professional judgement. This assessment is integral to identifying whether an NPO has an EGA (both enforceable rights and obligations), only enforceable rights or only enforceable obligations. In cases where an NPO does not have an EGA, it may still have an enforceable right or an enforceable obligation, which should be accounted for appropriately.

IG24.5 In developing grant arrangements, the grant-providing NPO should consider its overall objectives and the risk of its requirements not being met. Where the grant-providing NPO is intending to create an EGA, the grant-providing NPO should consider appropriate EGOs that the grant recipient is required to satisfy, as these will create its grant fulfilment rights. The grant-providing NPO should consider its ability to monitor if and when EGOs have been met, and its ability to enforce them. Enforceability may arise from various mechanisms. What is important is that the mechanism(s) provide an NPO with the ability to enforce the terms of the arrangement and hold the parties accountable for meeting their obligations in accordance with the terms of the arrangement.

IG24.6 At the inception of the arrangement, a grant-providing NPO will need to use professional judgement and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (ie what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or meeting those obligations (ie how it is enforced). As noted, this will be easier if the grant-providing NPO has considered the enforceable rights and obligations and associated consequences of not meeting them in developing the arrangement.

IG24.7 Relevant factors include, but are not limited to:

(a) the economic substance, rather than the legal form, of the arrangement;
(b) terms that are written, oral or implied by an NPO's customary practices;
(c) whether it is capable of being binding through legal means (eg by the legal system, enforced through the courts, judicial rulings and case law precedence), or through equivalent means (eg if a party to the arrangement is able to draw on any regulatory or executive authority or directives);
(d) consequences of not fulfilling the obligations in the arrangement;
(e) other EGAs with the grant recipient;
(f) the specific jurisdiction, sector and operating environment; and
(g) past experience with the other parties in the arrangement.

IG24.8 Some mechanisms (for example, reductions of future funding, where they relate to other EGAs already in existence between the two parties) may constitute a valid mechanism of enforcement. An NPO should consider all facts and circumstances objectively, within the context of their jurisdiction, sector and operating environment, in making this assessment. Paragraphs AG24.7–AG24.17 provide further guidance on assessing enforceability through legal or equivalent means and how oral agreements and customary norms and practices impact on these assessments.

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

IG24.9 At inception, an NPO considers the requirements of an arrangement to determine whether it meets the definition of an EGA in paragraphs G24.3–G24.5. If it does meet the definition, the grant-providing NPO accounts for the EGA in accordance with paragraphs G24.13–G24.28.

IG24.10 A grant-providing NPO should subsequently assess whether any changes in internal or external factors affect the enforceability of the EGA (ie the substance of the arrangement), or the likelihood of enforcing the EGA (ie the subsequent measurement of any prepayment assets or liabilities associated with the grant-providing NPO's right(s) and obligation(s) in the EGA). As a minimum this should be carried out at each reporting date. Examples of such factors include, but are not limited to:

(a) changes in the legal framework that impact the ability of the grant-providing NPO, or other party or parties in the arrangement to enforce their respective rights through legal or equivalent means; and

(b) changes in the grant-providing NPO's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the EGA.

IG24.11 The implication on subsequent measurement of the respective prepayment asset or liability depends on whether the impact is likely to be permanent and should be accounted for in accordance with Section 21 *Provisions and contingencies* in relation to the need for or a change to a provision, or Section 11 *Financial instruments* for changes to payables and receivables.

Grant expenses from transactions with other funding arrangements

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

IG24.12 Generally, it is not expected that a grant-providing NPO will be able to recognise a prepayment asset from an other funding arrangement (OFA), because the grant-providing NPO is unlikely to have grant fulfilment rights arising from an EGO.

Grant expenses from transactions with enforceable grant arrangements

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

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

IG24.13 From the grant-providing NPO's perspective, an EGA has at least one grant fulfilment right. A grant fulfilment right is a distinct component or element (unit of account) within an EGA where the grant-providing NPO requires the grant recipient to meet a requirement.

IG24.14 Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of grant expenses. In practice, since EGAs can vary substantially by entity, jurisdiction, sector and operating environment, a grant-providing NPO will need to use professional judgement to determine the individual grant fulfilment rights in its EGA.

IG24.15 A grant-providing NPO should first identify all the rights it has to require the grant recipient to satisfy its EGO(s) in a manner as specified in the EGA. Rights include the ability to require the grant recipient to use resources for a specific outcome, activity, for distinct services or goods internally or to transfer cash, a service, good or other asset to a third party or third parties. A thorough assessment is necessary for the grant-providing NPO to identify all of its rights in the EGA. However, as noted in IG24.6, careful consideration in the development of the EGA of the objectives of the grant-providing NPO will assist with this assessment.

IG24.16 A grant-providing NPO then considers each identified right to determine if a right is itself a distinct grant fulfilment right, or whether it should be grouped with other rights to be a single distinct grant fulfilment right. In this way, a grant fulfilment right is a unit of account that represents a distinct right or group of rights to which recognition and measurement concepts are applied.

IG24.17 A right in an EGA is distinct if it can be enforced separately from other rights in the arrangement. A grant-providing NPO can consider the following factors when assessing whether a right is distinct:

(a) the right relates to the grant-providing NPO's ability to require the grant recipient to achieve a specific external outcome, activity or provide cash, a service, good or other asset to third parties that can be separated from other outcomes, activities or cash, services, goods or other assets to be undertaken or provided under the EGA;
(b) the right relates to the grant-providing NPO's ability to require the grant recipient to achieve a specific internal outcome, activity or use cash, a service, good or other asset internally in a specific manner separate from other specific internal outcomes, activities or the use of other cash, services, goods or other assets to be used under the EGA; and
(c) the outcome or activity be achieved or the cash, service, good or other asset that the grant recipient is required to provide to third parties or use internally is not highly interdependent or highly interrelated with other activities to be undertaken or cash, services, goods or other assets to be provided or used under the EGA.

IG24.18 Any distinct right, or distinct group of rights, identified by the grant-providing NPO through this analysis would be an individual grant fulfilment right.

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

IG24.19 A grant arrangement that includes constraints of a more general nature may provide some indication of how the resources are to be used to support the overall purpose of the grant recipient. They are, however, likely to provide the grant recipient with a greater degree of freedom as to how it complies with the constraints. The grant recipient is also likely to be subject to a lesser degree of monitoring by the grant-providing NPO to determine if, when and how the constraint has been met.

IG24.20 By contrast, an EGO is likely to be subject to a greater degree of monitoring of the grant recipient by the grant-providing NPO to determine if, when and how the EGO has been met. The specific terms of the EGA should make these monitoring requirements clear.

IG24.21 Monitoring on its own, however, is not sufficient to create an EGO. Generally, administrative tasks do not create an EGO because there is no substantive grant fulfilment right for the grant-providing NPO. The features of agreements such as not funding terrorism or money laundering that are not specific to a distinct outcome, activity, good or service are not EGOs.

IG24.22 The grant-providing NPO should consider at the inception of the EGA whether or not it can realistically avoid the transfer of resources. If it concludes that it cannot realistically avoid the transfer of resources to the grant recipient, it should follow the recognition and measurement requirements of G24.18.

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

IG24.23 In general, a grant fulfilment right is met and a grant expense recognised when the grant recipient has met its obligations in the arrangement. A single EGA may, however, be met over time. The appropriate method of measuring progress depends on the specific nature of the grant-providing NPO's grant fulfilment rights and the specific terms of the EGA.

IG24.24 In situations where the EGA consists of one grant fulfilment right to have the grant recipient satisfy various interrelated activities, the grant fulfilment right may be partially met as individual activities are being performed by the grant recipient. Common considerations which could inform when a grant fulfilment right has been partially met include:

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

IG24.25 In cases where multiple parties are involved in the arrangement, the grant-providing NPO will need to consider whether a grant fulfilment right relates to the right to require another party in the arrangement to meet an EGO. There could be situations where resources are passed through a series of entities before being transferred to the ultimate grant recipient. In these situations, the grant-providing NPO will need to consider whether the grant fulfilment right being met depends on the satisfaction of the ultimate grant recipient's EGOs as specified in the EGA.

IG24.26 In other cases, a grant recipient may be unable or unwilling to satisfy its obligations in the EGA following the transfer of resources to it from the grant-providing NPO. When this occurs, the grant-providing NPO considers if the terms of the EGA, along with the legal framework in the relevant jurisdiction, give the grant-providing NPO the unconditional right to receive cash or return of resources (eg a refund of the transferred resources). Such an unconditional right results in the derecognition of the prepayment asset and the recognition of a financial asset (see G24.27). If the EGA and relevant legal framework do not support the recognition of a financial asset, the grant-providing NPO then considers if the prepayment asset has been impaired (see G24.28).

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

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

IG24.27 A grant-providing NPO may explicitly specify in an EGA the amount of resources it is willing to transfer for each grant fulfilment right (ie the stand-alone amount is specified for each grant fulfilment right). In situations where the stand-alone amount is not explicitly stated, the grant-providing NPO is required to determine the best estimate of the amounts that would compensate the grant recipient for meeting its obligation.

IG24.28 The most suitable method to estimate the stand-alone amount will depend on the quality and type of information that is available to the grant-providing NPO. For example, the individuals negotiating an EGA may have records detailing how they estimated the stand-alone amount of each grant fulfilment right included in the EGA. Other grant-providing NPOs may have detailed budget information documenting the resources needed or that it is willing to transfer in order to achieve each grant fulfilment right. In other cases, the individuals negotiating an EGA may be using observable information, such as pricing lists to estimate the total resources to be transferred. In this situation, the standard prices for each individual deliverable can be used to estimate the stand-alone consideration of each grant fulfilment right.

Accounting for multi-year arrangements

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

IG24.29 Multi-year arrangements generally involve the provision of resources over multiple years for a specific purpose (for example, supporting medical research on a particular disease). The provision of resources may occur at multiple dates throughout a year and/or across multiple years.

IG24.30 While these arrangements span a longer term, the accounting principles for grant expense transactions still apply. A grant-providing NPO shall consider whether the multi-year arrangement is an EGA and apply the principles in the paragraphs G24.7–G24.12 for grant expenses arising from an OFA, or paragraphs G24.13–G24.28 for grant expenses arising from transactions with EGAs. The NPO shall consider the recognition of a grant expense independently from the timing of when resources are transferred.

IG24.31 As a consequence, if a grant-providing NPO transfers resources for multiple years in advance and cannot currently, realistically obtain the return or refund of those resources because there are no present obligations for the grant recipient, then the grant-providing NPO will recognise the full amount as a grant expense when the resources are transferred or owed to the grant recipient. If the agreement requires, for example, an annual revalidation of the agreement, this would likely mean that each annual amount is recognised in the relevant year.

Sensitive information

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

IG24.32 Grant-providing NPOs are permitted to not disclose detailed information about grant expenses where the information is sensitive or could prejudice the ability of the grant-providing NPO or grant recipient to deliver its mission or purpose. Given the diversity of activities undertaken by NPOs, it is not possible to provide a definition or exhaustive list of the activities that could give rise to such information. It is intended to encompass situations where the public disclosure of information in the general purpose financial reports creates a risk, including but not limited to physical harm to a grant-providing NPO's staff, its volunteers or the public and other entities and individuals who engage with the grant-providing NPO. It also includes situations that would provoke significant ongoing disruption to the operating activities in a locality to the grant-providing NPO or partner entity.

IG24.33 This exception must not be used by grant-providing NPOs as a way of hiding poor governance, poor performance or financial problems. It should be reserved solely for situations where disclosure would significantly disrupt operations and/or jeopardise the safety and security of staff, volunteers, the public that benefit from the services and goods provided by the grant-providing NPO and other entities and individuals that engage with the grant-providing NPO.

IG24.34 Examples of sensitive or mission prejudicial information that a grant-providing NPO may not disclose could include, but is not limited to:

(a) information that identifies the nature of activities being undertaken by a grant-providing NPO or entities and individuals that engage with it;
(b) information that discloses the scope of geographic activities being undertaken by a grant-providing NPO or entities and individuals that engage with it;
(c) information that identifies the individuals, communities or groups that benefit from the services and goods provided by the grant-providing NPO or entities that engage with it.

Illustrative examples

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

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

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

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

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

Is there an EGA in relation to the free transportation?

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

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

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

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

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

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

NPO B signs a written grant agreement with NPO C. NPO C is a donkey sanctuary that NPO B has supported a number of times in the past. The terms of this agreement are that NPO B will provide NPO C with a grant of CU1m that NPO C is required to spend on its overall purpose of supporting the welfare of donkeys in its care. As NPO B has provided grants without any issues arising as to eligibility of expenditure to NPO C in the past, only a high-level review of how transferred resources have been used is anticipated for in the grant agreement.

Is there an EGA and how should it be accounted for?

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

NPO B should therefore account for the transaction as an OFA. If NPO B deems that a legal obligation or constructive obligation exists because of the written grant agreement, it should recognise a grant expense for the full CU1m value of the grant and a matching liability/provision until the resources are transferred to NPO C. If not, it will recognise a grant expense when the resources are transferred to NPO C.

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

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

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

(i) CU10m in cash to be spent reimbursing the training costs of the jurisdiction's medical graduates in methods for identifying and treating infectious childhood diseases. The amount is based on a grant of CU10,000 to cover the costs of tuition of each of 1,000 graduates in the jurisdiction's medical school. To be eligible for reimbursement of the training costs each graduate must complete the training and pass an exam.

(ii) CU50m in vaccines that are currently held by NPO D for the most common infectious childhood diseases in the jurisdiction. The vaccines are provided according to the principle that Jurisdiction A must first use its own supplies of vaccines before NPO D will transfer its vaccines to replenish the jurisdiction's available supply.

Is there an EGA and how should it be accounted for?

The agreement between NPO D and Jurisdiction A is an EGA, where jurisdiction A has two EGOs. These have named activities and distinct services, goods or other assets that are to be internally used or externally transferred by the grant recipient. The first is to train 1,000 graduates in identifying and treating infectious childhood diseases and ensure that they complete the training and pass a final exam. The second is to use its own vaccines. If these EGOs are met, NPO D will provide CU10,000 for each graduate who has completed the training course and passed the exam and transfer CU50m of vaccines that are currently held by NPO D to replenish the jurisdiction's own supply that have been used.

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

(i) it receives confirmation of the number of graduates who have completed the course and passed the exam, with a grant expense of CU10,000 recognised for each successful graduate; and

(ii) it receives confirmation that Jurisdiction A has used its own supply of vaccines, with a grant expense recognised at the measurement of the vaccines held by NPO D that are to be transferred to the jurisdiction.

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

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

NPO E has signed an agreement with a regional government that is expanding a number of programmes that aim to protect environmental habitats. The agreement between NPO E and the regional government, which is enforceable under the laws of the jurisdiction, provides the regional government with CU2m of financial support each year for five years as long as a long-term budget envelope is passed to fund the programmes and CU10m is transferred by the regional government to an independent fund for the indigenous communities. The regional government has subsequently passed a long-term budget envelope to fund these programmes that includes an additional CU10m of expenditure based on receiving the same amount in support from NPO E over that period.

Is there an EGA and how is it accounted for?

The agreement between NPO E and the regional government is an EGA. NPO E has agreed to provide a total of CU10m to the regional government provided that it meets its EGO of passing a long-term budget envelope to fund the specific programmes and transferring CU10m to the independent fund. The agreement is enforceable under the laws of the jurisdiction in which the regional government is based.

There are no further EGOs placed on the regional government. As it has passed the long-term budget envelope and already transferred the full CU10m to the independent fund, the EGO has been met.

Although the arrangement spans five years, with the transfer of CU2m due each year, the recognition of the grant expense must be considered independently from the timing of when the resources are transferred. For the recognition of a grant expense, NPO E must consider whether the regional government has performed under the terms of the EGA and met its EGO. The key consideration is that the regional government has performed for the entire amount that NPO E is obliged to transfer. NPO E will therefore recognise a grant expense and matching liability of CU10m. This liability will be reduced by CU2m each year as the resources are transferred from NPO E to the regional government.

If the transfer of the CU2m was dependent each year on the regional government making its own transfer, then NPO E may realistically be able to avoid the transfer and it would recognise a grant expense of CU2m each year instead.

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

NPO F is the Fund identified in Example 12 of the Section 23 illustrative examples. NPO F has signed an agreement with a community athletics organisation to upgrade its sporting facilities.

How is the EGA accounted for?

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

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

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

As a result, NPO G includes a 'termination for convenience' clause in all of its agreements with other entities and individuals. This allows NPO G to terminate an agreement at any time without there being a breach of the agreement. It has just signed an agreement with NPO H, an international humanitarian organisation, to provide

CU1m for it to purchase emergency ration packs for distribution to refugees. The terms of the agreement indicate that the transfer of resources is due when NPO H has purchased and distributed the ration packs.

Is there an EGA and how is it accounted for?

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

NPO G has a grant fulfilment right under the agreement for NPO H to purchase and distribute ration packs to refugees – this is also NPO H's EGO. In return, NPO G is obliged to provide CU1m to NPO H. The legal form of the arrangement does, however, provide NPO G with the ability to terminate the agreement at any time without their being a breach of the agreement. This means that even after NPO H has fulfilled its EGO, NPO G would be able to terminate the agreement and not transfer the resources.

Whether an EGA exists depends on enforceability and the substance of the arrangement. If it is unlikely that NPO G would use the 'termination for convenience' clause because it has no past history of doing so, and/or in addition to the written agreement there is a deemed oral agreement or customary practices that are legally or otherwise enforceable, then an EGA may be deemed to exist. In this case NPO G would recognise a grant expense and liability once NPO H has met its specific enforceable grant obligation.

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

Section 30 – Foreign currency translation

Identification of an NPO's functional currency

IG30.1 The functional currency of an NPO is identified by assessing which is the currency of its primary economic environment. This is the environment where it mainly generates and expends cash. The most important factors to consider in this assessment are described in G30.3.

IG30.2 Often, this assessment will be straightforward. For example, if an NPO, based in a country with currency CX, receives grants and donations in a number of currencies including CX, pays for goods and services to deliver its public benefit in a range of currencies, with CX being the most significant, and pays its workforce and property rental costs and other overheads in CX, then its functional currency will be CX.

IG30.3 In more complex cases it may be necessary to consider the additional factors described in G30.4. For example, if the NPO in the example above mainly receives its funding from donors in currency CY, pays for its direct costs in a range of currencies with CY being the most significant, but pays its overhead costs in CX, then it is possible that functional currency cannot be identified from the primary characteristics alone.

IG30.4 In this example, secondary characteristics relating to funding should be considered. If the NPO retains significant cash surpluses in CX or has borrowings in CX, then it is likely that its functional currency would still be CX. The management of the NPO, in deciding to manage its funding in CX, may have considered that, although they are exposed to a range of currencies through income and direct costs, access to funding in CX is a priority given the relative significance of the NPO's CX cash flows compared to any other single currency.

IG30.5 Alternatively, if the NPO raised borrowings in CY and retained its donations in CY until they are required, then it is probable that the functional currency of the NPO would be CY. In this instance, the management's decision to denominate funding in CY probably reflects the relative materiality of the direct costs incurred in CY compared to the overheads in CX, indicating that CY is the functional currency.

IG30.6 In the more complex assessments, the materiality of the currency flows and balances should be considered and the management's approach to managing currency exposures and funding may provide an indication of the primary economic environment. In the most extreme case, where no single currency dominates, the functional currency may be the currency of the country in which the NPO is based, given the absence of a clear reason to identify any alternative.

Accounting for transactions that are denominated and settled in different currencies accounted

IG30.7 A transaction may be denominated in one currency and settled in another. This may happen where a provider of a good or service prices in a currency that the provider operates in but, for convenience of settlement, both parties agree to settle the transaction in the recipient's currency.

IG30.8 For example, a supplier will record a sale and receivable in its currency and likewise the purchaser will record an expense and payable in its currency when a supply is made. If the transaction is settled in the purchaser's currency, at the settlement date the purchaser will make a payment in its currency to settle the outstanding amount at the spot rate. The supplier will receive an amount that settles its receivable at that date. If the supplier does not immediately convert the currency received, they may experience an exchange gain or loss. The purchaser may have an exchange gain or loss depending on how exchange rates have moved from the date that the supply was made.

Presentation of financial statements in a currency that is different to the functional currency

IG30.9 Using a presentation currency that is different to the functional currency does not mean that any foreign exchange gains or losses would not be recognised in the financial statements. Any existing foreign exchange gains or losses will also be translated into the presentation currency and remain unchanged other than for the effect of translation.

IG30.10 It should also be noted that use of a presentation currency will result in a new exchange difference, arising from the translation of the income and expenses, and opening net assets, as described in G30.20. This is not a realised gain or loss, as it only arises from the translation of the financial statements to the presentation currency. Unlike transaction gains and losses, this translation item is separately presented in the Statement of Changes in Net Assets.

IG30.11 One potential reason for using a different presentation currency to prepare financial statements may be to permit the provider of funding to identify the amount of expense incurred, and the funding provided, in the currency in which the funding was denominated.

Application to grant arrangements

IG30.12 Some grants or donations are made to fund a defined amount of expenses by the recipient. Funds can be provided under an enforceable grant arrangement (EGA) that specifies outcomes, activities or the distinct goods and services to which the arrangement applies. Alternatively, an other funding arrangement (OFA) may constrain the use of the funding provided without specifying distinct outcomes, activities, goods or services. If the grant recipient is incurring costs in a different currency or currencies to that of the funds being provided, then the grant recipient may be exposed to exchange rate movements. These exposures will vary depending on the requirements of each EGA or OFA.

IG30.13 Some agreements for grants, donations or similar income may specify an exchange rate to be applied to calculate the value of expenses against grant revenue received or expenses to be reimbursed. The use of a specific exchange rate may give rise to a shortfall, or surplus, compared to the expenses on an individual enforceable grant arrangement (EGA) or an OFA. If this results in is a surplus, the grant arrangement may specify how the surplus should be treated. In the absence of any specific terms relating to the surplus, either written or implied, the surplus may be used for any future purpose and treated as funds without restrictions. Where exchange rate risk has been transferred to the grant recipient, any shortfall on a grant arrangement arising from an exchange loss will need to be met from funds without restrictions, even if the shortfall arises from exchange rate measurement bases defined in the agreement.

IG30.14 Section 36 *Fund accounting* [ED3] will prescribe which transactions are to be presented as from funding with restrictions. This will include the presentation of EGAs and OFAs (collectively grant arrangements). Any change in exchange rates may impact the obligations that an NPO has under an EGA or an OFA. Generally, exchange rate gains and losses will follow the presentation of the grant arrangement to which it relates.

IG30.15 As described in G4.14, the nature and purpose of any material restricted funds should be disclosed in the notes to the financial statements. This can include any exchange rate changes that have a material impact on an individual fund that is part of funds with restrictions. Also, as set out in G30.30, exchange rates gains and losses that contribute to a deficit on an individual grant arrangement that is required by Section 36 to be presented within funds with restrictions are to be disclosed separately, with cumulative information presented where relevant.

Illustrative examples

Example 1 – Other funding arrangement – Grant received in advance

The functional currency of NPO A is CX. On 1 January 20X3, NPO A receives a grant of CY50 from donor B, when the exchange rate is 2CX = 1CY. NPO A converts the grant into CX100 on the day of receipt.

The arrangement constrains the use of the grant to a designated project, but as the arrangement is not an EGA and does not create any enforceable grant obligations (EGOs) it is an OFA. All of the funds provided under the funding arrangement will be spent on the project. The grant is recorded as revenue on receipt and for the purposes of this example, is to be presented as part of funds with restrictions.

This example sets out the impact on two possible scenarios.

(a) The funding arrangement specifies that the grant related expense is measured against the grant at the spot rate when the funds are received.

(b) The funding arrangement specifies that the grant related expense is measured against the grant at the spot rate when the expense is incurred.

NPO A incurs all of its expenses in currency CX.

(a) Grant related expenses are measured at the spot rate when the funds are received.

Recognition of grant receipt as revenue

On 1 January 20X3, NPO A records the grant receipt as revenue, as described in G23.32–G23.33, as it has no present obligation at the date of receipt.

1 January 20X3	Debit	Credit
Cash	CX100	
Revenue – funds with restrictions		CX100

Recognition of grant related expenses NPO A incurs grant related expenses of CX100 on 1 June 20X3, when the spot rate is 2.5CX = 1CY. The expense follows the presentation of the related revenue.

1 June 20X3	Debit	Credit
Expenses – funds with restrictions	CX100	
Cash		CX100

The change in exchange rate between 1 January 20X3 and I June 20X3 has no impact on the financial statements of NPO A as NPO converted the funds on the date of receipt and so the subsequent change in exchange rate has no impact on NPO A.

Donor B is similarly not impacted by the subsequent change in exchange rates as NPO A has incurred grant related expenses of CY50, measured at the spot rate on the date of grant of 2CX = 1CY.

After recording all the transactions, the impact on NPO A's primary statements is as follows:

1 June 20X3	**Funds with restrictions**	**Funds without restrictions**	**Total**
	CX	**CX**	**CX**
Statement of Income and Expenses			
Revenue	100		100
Expenses	(100)		(100)
Surplus/(deficit)	0		0
Statement of Changes in Net Assets			
Surplus/(deficit)	0		0
Movement between reserves	0		0
Closing balance	0		0
Statement of Financial Position			
Cash	0		0

b) Grant related expenses are measured at the spot rate when expenses are incurred

Recognition of grant receipt as revenue and grant related expenses

These will both be same as in example 1a)

Totality of grant expenses

Although NPO A has spent all of the converted funds, because the funding arrangement requires that grant related expenses are measured at the spot rate that the expenses are incurred, from the donor's perspective it has only spent CY40 of the CY50 provided. This is because the spot rate was 2.5CX = 1CY when the expenses were incurred so that the CX100 spent equated to 40CY.

As a consequence, NPO A has a requirement to spend a further CY10 of expenses on the project.

To meet this requirement, NPO A has to spend a further CX25, which it incurs on 1 July 20X3. The spot rate on 1 July 20X3 is also 2.5CX = 1CY.

1 July 20X3	Debit	Credit
Expenses – funds with restrictions	CX25	
Cash		CX25

As there is no further change in the exchange rate, NPO A incurs CX25 more expenses than was received as revenue.

From the perspective of donor B, NPO A has incurred grant related expenses of CY50, being CX125 measured at the spot rate of 2.5CX = 1CY on the date the expenses were incurred.

Movement between reserves

The change in exchange rate has resulted in additional expenses that leads to a deficit of CX25 on the funding arrangement. This deficit must be funded from the NPO's funds without restrictions as this exchange loss is effectively ineligible. The shortfall is addressed on 1 July 20X3.

1 July 20X3	Debit	Credit
Funds without restrictions	CX25	
Funds with restrictions		CX25

After recording all the transactions, the impact on NPO A's primary statements is as follows:

1 July 20X3	**Funds with restrictions**	**Funds without restrictions**	**Total**
	CX	**CX**	**CX**
Statement of Income and Expenses			
Revenue	100	0	100
Expenses	(125)	0	(125)
Surplus/(deficit)	(25)	0	(25)
Statement of Changes in Net Assets			
Surplus/(deficit)	(25)	0	(25)
Movement between reserves	25	(25)	0
Closing balance	0	(25)	(25)
Statement of Financial Position			
(Overdraft)/cash	0	(25)	(25)
Funds without restrictions		(25)	(25)

If the exchange rate on 1 June 20X3 had been 1.5CX = 1CY, then NPO A would only have needed to incur CX75 under the terms of the funding arrangement. This would leave NPO A with a cash surplus of CX25, if there is no requirement to refund it. If the surplus could be used for any purpose then NPO A would record a transfer between funds with restrictions and funds without restrictions in the opposite direction to the exchange loss.

After recording all transactions, the alternative exchange rate would impact on NPO A's financial statements as follows:

1 June 20X3	**Funds with restrictions**	**Funds without restrictions**	**Total**
	CX	**CX**	**CX**
Statement of Income and Expenses			
Revenue	100	0	100
Expenses	(75)	0	(75)
Surplus/(deficit)	25	0	25
Statement of Changes in Net Assets			
Surplus/(deficit)	25	0	25
Movement between reserves	(25)	25	0
Closing balance	0	25	25
Statement of Financial Position			
Cash	0	25	25
Funds without restrictions	0	25	25

Typically, there is a requirement that the recipient must spend all the revenue they receive on the purpose specified in the grant. If that is the case, NPO A would need to incur grant related expenses of CX100 and the outcome would be equivalent to scenario a). That is because the impact of the beneficial change in exchange rates would be overridden by the requirement to spend all revenue received on the designated purpose in the funding arrangement.

Example 2 – Enforceable grant arrangement – Expenses reimbursed by grants in arrears

On 1 September 20X2, NPO C enters into an EGA with donor D, specifying expenses will be reimbursed up to an amount of CY50. For the purposes of this example Section 36 *Fund accounting* [ED3] requires that this transaction is presented in funds with restrictions. NPO C incurs grant related expenses of CX100 on 1 January 20X3 when the spot exchange rate is 2CX = 1CY.

The EGA specifies that the grant related expenses are measured against the grant at the spot rate when the expenses are incurred and settled once the EGO has been met.

Recognition of grant related expenses and related grant revenue

Grant revenue of CX100 is recorded together with a receivable of CX100 for the reimbursement of the grant expenses on 1 January 20X3. The receivable is denominated in CY, since it is measured at the exchange rate when the expenses are incurred. As a result, the receivable is valued at CY50 (as CX100 = CY50 at the spot rate of 2CX = 1CY on 1 January 20X3).

	Debit	Credit
Cash		CX100
Expenses – funds with restrictions	CX100	
Grant receivable	CX100	
Revenue – funds with restrictions		CX100

Settlement of grant receivable

NPO C remeasures the receivable of CY50 to the latest exchange rate as it is a monetary item. As the exchange rate has moved to 2.5CX = CY1, NPO C recognises an exchange gain of CX25 (with CY50 = CX125). The exchange gain is presented in funds with restrictions as it relates to the EGA.

30 June 20X3	Debit	Credit
Grant receivable	CX25	
Foreign exchange gain		CX25

Donor D pays NPO C CY50 on 30 June 20X3, in accordance with the grant fulfilment right in the EGA. At this date the spot rate is 2.5CX = 1CY. NPO C converts this into CX immediately and obtains CX125 at the spot rate. The receipt of CX125 clears the receivable.

30 June 20X3	Debit	Credit
Cash	CX125	
Grant receivable		CX125

The change in exchange rates results in an exchange gain for NPO C. If NPO C is allowed to retain this surplus for any purpose, then NPO C will be able to transfer the surplus on that specific arrangement to funds without restrictions.

After recording these transactions, the impact on NPO C's primary statements is as follows:

30 June 20X3	**Funds with restrictions**	**Funds without restrictions**	**Total**
	CX	**CX**	**CX**
Statement of Income and Expenses			
Revenue	100	0	100
Expenses	(100)	0	(100)
Operating surplus/(deficit)	0	0	0
Foreign exchange gain/(loss)	25		25
Surplus/(deficit)	25		25
Statement of Changes in Net Assets			
Surplus/(deficit)	25	0	25
Movement between reserves	(25)	25	0
Closing balance	0	25	25
Statement of Financial Position			
Cash	0	25	25
Funds with restrictions	0	25	25

Example 3 – Enforceable grant arrangement – Grant received in advance

On 1 January 20X3, NPO E receives a grant of CY50 from donor F under an EGA, which is required for the purposes of this example, by Section 36 *Fund accounting* [ED3] to be presented as funds with restrictions. The exchange rate on receipt is 2CX = 1CY. NPO E converts the grant into CX100 (CY50 = CX100 at a rate of 2CX = 1CY) on the day of receipt.

The EGA requires NPO E to incur expenses on a specific project with measurable performance conditions resulting in an EGO. NPO E expects to incur CX100 of expenses to meet this EGO. The EGA specifies that grant related expenses are measured at the spot rate on the date when the expense is incurred. Any amounts not spent on the project must be returned to the donor F.

Recognition of grant receipt as binding grant arrangement liability

As per G23.43, an EGA liability is recognised when the grant is received.

1 January 20X3	Debit	Credit
Cash	CX100	
Grant arrangement liability		CX100

Recognition of grant related expenses and related grant revenue

NPO E incurs grant related expenses of CX100 on 30 June 20X3. In so doing, NPO E satisfies the EGO, and therefore recognises revenue in funds with restrictions of CX100.

30 June 20X3	Debit	Credit
Expenses – funds with restrictions	CX100	
Cash		CX100
Grant arrangement liability	CX100	
Revenue – funds with restrictions		CX100

Measurement of the EGO

Under the terms of the EGA, expenses incurred by NPO E are measured at the spot rate when they are incurred. The spot rate on 30 June 20X3 is 2.5CX = 1CY. Therefore, NPO E has incurred expenses of CY40 in currency CY on the project, which is the date that the EGO is met (CX100 = CY40, at the exchange rate of 2.5CX = 1CY). Therefore, NPO E must return CY10 to donor F.

NPO E recognises a liability of CX25, which is the equivalent of CY10 at the spot rate on 30 June 20X3. This reduces revenue as it arises from the obligation to return some of the grant proceeds to donor F. This reduction will be presented consistent with the original transaction.

30 June 20X3	Debit	Credit
Revenue – funds with restrictions	CX25	
Refund liability to grantor		CX25

Clearing refund liability

NPO E settles the refund liability on 1 August 20X3 by paying CY10 to donor F. As the spot rate on 1 August 20X3 has moved to 3CX = 1CY, the refund liability is increased by CX5 to CX30 (as CY10 is now worth CX30 at a rate of 3CX = 1CY). The additional amount required to settle the refund liability to the grantor creates an exchange loss of CX5. This is treated as an exchange loss since the refund liability to the grantor is a monetary item that will result in a cash outflow from NPO E (G30.11). The exchange loss is recognised in revenue consistent with the original transaction (G30.12).

1 August 20X3	Debit	Credit
Exchange loss	CX5	
Refund liability to donor – arising from exchange loss		CX5
Refund liability to donor – settlement	CX30	
Cash		CX30

Movement between reserves

The changes in exchange rates collectively result in a deficit of CX30 on the EGA (with CX25 being a refund to the donor and CX5 being a loss between the date of refund liability and its settlement). This deficit must be funded from the NPO's funds without restrictions. This shortfall is addressed on 1 August 20X3.

1 August 20X3	Debit	Credit
Funds without restrictions	CX30	
Funds with restrictions		CX30

From the perspective of donor F, NPO E has incurred grant related expenses of CY40, being CX100 measured at the spot rate of 2.5CX = 1CY and is therefore entitled to a refund.

After recording all the transactions, the impact on NPO E's primary statements is as follows:

1 August 20X3	**With restrictions**	**Without restrictions**	**Total**
	CX	**CX**	**CX**
Statement of Income and Expenses			
Revenue	75	0	75
Expenses	(100)	0	(100)
Operating surplus/(deficit)	(25)	0	(25)
Foreign exchange loss	(5)	0	(5)
Surplus/(deficit)	(30)	0	(30)
Statement of Changes in Net Assets			
Surplus/(deficit)	(30)		(30)
Movement between reserves	30	(30)	0
Closing balance	0	(30)	(30)
Statement of Financial Position			
(Overdraft)/cash	0	(30)	(30)
Funds without restrictions	0	(30)	(30)

Example 4 – Other funding arrangement – Grant received in advance and held in foreign currency account

The functional currency of NPO G is CX. On 1 January 20X3, NPO G receives a grant of CY50 from donor H, when the exchange rate is 2CX = 1CY. NPO G retains the grant in CY in a foreign currency account along with a number of other grants.

The funding arrangement constrains expenses to a designated project, but it is not an EGA. However, for the purposes of this example, the arrangement is presented as part of funds with restrictions. All of the grant will be spent on the project. The funding arrangement specifies that the grant related expenses are measured against the grant at the spot rate when the expense is incurred.

Recognition of grant receipt as revenue

As in example 1b), revenue is recognised when the grant is received, using the spot rate on 1 January 20X3 to record the revenue and cash.

Revaluation of foreign currency cash

As the cash is in a foreign currency bank account it is a monetary item and revalued at each reporting date. On 30 June 20X3 the spot rate is 2.5CX = 1CY. This results in an exchange gain of CX25 (as CY50 = CX125 as the spot rate). The foreign exchange gain is presented as an exchange gain as part of funds with restrictions following the presentation of the original agreement.

30 June 20X3	Debit	Credit
Cash	CX25	
Foreign exchange gain		CX25

If the individual balance on the grant arrangement cannot be identified because there are a number of transactions in the bank account, the total exchange gain or loss will need to be allocated. AG30.14 requires that an allocation method is used that is a suitable proxy for the cash balance on the grant arrangement. If there had been two active grant arrangements in currency CY, NPO G could have allocated the exchange gain based on accounting balance for each of the grants. NPO G would need to consider whether significant accruals would render this approach inappropriate.

Recognition of grant related expenses

NPO G incurs grant related expenses of CX100 on the date the balance is retranslated (30 June 20X3). These expenses are funded by converting the holding of CY to obtain CX100. At the spot rate of 2.5CX to 1CY, CY40 is required to provide CX100. As the cash has been retranslated there is no further accounting adjustment other than to move cash from one bank account to another.

30 June 20X3	Debit	Credit
Expenses – funds with restrictions	CX100	
Cash		CX100

Recognition of grant obligation

As NPO G had retained the cash in a CY account until it was used, the change in exchange rates between 1 January 20X3 and 30 June 20X3 means that NPO G has also only spent CY40 of the cash received. The remaining CY10 is still held in the foreign currency account.

The expectation in the funding arrangement is that all of the grant will be spent on the project. As there in no EGO, NPO G does not have a present obligation to incur the expenses, but the funding arrangement constrains the spending of the remaining CY10 to the project. NPO G will not need to recognise a provision for additional expenses and will recognise the expenses as and when they are incurred.

On 31 July 20X3, when the spot rate is 3CX = 1CY, NPO G spends the remainder of the grant converting the remaining CY10 into CX30.

31 July 20X3	Debit	Credit
Expenses – funds with restrictions	CX30	
Cash		CX30
Cash	CX5	
Foreign exchange gain		CX5

The change in exchange rate results in NPO G incurring CX30 more expense than was received as revenue, but this shortfall was effectively paid for by the exchange gain. NPO G did not require any additional cash.

From the perspective of donor H, it has incurred grant expenses of CY50.

Movement between reserves

As there is no surplus or deficit on this funding arrangement there are no reserve movements.

After recording all the transactions, the impact on NPO G's primary statements is as follows:

31 July 20X3	**Funds with restrictions**	**Funds without restrictions**	**Total**
	CX	**CX**	**CX**
Statement of Income and Expenses			
Revenue	100	0	100
Expenses	(130)	0	(130)
Operating surplus/(deficit)	(30)	0	(30)
Foreign exchange gains/(losses)	30	0	30
Surplus/(deficit)	0	0	0
Statement of Changes in Net Assets			
Surplus/(deficit)	0	0	0
Movement between reserves	0	0	0
Closing balance	0	0	0
Statement of Financial Position			
Cash	0	0	0

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