



Project:	Income of Not-for-Profit Entities	Meeting	AASB August 2016 (M153)
Topic:	Redeliberations – treatment of volunteer services	Agenda Item:	3.5
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Introduction and objective of this paper

1 The objective of this paper is to obtain Board decisions on ED 260 *Income of Not-for-Profit Entities* proposals in relation to volunteer services.

2 The issues addressed in this paper are whether:

Issue 1: any amendment is required from ED 260 that proposed:

- (a) local governments, government departments, GGSs and whole of governments recognise volunteer services on satisfying prescribed recognition criteria;
- (b) guidance as to when any not-for-profit entity is permitted to recognise volunteer services; and
- (c) identifying recognised income from volunteer services as an example of a category of income that may be appropriate to disclose.

Issue 2: Board members would like the disclosure requirements of the finalised Standard to address information about an entity’s dependence on volunteer services.

3 This paper is structured as follows:

- (a) Summary of staff recommendations (paragraph 4)
- (b) Issue 1:ED 260 Recognition, measurement and disclosure of volunteer services (paragraphs 5-8)

- (c) Feedback received on Issue 1 (paragraphs 9-15)
- (d) Current requirements – other jurisdictions, Issue 1 (paragraphs 16-21)
- (e) Staff analysis, recommendations and questions for the Board on Issue 1 (paragraphs 22-23)
- (f) Issue 2: Disclosure of dependence on volunteer services (paragraphs 24-25)
- (g) Current requirements – other jurisdictions, Issue 2 (paragraphs 26-28)
- (h) Staff analysis, recommendations and questions for the Board on Issue 2 (paragraphs 29-36)
- (i) Appendix A: Volunteer services – ED 260 and AASB 1004
- (j) Appendix B: Volunteer services – other jurisdictions

Summary of staff recommendations

4 Staff recommend:

- (a) Issue 1:
 - (i) retaining unchanged in the finalised Standard, the proposals for volunteer services in ED 260 paragraphs 19-24 and the disclosure in paragraph 35; and
 - (ii) that the Board refer the topic of ‘volunteer services’ for consideration as part of AASB’s Agenda Consultation; and
- (b) Issue 2: that the disclosure paragraphs of the finalised Standard encourage entities to disclose their dependence on volunteer services:

“Entities are encouraged to disclose the nature, type and scale of major classes of volunteer services, including those not recognised. Such disclosures may assist users to make informed judgements about the contribution made by such services to the achievement of the entity’s objectives during the reporting period, and the entity’s dependence on such services for the achievement of its objectives in the future.”

Issue 1: ED 260 Recognition, measurement and disclosure of volunteer services

- 5 Currently, AASB 1004 *Contributions* addresses the treatment of contributions to local governments, government departments, general government sectors and whole of governments of services free of charge or for nominal consideration. The proposals in ED 260, if finalised, would supersede that material.
- 6 ED 260 carried forward the requirements in AASB 1004 and also added additional guidance for other not-for-profit entities. The proposals of ED 260:
 - (a) required local governments, government departments, GGSs and whole of governments to recognise volunteer services if certain criteria are met; and

- (b) clarified that any not-for-profit entity (including local governments, government departments, GGSs and whole of governments that did not meet the criteria for recognising volunteer services) can elect to recognise volunteer services if the fair value of those services can be measured reliably.
- 7 Appendix A to this paper reproduces in full the relevant paragraphs for ED 260 and AASB 1004.
- 8 The views of constituents were sought on whether the treatment of volunteer services should be the same for all not-for-profit entities.

Feedback received on Issue 1

- 9 Constituents were not asked a specific question on the draft paragraphs in ED 260. Rather, the ED asked the question as to whether the requirements (if any) for the recognition of volunteer services in the finalised Standard should be the same for all not-for-profit entities, regardless of whether they operate in the public or private sector.
- 10 The majority of all constituents¹ held the view that the requirements should be the same for all not-for-profit entities. However, contrary to the proposals in ED 260, most considered that the recognition of volunteer services should be optional for all entities.²
- 11 Some constituents in the not-for-profit public sector³ expressed support for draft paragraph 19 that would carry forward unchanged the requirements in paragraph 44 of AASB 1004 so that only local governments, government departments, GGSs and whole of governments are required to recognise volunteer services on satisfying the prescribed criteria.
- 12 A constituent⁴ commented that they did not support the same requirement for all not-for-profit entities if that requirement was to mandate the recognition of volunteer services. This was primarily on cost-benefit grounds in respect of private not-for-profit entities.

¹ Department of Education & Training, ACNC, AUSFOG, CPA Australia and CAANZ, EY, Family Planning NSW, Gof8 CFOs, Grant Thornton, HoTARAC, IPA, KPMG, Local Government Finance Professional Inc, MA Smallsman, Nexia, NT Local Government Accounting Advisory Committee, Peter Batten, PwC, SALGFMG, South African Accounting Standards Board, UNSW and William Buck

² Department of Education & Training, AUSFOG, CPA Australia and CAANZ, Family Planning NSW, Grant Thornton, HoTARAC, IPA, Local Government Finance Professional Inc, MA Smallsman, Nexia, Peter Batten, PwC, SALGFMG, UNSW and William Buck

³ ACAG and ACNC

⁴ Moore Stephens

- 13 A constituent⁵ noted that the requirement in AASB 1004 paragraph 44 to recognise income for volunteer services does not apply to **all** not-for-profit public sector entities and encouraged the Board to consider whether such differentiation within public sector not-for-profit entities justifies different accounting requirements.
- 14 A constituent⁶ considered that volunteer services should be a specific project of the AASB and not addressed in these current proposed changes. Some constituents preferred that information about volunteer services be reported outside the not-for-profit entity's financial statements, for example as part of service performance reporting.
- 15 The Project Advisory Panel discussed whether the finalised Standard should address the requirements for treatment of volunteer services and whether those requirements should be the same for all not-for-profit entities. That discussion did not lead to an agreed position. Some Panel members supported a separate project on volunteer services. Some Panel members noted that extending the proposals to apply to all not-for-profit public sector entities would bring into scope those government agencies that have a significant reliance on volunteer services (e.g., country fire services). Other Panel members noted that without a definition of not-for-profit public sector entities it would be unclear whether public universities are part of the not-for-profit public sector.

Current requirements – other jurisdictions, Issue 1⁷

IPSASB and New Zealand

- 16 The International Public Sector Accounting Standards Board (IPSASB) IPSAS 23 *Revenue from Non-exchange transactions (Taxes and Transfers)* permits, but does not require the recognition of volunteer services, when those services meet the definition of an asset and satisfy the criteria for recognition. Volunteer services are measured at fair value.
- 17 The requirements of the New Zealand Accounting Standards Board (NZASB) PBE IPSAS 23 are the same.
- 18 The two Standards take the view that due to difficulties related to measurement and control of volunteer services, recognition of volunteer services should be permitted but not required.

United Kingdom

- 19 FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* expects that services from volunteers cannot be reasonably quantified and

⁵ ACAG

⁶ ACNC

⁷ Appendix B to this paper includes the literature summarised here.

therefore not recognised. Volunteer services that can be reasonably quantified (e.g., services that would otherwise have been purchased and services usually provided by an individual or an entity as part of their trade or profession for a fee) are recognised when received. Volunteer services are measured at the value to the entity.

- 20 *The Charities SORP* takes the view that as it is impractical to reliably measure the inflow of services donated by general volunteers, those services must not be included as income.

United States

- 21 Topic 958 *Not-for-Profit Entities* requires volunteer services are recognised if the service received creates or enhances non-financial assets or require specialised skills that would typically need to be purchased if not provided by donation. Volunteer services are measured at fair value regardless of whether the entity could afford to purchase the services at their fair value.

Staff analysis, recommendations and questions for the Board on Issue 1

- 22 Based on constituent feedback staff have identified the following five alternatives:

Alternative 1: Retain the requirements of AASB 1004 unchanged – this would result in local governments, government departments, GGSs and whole of governments being required to recognise volunteer services, and no guidance provided to other entities as to whether, and how, they should recognise volunteer services. This approach could be seen as a short-term solution to maintain that status quo depending on future decisions regarding the AASB Agenda Consultation and a possible project on volunteer services.

Comparison with other jurisdictions

Alternative 1 is not consistent with IPSAS 23 and PBE IPSAS 23. These Standards do not require any public sector entity to recognise volunteer services. Rather IPSAS 23 and PBE IPSAS 23 allow a public sector entity to elect to recognise volunteer services.

Alternative 2: Retain the proposals in ED 260 unchanged i.e. require local governments, government departments, GGSs and whole of governments to recognise volunteer services if certain criteria are met, and provide guidance as to when any not-for-profit entities (including local governments, government departments, GGSs and whole of governments that do not meet the criteria) are permitted to recognise volunteer services. The inclusion of paragraphs to address when a not-for-profit entity can elect to recognise volunteer services will make it clearer for a not-for-profit entity on how to recognise volunteer services if it elects to do so. This alternative also has the benefit of providing additional guidance for entities, with no real cost as entities can elect whether to recognise the volunteer services or not.

Comparison with other jurisdictions

Alternative 2 is not consistent with IPSAS 23 or PBE IPSAS 23 for public sector entities. . However, it is consistent with PBE IPSAS 23

for private sector not-for-profit entities. It would also seem consistent with UK FRS 102, Charities SORP and US Topic 958 for not recognising general volunteer services.

Alternative 3: Extend to all not-for-profit public sector entities the current requirements that require local government, government departments, GGS and whole of governments to recognise volunteer services, and provide guidance as to when not-for-profit private sector entities can elect to recognise volunteer services. This alternative has the benefit of removing from the finalised Standard a rule that mandates some not-for-profit public sector entities to recognise volunteer services but not others. It will also make it clearer for a not-for-profit entity on how to recognise volunteer services if it elects to do so. A possible disadvantage of Alternative 3 is that without a definition of not-for-profit public sector entities it may be unclear to some entities (e.g., public universities) as to whether they are part of the sector.

Comparison with other jurisdictions

Alternative 3 is not consistent with IPSAS 23 and PBE IPSAS 23. However it is consistent with PBE IPSAS 23 for not-for-profit private sector entities.

Alternative 4: Make the recognition of volunteer services optional for all entities – this would result in guidance as to when entities are permitted to recognise volunteer services. This alternative has the benefit of removing from the finalised AASB Standard a rule that mandates certain entities to recognise volunteer services. Instead, all not-for-profit entities would have the same option to recognise volunteer services. However, it may be seen as a retrograde step from the current requirements of AASB 1004.

Comparison with other jurisdictions

Alternative 4 is consistent with IPSAS 23 and PBE IPSAS 23. However, Alternative 4 would seem not consistent with FRS 102 or Topic 958 for ‘specialised’ volunteer services.

Alternative 5: Make the recognition of volunteer services required for all entities – this would result in all entities being required to recognise volunteer services if certain criteria are met. This alternative has the benefit of having a consistent approach for all not-for-profit entities, and would result in all entities providing information that is useful to understanding the true cost of delivering services. However, this alternative may be quite onerous for some not-for-profit entities. This alternative is also not supported by the feedback received.

Comparison with other jurisdictions

Alternative 5 could be seen as consistent with UK FRS 102 or US Topic 958 for ‘specialised’ volunteer services but not consistent with the UK Charities SORP, IPSAS 23 and PBE IPSAS 23.

Staff recommendation

23 Based on the above analysis, staff recommend:

- (a) Alternative 2. That is, retaining unchanged in the finalised Standard, the proposals for volunteer services in ED 260 paragraphs 19-24 and the disclosure in paragraph 35. Staff considers this to be a useful interim step towards any future project considering the accounting for volunteer services more broadly. Staff consider that Alternative 2 is broadly consistent with the feedback received when assessed in the context of a future project and consistent with requirements of PBE IPSAS 23 that apply to private sector not-for-profit entities. For general volunteer services received by a private sector not-for-profit entity, staff consider that the application of Alternative 2 is likely to result in the same outcomes as FRS 102, The Charities SORP and Topic 958; and
- (b) that the Board refer the topic of ‘volunteer services’ for consideration as part of AASB’s Agenda Consultation.

Questions for Board members

- Q1 Do Board members agree with the staff recommendation to retain unchanged in the finalised Standard, the proposals for volunteer services in ED 260 paragraphs 19-24 and the disclosure in paragraph 35?
- Q2 Do Board members agree with the staff recommendation that the Board refer the topic of ‘volunteer services’ for consideration as part of agenda consultation?

Issue 2: Disclosure of dependence on volunteer services

- 24 Based on the analysis undertaken for Issue 1, staff have identified a potential additional disclosure in relation to the dependence on volunteer services, including those not recognised in the financial statements.
- 25 ED 260 paragraph 35 proposed that an entity disaggregate recognised income into categories that depict how the nature and amount of income and cash flows are affected by economic factors. Volunteer services were identified as one example of recognised income that may be appropriate to disclose. ED 260 did not propose a disclosure paragraph in relation to an entity’s dependence on volunteer services and it was not raised by constituents.

Current requirements – other jurisdictions, Issue 2⁸

IPSASB and New Zealand

- 26 IPSAS 23 and PBE IPSAS 23 both address the disclosure of dependence on volunteer services. Entities within scope of those standards are encouraged to disclose the

⁸ Appendix B to this paper includes the literature summarised here.

nature and type of major classes of volunteer services received, including those not recognised. Both Standards take the view that this information may assist users in understanding the contribution made by such services to the achievement of the entity's objectives during the reporting period and the entity's dependency on volunteer services for the future achievement of its objectives. PBE IPSAS 23 notes that volunteer services are likely to be hours of work provided by volunteers.

United Kingdom

- 27 FRS 102 requires the disclosure of recognised and unrecognised volunteer services. The Charities SORP requires the financial statements include a description of the role played by unrecognised volunteer services and the nature of the services. The Charities SORP notes the importance of users of financial statements understanding the nature and scale of volunteer services.

United States

- 28 Topic 958 *Not-for-Profit Entities* requires disclosure of volunteer services regardless of whether the services received are recognised or unrecognised in the financial statements. The disclosures are required to describe the programs or activities for which those services were used and are encouraged to disclose the fair value of unrecognised volunteer service if that is practicable. The nature and extent of volunteer services received can be described by non-monetary information.

Staff analysis, recommendations and questions for the Board on Issue 2

- 29 The inclusion in the finalised Standard of an encouragement for entities to disclose their dependence on volunteer services, including those not recognised in the financial statements, could be seen as a short-term solution depending on future decisions regarding the AASB Agenda Consultation and a possible project on volunteer services and the AASB project on service performance reporting. This approach is consistent with the approach of IPSAS 23 and PBE IPSAS 23 and also has the benefit of encouraging the disclosure of additional information useful to users, with no real cost as entities can elect whether to disclose the information or not.
- 30 The inclusion in the finalised Standard of a requirement for entities to disclose this information was not proposed by ED 260 and may be seen as pre-empting the outcomes of the AASB project on service performance reporting and a possible project on volunteer services.
- 31 Based on this analysis, staff recommend that the finalised Standard encourage entities to disclose their dependence on volunteer services.

Question for Board members

- Q3 Would Board members like the finalised Standard to include a disclosure paragraph in relation to an entity's dependence on volunteer services, including those not recognised in the financial statements?
- Q4 If yes, would Board members prefer the finalised Standard to:
- (a) encourage entities to disclose their dependence on volunteer services?; or

(b) require entities to disclose their dependence on volunteer services?

Encourage entities to disclose their dependence on volunteer services

- 32 This sub-section is only relevant if the Board answers Question 4(a) above in the affirmative.
- 33 IPSAS 23 and PBE IPSAS 23 encourage disclosure of the nature and type of major classes of volunteer services. The Charities SORP identifies the importance of understanding their nature and scale.
- 34 Based on this analysis, staff recommend that the finalised Standard include a paragraph that uses words similar to:

“Entities are encouraged to disclose the nature, type and scale of major classes of volunteer services, including those not recognised. Such disclosures may assist users to make informed judgements about the contribution made by such services to the achievement of the entity’s objectives during the reporting period, and the entity’s dependence on such services for the achievement of its objectives in the future.”

Question for Board members

- Q5 Do Board members agree with the staff recommendation that the finalised Standard include a paragraph that uses words similar to the words expressed in paragraph 34 above?

Require entities to disclose their dependence on volunteer services

- 35 This sub-section is only relevant if the Board answers Question 4(b) above in the affirmative.
- 36 Paragraph 34 above can be re-expressed as a requirement. Staff recommend that the finalised Standard include a paragraph that uses words similar to:

“Entities are required to disclose the nature, type and scale of major classes of volunteer services, including those not recognised. Such disclosures may assist users to make informed judgements about the contribution made by such services to the achievement of the entity’s objectives during the reporting period, and the entity’s dependence on such services for the achievement of its objectives in the future.”

Question for Board members

- Q6 Do Board members agree with the staff recommendation that the finalised Standard include a paragraph that uses words similar to the words expressed in paragraph 36 above?

Appendix A

Volunteer services – ED 260 and AASB 1004

ED 260 states:

Recognition and measurement of volunteer services

- 19 **Local governments, government departments, general government sectors (GGSs) and whole of governments shall recognise volunteer services as income if:**
- (a) **the fair value of those services can be measured reliably; and**
 - (b) **the services would have been purchased if they had not been donated.**
- 20 Any public sector not-for-profit entity referred to in paragraph 19 may elect to recognise volunteer services as income if the services would not have been purchased if they had not been donated, provided that the fair value of those volunteer services can be measured reliably.
- 21 Any other not-for-profit entity may elect to recognise volunteer services, or a class of volunteer services, as income and a corresponding asset or expense if the fair value of those services can be measured reliably.
- 22 Consistent with paragraphs 20-21, the criterion in paragraph 19(b) need not be met for any not-for-profit entity to elect to recognise volunteer services.
- 23 **Recognised volunteer services are measured at their fair value.**
- 24 In some circumstances, volunteer services provided to a not-for-profit entity might meet the definition of assets, but the fair value of those services might not be able to be measured reliably, and therefore fail to satisfy the criteria for recognition as an asset (and, consequently, as income). Some volunteer services, such as professional services, might have readily observable market prices – in such circumstances, obtaining a reliable measure of fair value would be possible. For such services, if received by an entity referred to in paragraph 19, their recognition would be required if the entity would have purchased them if they had not been donated. Entities referred to in paragraph 19 are not required to perform an exhaustive search for volunteer services that might meet the recognition criteria in that paragraph. Volunteer services that would have been purchased if they were not donated should be readily identifiable from the entity's operational requirements.

Disaggregation of recognised income, and information about related recognised assets and liabilities

- 35 An entity shall disaggregate recognised income into categories that depict how the nature and amount of income and cash flows are affected by economic factors. The following are examples of types of categories of recognised income that may be appropriate to disclose:

- (a) ...
- (b) voluntary transfers, such as:
 - (i) ...
 - (ii) volunteer services; and
 - (iii) ...

AASB 1004 states:

Contributions of Services

Paragraphs 44 to 47 of this Standard apply only to local governments, government departments, GGSs and whole of governments.

- 44 Contributions of services to local governments, government departments, GGSs and whole of governments shall be recognised as income when and only when:
- (a) the fair value of those services can be reliably measured; and
 - (b) the services would have been purchased if they had not been donated.
- 45 Local governments, government departments, GGSs and whole of governments may receive contributions of goods or services free of charge or for nominal consideration by way of gift or donation. The assets and income recognised by the recipient in respect of such contributions, subject to the requirements of paragraph 12 of this Standard, are measured at the fair value of the goods or services received. This ensures that the operating statement reports the change in resources controlled by the recipient as a result of the operations for the reporting period, and that the statement of financial position reports the assets and liabilities of the recipient as at the reporting date.
- 46 Some donated services, while useful, may not be central to the delivery of the outputs of the local government, government department, GGS or whole of government. In these cases, it is unlikely that the recipient would purchase the services if they were not donated. Recognition of the fair value of those services as income and expenses is not relevant to assessments of the cost of services provided by, or the financial performance of, the recipient. Accordingly, this Standard requires that contributed services only be recognised when the services would be purchased if not donated and when their fair value can be measured reliably.
- 47 In some cases, the gaining of control over the assets that result from contributions and the consumption of the future economic benefits embodied in those assets will be simultaneous. For example, donated services give rise to income and an asset of the recipient and, simultaneously, an expense as the future economic benefits embodied in the asset are consumed. Therefore, the net effect of the contribution of services is the recognition of income and an expense. Such recognition is important if the operating statement is to reflect

fully the cost of services provided during the reporting period and the sources and amounts of the entity's income. Such information is useful in assessing the cost efficiency of an entity's performance and the amounts and sources of likely future resource requirements.

Disclosure of Contributions

Paragraphs 60 to 62 of this Standard apply only to local governments, government departments, GGSs and whole of governments.

- 62** The complete set of financial statements shall disclose separately the fair value of goods and services received free of charge, or for nominal consideration that are recognised during the reporting period.

Appendix B

Volunteer services – other jurisdictions

IPSASB

IPSAS 23 *Revenue from Non-exchange Transactions (Taxes and Transfers)* states:

98. An entity may, but is not required to, recognize services in-kind as revenue and as an asset.
99. 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. For example, a public school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognize an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the entity will recognize an expense for the consumption of services in-kind. However, services in-kind may also be utilized to construct an asset, in which case the amount recognized in respect of services in-kind is included in the cost of the asset being constructed.
100. Public sector entities may be recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest, for example:
 - (a) Technical assistance from other governments or international organizations;
 - (b) Persons convicted of offenses may be required to perform community service for a public sector entity;
 - (c) Public hospitals may receive the services of volunteers;
 - (d) Public schools may receive voluntary services from parents as teachers' aides or as board members; and
 - (e) Local governments may receive the services of volunteer fire fighters.
101. Some services in-kind do not meet the definition of an asset because the entity has insufficient control over the services provided. In other circumstances, the entity may have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the criteria for recognition as an asset. Entities may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind which are otherwise readily available in the national or international marketplace. When determining the fair value of the types of services in-kind described in paragraph 100, the entity may conclude that the value of the services is not material. In many instances, services in-kind are rendered by persons with little

or no training and are fundamentally different from the services the entity would acquire if the services in-kind were not available.

102. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this Standard does not require the recognition of services in-kind. Paragraph 108, however, encourages the disclosure of the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some public sector entities, the services provided by volunteers are not material in amount, but may be material by nature.
103. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance and cash flows of the entity. The extent to which an entity is dependent on a class of services in-kind to meet its objectives, may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity that is dependant 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. In determining whether to recognize a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.
108. 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 dependant on a class of services in-kind will determine the disclosures it makes in respect of that class.
115. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognize these services in-kind and measure them at their fair value. Paragraph 108 encourages an entity to make disclosures about the nature and type of all services in-kind received, whether they are recognized or not. Such disclosures may assist users to make informed judgments about the contribution made by such services to the achievement of the entity's objectives during the reporting period, and the entity's dependence on such services for the achievement of its objectives in the future.

New Zealand

PBE IPSAS 23 replicates the material in IPSAS 23 for services in-kind. The Not-For-Profit Implementation Guidance accompanies, but is not part of, PBE IPSAS 23 states:

- B21. Services in-kind are likely to be hours of work provided by volunteers. The volunteers are likely to be carrying out work as directed by the entity and the attachment of stipulations is unlikely.

United Kingdom

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* states:

Incoming Resources from Non-Exchange Transactions

- PBE34.64 The accounting for government grants is addressed in Section 24 Government Grants.
- PBE34.65 Paragraphs PBE34.67 to PBE34.74 and the accompanying guidance at Appendix B to this section apply to other resources received from non-exchange transactions by public benefit entities or entities within a public benefit entity group. A non-exchange transaction is a transaction whereby an entity 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.
- PBE34.66 Non-exchange transactions include, but are not limited to, donations (of cash, goods, and services) and legacies.

Recognition and measurement

- PBE34.67 An entity shall recognise receipts of resources from non-exchange transactions as follows:
- (a) Transactions that do not impose specified future performance-related conditions on the recipient are recognised in income when the resources are received or receivable.
 - (b) Transactions that do impose specified future performance-related conditions on the recipient are recognised in income only when the performance-related conditions are met.
 - (c) Where resources are received before the revenue recognition criteria are satisfied, a liability is recognised.
- PBE34.68 The existence of a restriction does not prohibit a resource from being recognised in income when receivable.
- PBE34.69 When applying the requirements of paragraph PBE34.67, an entity must take into consideration whether the resource can be measured reliably and whether the benefits of recognising the resource outweigh the costs.
- PBE34.70 Therefore, where it is not practicable to estimate the value of the resource with sufficient reliability, the income shall be included in the financial period when the resource is sold.
- PBE34.71 An entity shall recognise a liability for any resource that has previously been received and recognised in income when, as a result of a subsequent failure to meet restrictions or performance-related conditions attached to it, repayment becomes probable.

PBE34.72 Donations of services that can be reasonably quantified will usually result in the recognition of income and an expense. An asset will be recognised only when those services are used for the production of an asset and the services received will be capitalised as part of the cost of that asset.

PBE34.73 An entity shall measure incoming resources from non-exchange transactions as follows:

- (a) Donated services and facilities, that would otherwise have been purchased, shall be measured at the value to the entity.
- (b) All other incoming resources from non-exchange transactions shall be measured at the fair value of the resources received or receivable.

Disclosure

PBE34.74 An entity shall disclose the following:

- (a) the nature and amounts of resources receivable from non-exchange transactions recognised in the financial statements;
- (b) any unfulfilled conditions or other contingencies attaching to resources from non-exchange transactions that have not been recognised in income; and
- (c) an indication of other forms of resources from non-exchange transactions from which the entity has benefited.

Appendix B to Section 34

Guidance on incoming resources from non-exchange transactions (paragraphs 34.64 to 34.74) This guidance is an integral part of the Standard.

Recognition

PBE34B.1 The receipt of resources will usually result in an entity recognising an asset and corresponding income for the fair value of resources when those resources become received or receivable. Instances when this may differ include where:

- (a) an entity received those resources in the form of services (see paragraphs PBE34B.8 to PBE34B.12); or
- (b) there are performance-related conditions attached to the resources, which have yet to be fulfilled (see paragraphs PBE34B.13 to PBE34B.14).

PBE34B.2 Resources shall only be recognised when the fair value of the incoming resources can be measured reliably.

PBE34B.3 The concepts of materiality (see paragraph 2.6), and balance between benefit and cost (see paragraph 2.13) should be considered when deciding which resources received shall be recognised in the financial statements.

PBE34B.4 When it is impracticable to recognise resources from non-exchange transactions, the income is recognised in the period in which the resources are sold or distributed. The most common example is that of high volume, low value second-hand goods donated for resale.

Services

PBE34B.8 Donated services that can be reasonably quantified shall be recognised in the financial statements when they are received.

PBE34B.9 Donated services that are consumed immediately are usually recognised as an expense. However, there may be circumstances when a service is used in the production of an asset, for example erecting a building. In these cases, the associated donated service (eg plumbing and electrical services) would be recognised as a part of the cost of that asset.

PBE34B.10 Donated services that can be reasonably quantified include donated facilities, such as office accommodation, services that would otherwise have been purchased and services usually provided by an individual or an entity as part of their trade or profession for a fee.

PBE34B.11 It is expected that contributions made by volunteers cannot be reasonably quantified and therefore these services shall not be recognised.

PBE34B.12 Paragraph PBE34.74(c) requires an entity to disclose other forms of resources from non-exchange transactions from which the entity has benefited. This will include the disclosure of unrecognised volunteer services.

Measurement

PBE34B.15 Paragraph PBE34.73(a) requires donated services and facilities to be measured at the value to the entity. This requirement only applies to those services and facilities that would otherwise have been purchased by the entity. The value placed on these services and facilities should be the estimated value to the entity of the service or facility received, this will be the price the entity estimates it would pay in the open market for a service or facility of equivalent utility to the entity.

PBE34B.16 Paragraph PBE34.73(b) requires resources received or receivable, that are not services or facilities, to be measured at their fair value. These fair values are usually the price that the entity would have to pay on the open market for an equivalent resource.

PBE34B.17 When there is no direct evidence of an open market value for an equivalent item a value may be derived from sources such as:

- (a) the cost of the item to the donor; or
- (b) in the case of goods that are expected to be sold, the estimated resale value (which may reflect the amount actually realised) after deducting the cost to sell the goods.

PBE34B.18 Donated services are recognised as income and an equivalent amount shall be recognised as an expense in income and expenditure, unless the expense can be capitalised as part of the cost of an asset.

The Charities SORP (FRS 102) recommended practice states:

- 6.18. Charities often rely on the contribution of unpaid general volunteers in carrying out their activities. However, placing a monetary value on their contribution presents significant difficulties. For example, charities might not employ additional staff were volunteers not available, or volunteers might complement the work of paid staff rather than replace them. These factors, together with the lack of a market comparator price for general volunteers, make it impractical for their contribution to be measured reliably for accounting purposes. Given the absence of a reliable measurement basis, the contribution of general volunteers must not be included as income in charity accounts.
- 6.19. However, it is important that the user of the accounts understands the nature and scale of the role played by general volunteers. Charities must include a description of the role played by general volunteers and provide an indication of the nature of their contribution in a note to the accounts.

United States

FASB Accounting Standards Codification 958 Not-for-Profit Entities states:

Contributed Services

25-16 Contributions of services shall be recognized if the services received meet any of the following criteria:

- a. They create or enhance nonfinancial assets⁹.
- b. They require specialized skills¹⁰, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Services requiring specialized skills are provided by accountants, architects, doctors, electricians, lawyers, nurses, plumbers, teachers and other professionals and craftsmen.

⁹ An asset that is not a financial asset. Nonfinancial assets include land, buildings, use of facilities or utilities, materials and supplies, intangible assets, or services.

¹⁰ Services that require expertise that is not possessed by most members of the general public or that require an individual to be licensed to practice the profession or craft.

Contributed services and promises to give services that do not meet these criteria shall not be recognized.

30-2 Contributions received shall be measured at their fair values. Topic 820 establishes a framework for measuring fair value. See the Fair Value Option Subsections of Subtopic 825-10 for guidance upon electing at initial recognition to subsequently measure financial instruments and certain other contracts at fair value.

30-10 Contributions of services that create or enhance nonfinancial assets may be measured by referring to either the fair value of the services received or the fair value of the asset or of the asset enhancement resulting from the services. Fair value should be used for the measure regardless of whether the NFP could afford to purchase the service at their fair value.

50-1 An entity that receives contributed services shall describe the programs or activities for which those services were used, including the nature and extent of contributed services received for the period and the amount recognized as revenues for the period. Entities are encouraged to disclose the fair value of contributed services received but not recognized as revenues if that is practicable. The nature and extent of contributed services received can be described by nonmonetary information, such as the number and trends of donated hours received or service outputs provided by volunteer efforts, or other monetary information, such as the dollar amount of contributions raised by volunteers. Disclosure of contributed services is required regardless of whether the services received are recognized as revenue in the financial statements.