# 5. Recognition of income, including legacies, grants and contract income

## Introduction

5.1. The reporting tiers applied for Module 5 are as specified in the table below.

**Table X:** Tiered reporting for Module 5

| | |
|---|---|
| All tiers | The requirements for income in this module apply fully to all charities. |

~~5.1.~~5.2. Income is an ~~the inflow of~~increase in economic benefits ~~to~~ of a charity ~~from~~ as a result of the activities that it undertakes. Income ~~is an inflow of resources that results in~~arises from inflows of, ~~an~~or enhancements to, the charity's assets or a decrease in its liabilities.

~~5.2.~~5.3. Charities should refer to sections 23, 24 and 34 of FRS 102 for more information. This module ~~applies to all charities and~~ sets out:

- understanding the nature of income;
- general ~~rules~~ principles for income recognition;
- general principles for recognising income from donations and grants;
- identification of terms and conditions;
- performance-related conditions;
- other terms and conditions that limit the recognition of income;
- deferring income where conditions that limit recognition are not met;
- terms and conditions that do not prevent recognition;
- recognising income from legacies;
- income from donated goods, facilities and services;
- income from contracts for the supply of goods and services;
- income from membership subscriptions;
- income from interest, royalties or dividends;
- settlement of insurance claims; and
- disclosures and notes to the accounts.

## Understanding the nature of income

~~5.3.~~5.4. There are two broad categories of income: income from exchange transactions ~~(contract income)~~ and income from non-exchange transactions ~~(gifts)~~. It is important for charities to distinguish between the two as they are recognised differently in a charity's accounts.

~~5.4. Income from exchange transactions is received by the charity for goods or services supplied under contract. The income the charity receives is approximately equal in value to the goods or services supplied by the charity to the purchaser. The essential feature of income from a non-~~

**Commented [ED1]:** Note that changes proposed in FRED 82 are likely to necessitate changes to this definition and any recognition criteria based in this definition.

**Commented [ED2]:** **Exchange transactions** are usually contractual and involve an exchange of goods or services for consideration. For example, the employment of staff represents an exchange transaction, as the charity pays its staff in return for services rendered. Provision of charitable services under contract in return for payment represents an exchange transaction, as the charity earns income through the provision of services.
**Non-exchange transactions** are those in which the charity either receives income without providing goods or services of approximately equal value in return or incurs an expense without receiving goods or services of approximately equal value in return. For example, income from gifts or expenses incurred making grants both represent non-exchange transactions.

~~exchange transaction is that the charity receives value from the donor without providing equal value in exchange.~~

5.5. ~~Income from non-exchange transactions (gifts) are d~~Donations of money, goods, facilities or services which are given freely to the charity by a donor are a form of income from non-exchange transactions. Grants are a form of non-exchange transaction where the grant-maker awards a grant without receiving equal value in exchange. However, even though grants are classified as non-exchange transactions, a grant may be presented as income from charitable activities where the payment is made to secure the provision of particular goods or services. Refer to paragraphs 4.XX – 4.XX of the SORP for guidance on the types of income to be presented as income from charitable activities.

5.6. A donation or grant that can be used for any purpose of the charity is unrestricted income. However, a donation or grant may be restricted to a specific purpose of a charity. A restriction may result from a specific appeal by the charity, or from the decision of the grant-maker or donor to support a specific purpose of the charity rather than making funds available for the charity's general use. A grant that is restricted to a particular purpose of the recipient charity but which is not subject to performance-related conditions must not be recognised as a performance-related grant. Grants or donations that are subject to restrictions but which are not subject to performance-related conditions are included within the SoFA heading 'Income from donations and legacies'. Refer to paragraphs 4.XX – 4.XX of the SORP for further guidance on the classification of income.~~Simply because a grant is restricted to a particular purpose of the recipient charity does not mean it should be recognised as a performance-related grant. Restricted grants that are not subject to performance-related conditions, are included within the SoFA heading 'Income from donations and legacies'.~~

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5.7. Transactions must be accounted for and presented in accordance with their substance and not simply their legal form. Charities must therefore consider the substance of any conditions attaching to donations or grants and ~~to the substance~~ of any contractual terms when determining whether income should be recognised~~their entitlement to income~~. Similarly, the substance of any restriction placed on the use of income must be considered when determining whether ~~or not~~ income is presented as restricted funds in a charity's accounts. ~~In particular, a~~A charity should consider whether:

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- ~~Whether entitlement to income~~ receipt of income is subject to fulfilling performance-related conditions. Performance-related conditions distinguish a contract or ~~performance-related~~ grant from an unconditional ~~gift or~~ grant.
- ~~T~~the terms of a donation or grant ~~that~~ impose a restriction on use which is narrower than the general purposes of the charity. Donations or grants~~Terms placed on gifts~~ with terms that limit a charity's discretion over how income must be used are presented as restricted income in the accounts.
- ~~T~~the terms of a contract ~~may~~ limit ~~payments~~ a charity's income from a grant or donation to amounts ~~expended~~ spent by the charity on purposes specified in the contract, or ~~and~~ restrict the charity's use of any surplus. Income that is restricted by contractual terms may be presented as restricted in the accounts if the restrictions are in substance the same as would apply to a restricted donation or grant.

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- ~~T~~the terms of a gift that require it to be held as endowment that must be invested and not spent. Material endowment funds must be presented as a separate class of restricted funds. Further information on fund accounting is set out in the SORP module 'Fund Accounting'.

## General ~~rules~~ principles for income recognition

5.8. Income is recognised in the statement of financial activities (SoFA) when ~~a transaction or other event results in an increase in the charity's assets or a reduction in its liabilities~~the definition of income in paragraph 5.2 is met, and~~. Income must only be recognised in the accounts of a charity~~ when all of the following criteria are met:

- Control – the charity controls the rights to the associated asset or other access to the economic benefits
- ~~Entitlement – control over the rights or other access to the economic benefit has passed to the charity~~.
- Probable – it is more likely than not that the economic benefits associated with the transaction ~~or gift~~ will flow to the charity.
- Measurement – the ~~monetary value or amount of the~~ income can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

5.9. All income must be reported gross when raised by the charity ~~(or by volunteers working at the charity's direction)~~ or its agents. Any fee charged for fundraising by a third party and deducted from the amount collected before it is remitted to the charity must not be offset against fundraising income recognised in the accounts but be reported as a fundraising expense. However, the net amount remitted to the charity should be recognised if the income is raised by individuals, not employed by, contracted to, or controlled by the charity who are acting on a purely voluntary basis.~~However, in the case of individuals not employed by, or contracted by, the charity who are acting on a purely voluntary basis and outside of the charity's control, the charity recognises the net amount remitted.~~

## General principles for recognising income from donations and grants

5.10. Income from donations or grants is recognised when ~~there is evidence of entitlement to the gift, receipt is probable and its amount can be measured reliably~~the criteria in paragraphs 5.2 and 5.8 are met. The use of the 'accrual model' option (section 24 of FRS 102) for the recognition of income from government grants is not permitted by this SORP. This SORP requires that charities apply the 'performance model' for the recognition of income from all grants.

5.11. Using the performance model, a grant that imposes specified future performance-related conditions on the recipient is recognised in income only when the performance-related conditions are satisfied; grant income cannot be accrued over time. Grants received before the performance-related conditions are satisfied are recognised as a liability. A grant that does not impose specified future performance-related conditions on the recipient is recognised in income when the grant proceeds are received or receivable. See paragraphs 5.17 – 5.19.

~~5.11.~~5.12. In the case of a grant that does not have terms or conditions attached, the charity is likely to be able to recognise income~~evidence of entitlement will usually exist~~ when the formal



**Commented [ED3]:** Note that the FRED has not introduced the option to use the accrual model for non-government grants in Section 34. Only the performance model is permitted by Section 34 (see para B34.1 on p.269)

**Commented [ED4]:** Suggestion that this be updated to a specific paragraph reference when FRS 102 is finalised

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offer of funding is communicated in writing to the charity. The written offer of funding gives evidence to support the reliable measurement of income, the probable inflow of benefits to the charity and the charity's entitlement to the income. ~~However some grants will contain terms or conditions that must be met before the charity has entitlement to the resources.~~

~~5.12.~~5.13. In the case of a donation, entitlement usually arises immediately on its receipt. However, some ~~gifts~~ donations may include terms or conditions which must be met before the charity is entitled to the resources.

## Identification of terms and conditions

5.14. When ~~accounting for~~recognising grants and donations, charities should identify those donations and grants that are subject to:

- ~~those donations and grants that are subject to~~ performance-related conditions; and
- other terms or conditions that may prevent income recognition.

~~5.13.~~5.15. ~~other terms or conditions that may prevent income recognition.~~ ~~Charities need to identify donations or grants that are subject to terms or p~~Performance-related conditions or other conditions ~~that must be met before there is~~affect a charity's ~~unconditional~~ entitlement to ~~the~~ a ~~gifted resources~~grant or donation. Paragraphs 5.17 – 5.24 provide guidance on income recognition from donations or grants with conditions, including performance-related conditions, that may limit the recognition of income.

~~5.14.~~5.16. Not all terms ~~or conditions~~ relating to a grant or donation prevent its recognition as income. Grants or donations are often accompanied by terms which restrict the purposes for which the grant may be spent but which are not performance related conditions~~attaching to a grant or donation prevent its recognition as income~~. A restriction is a requirement that limits or directs the purpose for which a resource may be used but it does not require a specific level of performance or output from the recipient charity and that does not meet the definition of a performance related condition. A ~~term or condition that simply restricts the use of a grant or donation~~restriction does not affect a charity's entitlement to, therefore its recognition of, the ~~gift~~ income~~and~~. ~~recognition of income.~~ However, a restriction does affect how the gift or grant is reported in the accounts. For more information refer to the SORP module 'Fund accounting'.

~~5.15.1.1. When accounting for grants and donations, charities should identify:~~

- ~~those donations and grants that are subject to performance-related conditions; and other terms or conditions that may prevent income recognition.~~

## Performance-related conditions

5.17. Grant funding agreements may contain performance- related -conditions that specify a level of output or ~~the~~ service~~s~~ to be performed by a charity in receipt of a grant. These are described in this SORP as performance-related grants. See paragraphs 7.15 – 7.18 for requirements for accounting for performance-related grants as a grant-making charity.

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~~5.16.~~5.18. For example, the grant may be in the form of a service level agreement where the conditions for payment are linked to the achievement of a particular level of service or the units of output delivered. The performance-related conditions contained in a funding agreement might, for example, specify the number of meals provided or the opening hours of a facility used by beneficiaries. Income must only be recognised ~~to the extent that~~when the charity has provided the specified goods or services as, applying the performance model outlined in paragraph 5.11, ~~entitlement to the grant only occurs~~grant income is only recognised when the performance-related conditions are ~~met~~satisfied or, if there are no performance related conditions, grant is recognised immediately.

~~5.17. Although performance-related conditions can apply to any form of gift, in practice it is unusual to see performance-related conditions apply to donations.~~

~~5.18.~~5.19. A restriction on the use of a grant or donation to a particular purpose or activity of a charity does not create a performance-related condition. ~~A restriction creates a requirement that limits or directs the purpose for which a resource may be used but it does not require a specific level of performance or output from the recipient charity.~~See also paragraph 5.16.

~~5.19. It is important at the outset of any arrangement that the charity identifies whether the funding agreement is a performance-related grant or a contract. This is important because the consequence of non-compliance with performance-related conditions and the liability for non-performance of a contract differ. The law of contract provides for the buyer to seek costs, damages and recompense for any failure or breach of contract by the seller, whereas a breach of grant conditions may lead to a partial or full repayment of the grant when repayment terms apply to the grant.~~

## Other terms and conditions (that are not performance-related conditions) that may limit the recognition of income

5.20. Performance-related conditions are not the only ~~conditions~~ terms that may apply to donations and grants. For example, a grant may be conditional on a charity obtaining matched funding, or subject to ~~a~~ successfully obtaining planning consent. Meeting these ~~conditions~~ terms would not be wholly within the control of the recipient charity and the outcome of the specified event is uncertain. The charity would not ~~have unconditional entitlement~~ be able to recognise income ~~to the income~~ until these ~~conditions~~ terms were met.

~~5.21. Donor imposed conditions may also specify the time period over which the expenditure of resources on a service can take place. Specification of a time period may amount to a pre-condition for use that limits the charity's ability to spend a grant or donation until it has performed the activity related to the specified time period. For example, a condition might specify the provision of a number of training weeks or the completion of a number of work placements in a particular period.~~

~~5.22. Time-related conditions may be implied. For example when a multi-period grant is approved and is to be paid on the basis of agreed annual budgets, the charity may not be entitled to spend part or all of that income in advance of its budgeted year(s) without the further prior approval of the grant-maker.~~

## Deferring income where ~~c~~performance-related conditions that limit recognition are not met

~~5.23. Where terms and conditions have not been met or uncertainty exists as to whether the recipient charity can meet the terms or conditions otherwise within its control, the income should not be recognised but deferred as a liability until it is probable that the terms or conditions imposed can be met.~~

5.21. A grant that is subject to performance-related conditions is recognised in income only when the conditions are satisfied. If grant funding is received in advance of ~~delivering the goods and services required by that~~meeting performance related grant conditions, ~~or is subject to unmet conditions wholly outside the control of the recipient charity,~~it is accounted for as a liability and shown on the balance sheet as deferred income. Deferred income is released to income on the SoFA ~~in the reporting period in which~~when the performance-related ~~or other~~ conditions ~~that limit recognition~~ are ~~met~~satisfied.

## Recognition of income where conditions (that are not performance-related conditions) are not wholly within the charity's control

5.22. When ~~income from~~ a grant or donation ~~has not been recognised due to the~~contains ~~conditions~~ terms ~~applying to the gift~~ not ~~being~~ wholly within the control of the recipient charity (see paragraph 5.19), it should be disclosed as a contingent asset if receipt of the grant or donation is probable once those ~~conditions~~ terms are met. See also Module X Provisions, contingent liabilities and contingent assets.

Commented [ED5]: i.e. the new module presented to the Charities SORP Committee on 5 October 2022.

~~5.24.~~5.23. If grant funding is received in advance of meeting terms not wholly within the control of the charity, income should be deferred as a liability until the terms are met.

## Terms and conditions that do not prevent recognition

~~5.25.~~5.24. ~~When meeting terms or conditions are within the charity's control and there is sufficient evidence that they have been or will be met, then the income must be recognised.~~ Terms or conditions such as the submission of accounts or certification of expenditure are administrative requirements and would not prevent the recognition of income.

~~5.26.~~5.25. A donation or grant without terms or performance related conditions should not be deferred even if the resources are received in advance of expenses being incurred ~~the expenditure~~ on the activity ~~funded by them~~for which the grant is given. The timing of the related expenditure is at the discretion of the charity and the income cannot be deferred simply because the related expenditure has not been incurred. For example, where a donation or grant is given specifically to provide a fixed asset or a fixed asset is donated (a gift in kind), the charity is normally entitled to that income when it is receivable. At this point, all of the income must be recognised in the SoFA and not deferred over the life of the asset. See also paragraphs 5.27 – 5.29 for accounting requirements for donations or grants related to fixed assets.

~~5.27.~~ Similarly, a term or performance related condition that allows for the recovery by the donor of any unexpended part of a grant does not prevent recognition. Instead, as a separate transaction, a liability ~~to~~ for any repayment and a corresponding expense are ~~is~~ recognised when repayment becomes probable.

5.26.

## Grants or donations received for capital expenditure

5.27. Income from grants received for capital expenditure must be recognised according to the requirements of this module. Paragraph 5.10 specifies that the accruals model is not permitted by this SORP and that this SORP requires the use of the performance model.

5.28. Refer to paragraphs 2.28 and 2.29 of this SORP for guidance on establishing whether income from grants or donations for capital expenditure should be recorded in a restricted or an unrestricted fund. Where grants or donations received for capital expenditure are recorded in unrestricted funds, the Trustees may choose to set up a designated fund for the fixed asset purchased through grants or donations in accordance with paragraph 2.8 of this SORP.

5.29. Where a designated fund is created for fixed assets purchased through grants or donations, this SORP requires that the designated fund is treated in accordance with the requirements of Module 2 Fund Accounting. Depreciation of fixed assets for which a designated fund has been created is charged to the designated fund, such that the balance on the designated fund is equal to the net book value of the relevant fixed assets.

## Recognising income from legacies

5.30. A charity has ~~For accounting purposes,~~ entitlement to a legacy ~~cannot arise without~~when ~~the~~a benefactor has left a ~~charity knowing of both the existence of a~~ valid will and the ~~death of the~~ benefactor has died. When considering the validity of a will, a charity should consider the existence and nature of any challenges or other claims that the charity is aware of. A legacy will normally be recognised when the charity has sufficient evidence that a legacy has been left to them and the executor is satisfied that the property in question will not be required to satisfy claims on the estate.

5.31. Where a legacy is subject to the interest of a life tenant, the legacy would not be recognised as income until the death of the life tenant.

~~5.28. Those charities with databases of current donors may well have information about an individual donor's intention or decision to leave a gift to them in their will and charities may also employ agents or carry out their own research to review publicly available information on recent deaths including the granting of probate. Charities having such information should use this information when developing their accounting policy for recognising income from legacies. For accounting purposes, evidence of entitlement to a legacy exists when the charity has sufficient evidence that a gift has been left to them and the executor is satisfied that the property in question will not be required to satisfy claims in the estate.~~

~~5.29. Of itself, establishing entitlement is insufficient to recognise legacy income. The recognition of the gift is also affected by the probability of receipt and the ability to estimate with sufficient accuracy the amount receivable.~~

~~5.30.~~5.32. ~~Receipt of a legacy must be recognised when it is probable that it will be received. Receipt~~ Recognition of legacy income is normally probable when:

- there has been grant of probate or, in Scotland, grant of confirmation;
- the executors have established that there are sufficient assets in the estate, after settling any liabilities, to pay the legacy; and
- any conditions attached to the legacy are either within the control of the charity or have been met.

~~5.31.~~ Legacy income must only be recognised when it can be reliably measured. Charities should measure or estimate the fair value of the legacy income receivable

~~5.32.~~ based on the information available. ~~The fair value receivable will generally be the expected cash amount to be distributed to the charity from the estate. Legacy income must only~~

5.33.

5.34. Those charities with databases of current donors may well have information about an individual donor's intention or decision to leave a gift to them in their will and charities may also employ agents or carry out their own research to review publicly available information on recent deaths including the granting of probate or, in Scotland, confirmation. Charities having



**Commented [ED6]:** This section of the SORP will need to be reviewed as a result of content in the FRED (additional paragraph PBE34.70A)

The Secretariat notes that the FRED adopts language from the current SORP in paragraph PBE34.70A. As the Charities SORP Committee advises on enhancing SORP requirements with respect to legacies, it may wish to consider providing similar advice for the SMB's response to the FRED consultation.

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such information should consider using this information when developing their accounting policy for recognising income from legacies.

5.35. Charities that receive numerous legacies in a reporting period and have detailed historical information on the settlement of legacies may apply an estimation technique in measuring the value of legacies that are recognised to allow for potential variation in settlement values and the risk of a will being contested. For example, where a charity has numerous immaterial legacies the charity may estimate the monetary value of the income that it expects to receive from legacies by using a portfolio approach and applying a formula or mathematical model.

5.36. A portfolio approach is unsuitable for individually material legacies or when a charity only receives legacies infrequently, as these must be considered individually. When a portfolio approach is not adopted charities must recognise a legacy when the executors have determined that a payment can be made following the agreement of the estate's accounts, or on notification by the executors that payment will be made.

5.37. Where a payment is received from an estate or is notified as receivable by the executors after the reporting date and before the accounts are authorised for issue but it is clear that the payment had been agreed by the executors prior to the end of the reporting period, then it should be treated as an adjusting event and accrued as income if receipt is probable. All accounting treatments and disclosures, including accounting for income from legacies and accounting for adjusting events, should be considered in the context of materiality. Refer to Module 13 Events After the Reporting Period for guidance on differentiationg between adjusting and non-adjusting events and to paragraphs 3.15 – 3.19 of this SORP for guidance on materiality.

~~5.33. be recognised when it can be measured or estimated with sufficient reliability. Legacy income classified as receivable within one year should not be discounted by the time value of money.~~

~~5.34.~~5.38. Legacy income classified as receivable within one year does not need to be discounted to its present value. If the distribution is to be deferred for more than 12 months and an estimate can be made of the likely date of distribution, the legacy, if material, may be discounted by the interest rate the charity anticipates it would earn on a comparable deposit over a similar time frame using the effective interest method set out in section 11 of FRS 102. The unwinding of the discount should be reported as ~~an adjustment to legacy income and not as interest~~ investment ~~receivable~~income in the SoFA.

5.39. If the expected amount receivable from a legacy debtor is ~~impaired because it is doubtful that full settlement will be received~~revised due to a change in the charity's estimate of the legacy debtor receivable, ~~then~~ an adjustment is made to reduce the amount of the legacy debtor and legacy income rather than charging the adjustment as ~~expenditure~~an expense in the SoFA.

~~5.35. Charities which receive a significant number of legacies in a reporting period and have detailed historical information on the settlement of legacies may apply an estimation technique in measuring the value of legacies that are recognised to allow for potential variation in settlement values and the risk of a will being contested. For example, where a charity has numerous immaterial legacies, by using a portfolio approach, the charity may estimate the monetary value of the income that may be received from legacies to which they are entitled by applying a formula or mathematical model. However a portfolio approach is unsuitable for material legacies or when a charity only receives legacies infrequently, as these should be considered individually. When a portfolio approach is not adopted charities~~



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~~must recognise a legacy when the executors have determined that a payment can be made following the agreement of the estate's accounts, or on notification by the executors that payment will be made.~~

~~5.36. Where a payment is received from an estate or is notified as receivable by the executors after the reporting date and before the accounts are authorised for issue but it is clear that the payment had been agreed by the executors prior to the end of the reporting period, then it should be treated as an adjusting event and accrued as income if receipt is probable.~~

~~5.37.~~

~~5.38.~~ In some cases, a charity may have entitlement to a legacy but there is uncertainty as to the amount of the payment. For example, the legacy may be subject to challenge or the charity's interest may be a residual one. If the interest of the charity in a pecuniary or residuary legacy cannot be measured reliably, details of the legacy should be disclosed as a contingent asset until the criteria for income recognition at paragraph 5.8 are met. ~~Where a legacy is subject to the interest of a life tenant, the legacy would not be recognised as income until the death of the life tenant.~~

~~5.39.~~5.40.

## Income from donated goods, facilities and services

~~5.40. Goods, facilities and services donated to a charity must be recognised as income when the criteria for their recognition are met. However, issues can arise in measuring the fair value of donated goods and services.~~ Charities that have received donations of goods, facilities or services, including the services of volunteers, must refer to the separate SORP module

5.41. '~~Donated goods, facilities and services, including volunteers~~Donated goods, facilities and services, including volunteers', which sets out the requirements for the recognition, measurement and disclosures of these income sources.

## Income from contracts for the supply of goods and services

5.42. Income earned from the sale of goods and services under contract is normally classified as unrestricted funds because it is not a gift and so cannot be restricted by trust law, and any surplus may normally be spent on any purpose of the charity.

5.43. However, if a contract specifically requires all income received under it to be spent on a particular purpose of the charity and any unspent income to be returned to the funder or only applied for that particular purpose, then, in substance, the income may be regarded as restricted. If contract income is presented as restricted then all relevant disclosures required for a restricted fund must be made. For details of relevant disclosures, refer to the SORP module 'Fund accounting'.

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**Commented [ED7]: Section will require amendment following revisions to FRS 102**

Section 23 *Revenue* has been updated to bring in the five-step model for revenue from contracts with customers:

- Step 1—Identify the contract(s) with a customer;
- Step 2—Identify the promises in the contract;
- Step 3—Determine the transaction price;
- Step 4—Allocate the transaction price to the promises in the contract; and
- Step 5—Recognise revenue when (or as) the entity satisfies a promise.

This section is likely to require re-writing following the finalisation of FRS 102, in particular with respect to the recognition criteria for income.

5.44. ~~Entitlement to the income from the sale of goods arises when the 'significant risks and rewards' of ownership are transferred to the buyer. Usually, entitlement to income occurs with the supply of goods to the buyer.~~ Income from the sale of goods ~~to which a charity has entitlement~~ must be recognised in the SoFA when:

- the income from the sale and the costs of the goods sold can both be measured reliably,
- the ~~and~~ receipt of the income is probable, and
- the 'significant risks and rewards' of ownership are transferred to the buyer. Usually, the significant risks and rewards of ownership are transferred to the buyer on the supply of goods to the buyer.

5.45. Income from the supply of services is recognised ~~with the delivery of~~as the contracted service is delivered provided that:

- the stage of the completion,
- the costs incurred in delivering the service, and
- the costs to complete the requirements of the contract

can all be measured reliably.

~~5.44.~~5.46. A charity must select a method to measure the stage of completion of a service contract that provides the most reliable estimate of the right to receive payment for the work performed. Possible methods include:

- the proportion of costs incurred for work performed to date compared with the total estimated costs to completion. Simply incurring costs in relation to a contract does not in itself justify the recognition of income. Costs incurred for work performed to date do not include costs relating to future activity, such as for materials or prepayments~~.~~; or
- surveys of the work performed; or
- completion of a ~~physical~~ proportion of the service contract work.

It may also be appropriate to recognise income based on the time spent in providing a service as a proportion of the total time to be spent to fulfil the contract when this provides the most reliable estimate ~~of a charity's entitlement~~.

~~5.45.~~5.47. If the charity receives income in advance of services being delivered but the outcome or costs to complete the contract cannot be estimated reliably, income recognised on the SoFA should equal the expenses incurred to date. The rest of the income received in advance should be recognised as deferred income on the balance sheet.

~~6. Simply incurring costs in relation to a contract does not in itself justify the recognition of income. The cost criterion is met where the costs incurred and the costs to complete the transaction can be measured reliably. If the costs incurred and the costs to complete~~

~~6.1. cannot be measured reliably then the receipt should be treated as an advance payment and~~

~~deferred.~~

~~6.2.~~5.48. Where income is received in advance, ~~then~~ a charity may not be able to recognise ~~have entitlement to the~~ income until the goods or services have been provided. For example, where a charity sells gift vouchers, the income should be deferred until such time as the goods or services have been provided or the voucher has expired. Income received in advance should be deferred until the 'significant risks and rewards' of ownership are transferred to the customer~~charity becomes entitled to it~~.

~~6.3.~~5.49. Income is recognised at the fair value of the consideration received or receivable after making an adjustment for any extended credit terms offered. If extended credit terms are offered on exchange transactions ~~(contract income)~~, the amount receivable should be discounted to its present value ~~by the time value of money~~ at a rate of interest that reflects the financing transaction involved. Where income is discounted to its present value, the discount must be 'unwound' at the discount rate in subsequent reporting periods. The unwinding of the discount represents the interest receivable from the buyer. No discounting is required where:

- ~~normal credit terms are offered;~~
- extended credit terms provide for payment within 12 months of the invoice date; or
- the transaction amount is not material.

## Income from membership subscriptions

**Commented [ED8]:** All examples of accounting for income from subscriptions have been removed from Section 23 *Revenue [from contract with customers]* of the FRED.

This section of the SORP will need to be revisited when the revised FRS 102 is available.

~~6.4.~~5.50. Membership subscriptions received by a charity may be in the nature of a ~~gift~~donation, or the member may buy a right to services or other benefits. When the substance of the subscription is that of a ~~gift~~donation, the income and any associated Gift Aid or other tax refund should be recognised on the same basis as a donation. If the subscription purchases the right to services or benefits, the incoming resource should be recognised as income earned from the provision of goods and services as income from charitable activities.

## Income from interest, royalties and dividends

**Commented [ED9]:** The FRED does not contain a section on interest, royalties and dividends in Section 23. Interest and dividends are covered in Section 11 *Basic Financial Instruments.* Section 23 contains a paragraph [23.48] on usage-based royalties.

This section of the SORP will need to be revisited when the revised FRS 102 is available.

~~6.5.~~5.51. Income from interest, royalties and dividends must be recognised when its receipt is probable and the amount receivable can be measured reliably.

~~6.6.~~5.52. Interest is recognised using the effective interest method (see section 11 of FRS 102 for more information). However, interest on concessionary loans and interest receivable on bank deposit accounts and from government gilts will not require adjustment, as the rate receivable normally reflects the effective interest rate applicable to the asset.

~~6.7.~~5.53. Royalties and income from the exploitation of intellectual property rights are accrued in accordance with the substance of the relevant agreement.

5.54. Dividends are accrued when the shareholder's right to receive payment is established.

**Commented [ED10]:** The FRED includes this requirement in [11.14A]

~~6.8.~~5.55. -In the case of a Gift Aid payment made within a charitable group, income is accrued when the Gift Aid payment is payable to the parent charity under a legal obligation. Measurement is at the fair value receivable, which will normally be the transaction value.

## Settlement of insurance claims

~~6.9.~~5.56. An insurance claim must be recognised as income when ~~a charity has established its entitlement to the reimbursement of the insured loss, the~~its receipt ~~of that reimbursement~~ is virtually certain and its amount can be measured reliably. If a receipt is considered probable, disclosure of a contingent asset is required. Refer to the SORP module Provisions, contingent liabilities and contingent assets.

~~6.10.~~5.57. Receipt is virtually certain when an offer of settlement is received from the insurer. The insurance settlement is recognised at the fair value receivable, which will normally be the settlement amount agreed with the insurer if this is available at the reporting date.

~~6.11.~~5.58. A charity must recognise the amount of the insurance reimbursement either as an item of other income or by offsetting it against the related expense heading in the SoFA. The amount reimbursed through an insurance claim is recognised as an addition to the fund that initially suffered the insured loss.

## Disclosures and notes to the accounts

~~6.12.~~5.59. All charities must explain in the notes to the accounts the accounting policies adopted for the recognition of each material item of income.

~~6.13.~~5.60. This SORP requires that the headings used to analyse income in the SoFA must follow those required by the SORP module 'Statement of financial activities'.

~~6.14.~~5.61. A charity in receipt of government grants must also disclose:

- the nature and amounts of government grants recognised in the accounts; and
- unfulfilled conditions and other contingencies attaching to grants that have been recognised in income.~~; and~~

~~6.15.~~5.62. A charity in receipt of government assistance must disclose ~~an indication of~~ ~~other forms of~~the government assistance from which the charity has directly benefited.

~~6.16.~~5.63. When a charity has deferred income, the notes to the accounts must explain the reasons why income is deferred and should analyse the movement on the deferred income account, identifying income deferred in the current year and the amounts released from previous reporting periods.

# ~~7.~~6. Donated goods, facilities and services, including volunteers

## Introduction

6.1. The reporting tiers applied for Module 6 are as outlined below.

**Table X:** Tiered reporting for Module 6

| | |
|---|---|
| All tiers | The requirements in this module apply fully to all charities in receipt of donated goods, facilities and services, including volunteers. |

~~7.1.~~6.2. The donation of goods, facilities and services (including the services of volunteers) to a charity provides an economic resource for use by the charity to further its aims and objectives.

~~7.2. This module applies to all charities that have received donated goods, facilities or services in the reporting period.~~

~~7.3.~~6.3. Charities should refer to section 34, paragraphs PBE34.64 – PBE34.74 of FRS 102 for more information. This module deals with how goods, facilities and services donated to charities are recognised, measured and disclosed in their accounts and sets out:

- income recognition criteria;
- measurement bases;
- accounting for donated facilities and services, including volunteers;
- accounting for donated goods and services capitalised as tangible fixed assets;
- accounting for donated goods for distribution to beneficiaries;
- accounting for donated goods for resale; and
- disclosures in the notes to the accounts.

## Income recognition criteria

6.4. Donated goods, facilities and services must be recognised as income in the statement of financial activities (SoFA) when the following criteria are met:

- Control – the charity controls the rights to the associated asset or other access to the economic benefits
- Probable – it is more likely than not that the economic benefits associated with the donated item will flow to the charity.
- Measurement – the fair value or value to the charity of the donated item can be measured reliably.

~~7.4.~~ Income is recognised by a charity in its accounts for goods, facilities and services donated to it once the income recognition criteria set out in paragraph 6.~~6~~4 are met. ~~When measuring the value of donated goods, facilities and services, practical considerations may impact on the measurement bases adopted. For example, although goods donated for sale are normally~~

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6.5. Donated goods, facilities and services are unlikely to be subject to performance-related conditions. Where no performance-related conditions are attached to the donation, income is recognised when the donated resources are received or receivable. Where donated goods, facilities and services are subject to performance-related conditions, income is recognised when those conditions are satisfied. A restriction on the use of a donation does not prevent its recognition as income. In the event that conditions are attached to donated goods, facilities and services, charities must adhere to the requirements of paragraphs 5.14 – 5.29 of this SORP.

6.6. Donated goods must only be recognised as income when the value of the incoming resources can be measured reliably. The fair value of donated goods is typically readily determinable, allowing charities to recognise income from donated goods on receipt. However, in some cases it may be impracticable to estimate the value of the donated goods with sufficient reliability when the goods are received; for example, in the case of high volume, low value second-hand goods donated for resale. In such cases, the income must be recognised when the resource is sold or distributed.

~~7.5. recognised at the point of receipt, practicability may dictate that they are recognised only on their sale. Before undertaking a valuation, the charity should consider the materiality of the donations received and whether the cost involved in undertaking a valuation is justified by the benefits to the users of the accounts in terms of their better understanding the resources available to the charity and to the charity itself from having this financial information.~~

~~7.6.~~ ~~C~~Commercial discounts offered in the normal course of trade should not be recognised or disclosed as a donation in charity accounts as they are an inducement to the customer to make a purchase by lowering the price paid.

**Commented [ED11]:** Note that there is additional guidance in the FRED at paragraph PBE69A Resources that can usually be measured reliably include donations of cash or goods, facilities such as free use of office accommodation or event space, and services usually provided by an individual or an entity as part of their trade or profession for a fee.

~~7.7.~~6.7. ~~Donated goods, facilities and services are unlikely to be subject to performance-related conditions which would result in the deferral of income until those conditions are met. A restriction on the use of a donation does not prevent its recognition as income.~~

## Measurement of donated goods~~bases~~

6.8. Donated goods must be measured at their fair value.

~~7.8. Donated goods must be measured at their fair value, unless it is impractical to measure reliably the fair value of donated item(s).~~

~~7.9.~~6.9. When there is no direct evidence of fair value for an equivalent item, a value may be derived from:

- the cost of the item to the donor; or
- in the case of goods that are expected to be sold, the estimated resale value after deducting the cost to sell the goods.

~~7.10. If it is impractical to measure the fair value of goods donated for resale or if the costs of valuation outweigh the benefit to users of the accounts and the charity of this information, the donated goods must then be recognised when they are sold.~~

~~7.11.~~6.10. The terms of a ~~gift~~ donation may require the charity to make on-going use of the donated item, so preventing its sale. In such instances, there may be costs involved in removing such a restriction before the asset could be sold. This would be reflected in a lower assessment of the fair value amount than if the use of that asset was not ~~so~~ restricted.

~~7.12.~~6.11. The ~~cost~~ value of any stock of goods donated for distribution to beneficiaries held by the charity at the balance sheet date is ~~deemed to be~~ the fair value of those ~~gifts~~goods at the time of their receipt by the charity. If the goods are held ~~are to be distributed freely~~for free distribution or for distribution at a nominal ~~consideration~~amount, ~~then~~ the carrying amount ~~should~~ must be ~~subsequently adjusted to reflect~~ the lower of ~~deemed cost~~fair value adjusted for any loss of service potential and replacement cost. ~~Where r~~Replacement cost is the ~~economic~~ cost that would be incurred if the charity was to replace the service potential of the donated goods at its own expense in the most economic manner.

## Accounting for donated facilities and services, including volunteers

~~7.13.~~6.12. If a charity is given facilities and services for its own use which it would otherwise have purchased, these donations must be ~~included~~ recognised in the charity's accounts when ~~received, provided the value of the gift can be measured reliably~~the recognition criteria in paragraph 6.4 are met. It is likely that in most cases this will be on receipt of the donation.

~~7.14.~~6.13. ~~Measuring donated services using fair value would not be practical as such services cannot be resold and the use of fair value may result in an overstatement of the value of the donation to the charity.~~ Donated facilities and services that would otherwise be purchased are ~~therefore~~ measured ~~and included in accounts on the basis of~~at the value of the ~~gift~~ donation

**Commented [ED12]:** This section will be affected by the FRED – paragraph PBE34.73 of the FRED proposes amendments to requirements around fair value measurement.

**Commented [ED13]:** This language has been included in FRED paragraph PBE34.73B.

**Commented [ED14]:** The Basis for Conclusions per the FRED make clear that the FRC wish to see income recorded on donations of goods for onward distribution:

*B34.3 Some stakeholders requested that a PBE should not be required to recognise any value for donated goods for onward distribution, due to the difficulties in measuring their value and a perceived low level of usefulness of that information to users of financial statements. The FRC considers that permitting such donations not to be recognised could lead to the financial statements understating the size and impact of the PBE, and of the need that it addresses, and could have other unintended implications, such as exempting a PBE from the audit regime. The FRC also considers that, in contrast to volunteer time, the fair value of donated goods is typically readily determinable. Therefore, the FRC does not propose any amendment to FRS 102 in this respect.*

to the charity (see paragraph 6.15 below).

~~7.15.~~6.14. ~~V~~The value of donated facilities and services to the charity is the amount that the charity would pay in the open market for an alternative item that would provide a benefit to the charity equivalent to the donated item. Value to the charity may be lower than, but cannot exceed, the price the charity would pay in the open market for the item.

**Commented [ED15]:** This language has been included in FRED paragraph PBE34.73A.

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~~7.16.~~6.15. Donated facilities and services that are consumed immediately must be recognised as income as the donated facilities and services are used by the charity, with an equivalent amount recognised as an expense under the appropriate heading in the statement of financial activities (SoFA).

~~7.17.~~6.16. Donations of ~~f~~Facilities, such as office accommodation, or services provided ~~supplied~~ by an individual or an entity as part of their trade or profession can usually be ~~reasonably~~ measured reliably. Subject to the considerations of paragraph 6.14, income from the donation of facilities or services ~~quantified and~~ must therefore be ~~included~~ recognised, with an equivalent expense, in a charity's ~~accounts~~SoFA.

~~7.18.~~6.17. 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.

**Commented [ED16]:** See FRED paragraph PBE34.69A: *Resources that can usually be measured reliably include donations of cash or goods, facilities such as free use of office accommodation or event space, and services usually provided by an individual or an entity as part of their trade or profession for a fee. It is expected that contributions made by volunteers cannot be measured reliably and shall therefore not be recognised.*

The difference between a donated service that should be recognised as income and general volunteering that should not appears to be whether the individual is providing a service usually offered for a fee.

~~7.19.~~6.18. 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.

## Accounting for donated goods and services capitalised as tangible fixed assets

~~7.20.~~6.19. Goods donated for on-going use by a charity in carrying out its activities are recognised as tangible fixed assets with the corresponding gain recognised as income from donations within the SoFA. Donated vehicles, plant or furniture are recognised as tangible fixed assets when their fair value exceeds the threshold for capitalisation set by the charity's accounting policy.

~~7.21.~~6.20. If donated services are used in the construction of a tangible fixed asset, the value of services donated will only form part of the construction cost of the asset when the value to the charity of the donated services can be measured reliably. For example, the services donated by a firm of building or electrical contractors would be valued because these services would normally be provided as part of the donor's trade.

~~7.22.~~6.21. In common with any other tangible assets, donated goods held as tangible fixed assets must be subject to depreciation or amortisation and assessed for indications of their impairment at the reporting date.

## Accounting for donated goods for distribution to beneficiaries

~~7.23.~~6.22. Donated goods held by the charity for distribution to its beneficiaries ~~should~~ must be recognised as stock, with the corresponding income recognised within donations and measured at ~~its~~ their fair value.

~~7.24.~~6.23. It may be necessary when valuing the donation to consider any restriction on the sale of the asset or the factors that may reduce the fair value of the asset, such as proximity to a product expiry date or the availability of lower-cost substitutes for the donated item, for example a generic version of a drug. Donated goods held in stock for distribution must be assessed for impairment at the reporting date.

~~7.25.~~6.24. Stocks are recognised as an expense in the SoFA ~~I~~ in the reporting period in which the stocks are distributed~~, they are recognised as an expense and appropriately analysed as expenditure in the SoFA~~. The expense recognised is the carrying amount of the stocks at the point of distribution.

~~7.26.~~6.25. If it is impractical to assess the fair value of donated stock held for distribution at the time of receipt, or if the costs involved in undertaking the valuation of donated stock outweigh the benefit to users of the accounts ~~and to the charity~~ of having this financial information, the value to the charity of the gift must be recognised as ~~a component of~~income from donations when it is distributed, with an equivalent amount recognised as a charitable ~~expenditure~~expense.

## Accounting for donated goods for resale

~~7.27.~~6.26. In accepting donated goods for resale, the charity is receiving a gift in kind on trust for conversion into cash to fund the charity's activities. Where practicable, donated goods for resale are measured at fair value on initial recognition, which is the expected proceeds from sale less the expected costs of sale.

~~7.28.~~6.27. Charities accepting goods for resale under the UK retail Gift Aid scheme are acting as agent in selling the goods on behalf of the donor and are in law entitled only to an administration fee until such time as the donor waives their entitlement to the sale proceeds. Charities which have historical data may use an estimation technique to recognise income from such arrangements from the point of sale, for example by applying a formula or mathematical model to estimate the likely amount of the donations that will result from their subsequent sale. Income may be recognised from the point of sale ~~where this reflects the substance of the transaction~~ provided the income recognised is adjusted to reflect the risk that some sales will not result in a donation. Where a donor does not waive their entitlement to the sale proceeds, the administration fee is analysed as 'Income from other trading activities' in the SoFA.

~~7.29.~~6.28. Estimating the fair value of donated goods for resale is often impractical because of the volume of low-value items received, or the absence of detailed stock control systems or records. In such circumstances, donated goods for resale are not recognised on receipt. Instead, the value to the charity of the donated goods sold is recognised as income when sold. The proceeds of sale are categorised as 'Income from other trading activities' in the SoFA.

~~7.30.~~6.29. If recognised at fair value on receipt, the value of the donated goods for resale should be treated as a component of 'Income from other trading activities' with the corresponding stock recognised in the balance sheet. On its sale the value of the stock is charged against



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**Commented [ED17]:** This paragraph relates to proposed amendments to FRS 102. FRED paragraphs PBE34.69 – PBE34.70 relate to this issue. This wording will require refinement once FRS 102 is finalised.

(i.e. deducted from) 'Income from other trading activities' and the proceeds of the sale are also recognised as 'Income from other trading activities'.

## Disclosures in the notes to the accounts

6.30. All charities receiving donated goods, facilities or services must disclose in the notes to the accounts:

- the accounting policy for the recognition and measurement of donated goods, facilities and services;
- the nature and amounts of donated goods, facilities and services receivable from non-exchange transactions recognised in the accounts, for example seconded staff, use of property etc.;
- any unfulfilled terms or other contingencies attaching to resources from non-exchange transactions that have not been recognised as income in the reporting period; and
- an indication of other forms of resources from non-exchange transactions from which the charity has benefitted but not recognised in its accounts.

~~7.31.~~6.31. If practicable, charities should disclose the number, and full time equivalence, of volunteers.

- ~~the accounting policy for the recognition and valuation of donated goods, facilities and services;~~
- ~~the nature and amounts of donated goods, facilities and services receivable from~~
- ~~non-exchange transactions recognised in the accounts, for example seconded staff, use of property etc.;~~
- ~~any unfulfilled conditions or other contingencies attaching to resources from~~
- ~~non-exchange transactions that have not been recognised as income in the reporting period; and~~

~~7.32. an indication of other forms of resources from non-exchange transactions from which the charity has benefitted but not recognised in its accounts, for example the contribution of unpaid general volunteers.~~

**Commented [ED18]:** To be replaced with a cross-reference to Module 1 when Module 1 is finalised.