



REVENUE RECOGNITION – IN-KIND CONTRIBUTIONS

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Approval

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Distribution

Name	Role
Sammy Ng'era	OFA

¹ All IPSAS forms are on the share: V:\IPSAS\Project_Mgmt\Forms

² Policy papers are saved on V:\IPSAS\Policy Papers and Business Requirements\A-Policy papers

Related Documents

Document	Location
IPSAS 23 Revenue from Non-exchange transactions and voluntary contributions - UN guidance	UN guidance
IPSAS 23: Revenue from non-exchange transactions	IPSAS 23

1. Purpose

The policy provides the authoritative rules and methods of accounting treatment and financial reporting to be applied in the recognition of non-core contributions.

2. Scope

The policy will apply to the recognition of non-core donor contributions.

3. Key definitions

93. Gifts and donations are voluntary transfers of assets including cash or other monetary assets, goods in-kind and services in-kind that one entity makes to another, normally free from stipulations.

- **Exchange transactions**³ - transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
- **Non-exchange transactions**⁴ - Transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. (*Emphasis added*)
- **Control of an asset** - Arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the

³ IPSAS 23.7

⁴ IPSAS 23.7

access of others to that benefit.⁵ ...Only when a claim is enforceable, and the entity assesses that it is probable that the inflow of resources will occur will assets ... be recognized.⁶ (*Emphasis added*)

- **Stipulations**⁷ relating to a transferred asset may be either conditions or restrictions.
- **Conditions on transferred assets**⁸ - Stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor. (*Emphasis added*)
- **Restrictions** – does not require the return of the contribution to the donor.
- **Substance over form**⁹ - In determining whether a stipulation is a condition or a restriction it is necessary to consider the substance of the terms of the stipulation and not merely its form. Is the requirement to return the asset enforceable by the transferor? If past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset or other future economic benefits or service potential when breaches have occurred, then the recipient entity may conclude that the stipulation has the form but not the substance of a condition, and is, therefore, a restriction.
- A **present obligation**¹⁰ arising from a non-exchange transaction that meets the definition of a liability shall be recognized as a liability when, and only when:
 - (a) It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and
 - (b) A reliable estimate can be made of the amount of the obligation.

4. Background

UNSAS¹¹ states that “Significant voluntary contributions in kind, which can be used in the normal course of an organization’s programme activity, and provided that a fair value can be reasonably estimated, should be reported in the organization’s financial statements. An organization may choose to recognize these contributions on the face of the statements or disclose them as a Note. Such contributions should be valued at a fair value, including donor’s valuation if appropriate, as best determined by the organization and the basis for such valuation should be disclosed. UNDP’s financial rules and regulations further makes a further reference to the rules on in-kind contributions.

⁵ IPSAS 23.7

⁶ IPSAS 23.79

⁷ IPSAS 23; Para 15

⁸ IPSAS 23.7

⁹ IPSAS 23; Para 21

¹⁰ IPSAS 23: Para 50 points a) and b)

¹¹ UNSAS, Para 35



Historically as part of the agreements of UNDP with recipient countries, the Governments of those countries are to provide UNDP with accommodation free of charge. This is the most significant item with respect to in-kind contributions that has been identified and disclosed in the financial statements of UNDP.

The current challenge is to identify all goods and services in-kind and provide the appropriate treatment in terms of IPSAS. IPSAS stipulates the recording and disclosure of goods in-kind and indicates that entities *MAY*, but is not required to record/disclose services in-kind.

Goods in-kind

Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind.

Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous, in such circumstances, there is no doubt as to the future economic benefits flowing to the entity.

Examples of goods in-kind received by UNDP include:

- Accommodation provided free of charge
- Equipment provided free of charge either for use by UNDP or the projects
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Services in kind

An entity *MAY*, but is not required to, recognize services in-kind as revenue and as an asset.

Services in-kind are services provided by individuals to public sector entities in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential are expected to flow to the entity. These assets are, however, immediately consumed and a transaction of equal value is also recognized to reflect the consumption of these services in-kind. The standard encourages disclosure of services in-kind even though not recognized.

Examples of services in-kind received by UNDP are:

- Services of consultants
- Policy advice



An entity that is dependent on a class of services in-kind to meet its objectives, may be more likely to recognize those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. Past history in UNDP has indicated no circumstances where dependencies of services were noted to meet its objectives.

5. Detail policy

Note: The policy paper on PPE documents the accounting treatment for Property Plant and Equipment provided in-kind to UNDP.

Goods in-kind

Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied.

On initial recognition, goods in-kind are measured at fair value as at the date of acquisition (IPSAS 23, paragraph 97). Fair value is determined by reference to quoted prices in an active and liquid market, otherwise by appraisal.

Where goods fall within the definition of property, plant and equipment, the criteria for recognition will follow the recommended policy of Property, Plant and equipment.

Where goods do not fall within the definition of property, plant and equipment, processes will be developed in the identification and recording of these goods based on materiality.

Services in-kind

Due to the immaterial nature of the provision of services in-kind to UNDP; the policy position is NOT to recognize or disclose.

Disclosure

An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:

- (a) The amount of revenue from non-exchange transactions recognized during the period by major classes showing separately:*



- (b) The amount of receivables recognized in respect of non-exchange revenue.*
- (c) The amount of liabilities recognized in respect of transferred assets subject to conditions.*
- (d) The amount of assets recognized that are subject to restrictions and the nature of those restrictions.*
- (e) The existence and amounts of any advance receipts in respect of non-exchange transactions.*
- (f) The amount of any liabilities forgiven.*

An entity shall disclose in the notes to the general purpose financial statements:

- (a) The accounting policies adopted for the recognition of revenue from non-exchange transactions.*
- (b) For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured.*
- (c) For major classes of taxation revenue which the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax.*
- (d) The nature and type of major classes of bequests, gifts, donations showing separately major classes of goods in-kind received.*

Entities are encouraged to disclose the nature and type of major classes of services in-kind received, including those not recognized. The extent to which an entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.

6. Policy decision

Recognition and disclosure of good in-kind when control exists, subject to any conditions and amount to be recognized at fair value

No recognition and disclosure of services in-kind. Where services-in kind are considered material in relation to the operations of UNDP, these will be disclosed in the financial statements.

Other issues



None