



# Accounting and Reporting Policy FRS 102

## Staff Education Note 12 Incoming resources from non-exchange transactions

### **Disclaimer**

This Education Note has been prepared by FRC staff for the convenience of users of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. It aims to illustrate certain requirements of FRS 102, but should not be relied upon as a definitive statement on the application of the standard. The illustrative material is not a substitute for reading the detailed requirements of FRS 102.

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## Introduction

This Staff Education Note compares the accounting treatment for incoming resources from non-exchange transactions under current UK accounting standards and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Incoming resources from non-exchange transactions is a topic specific to public benefit entities. Non-exchange transactions include, but are not limited to, donations of cash, goods and services, and legacies.

Current UK accounting standards do not include specific requirements relating to donations, other than in relation to the receipt of tangible fixed assets as gifts or donations by charities which fall within the scope of FRS 15 *Tangible Fixed Assets*. The *Statement of Principles: Interpretation for public benefit entities* includes a discussion of donated goods and services. The Charity Commission considered this in drafting the current version of its SORP *Accounting and Reporting by Charities: A Statement of Recommended Practice*.

FRS 102 addresses this area in Section 34 *Specialised Activities*.

This Staff Education Note is written to highlight key areas of consideration when transitioning to FRS 102 and is not designed to be exhaustive.

## Accounting treatment

### Recognition

Statement of Principles: Interpretation for public benefit entities	FRS 102
<p>Donations of cash, goods and services should be recognised when they can be measured with sufficient reliability.</p> <p>(Paragraph 4.48)</p>	<p>There is a consistent approach between accounting for non-exchange transactions and the performance model of accounting for grants (set out in Section 24 <i>Government Grants</i>).</p> <p>An entity shall recognise receipts of resources from non-exchange transactions as follows:</p> <ul style="list-style-type: none"> <li>(a) Transactions that do not impose specified future performance-related conditions on the recipient are recognised as income when the resources are received or receivable; and</li> <li>(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.</li> <li>(c) where resources are received before the revenue recognition criteria are satisfied, a liability is recognised.</li> </ul> <p>(FRS 102 paragraph PBE34.67)</p> <p>When applying the above requirements, an entity must take into consideration whether the resource can be measured reliably and whether the benefits of recognising the resource outweigh the costs.</p> <p>(FRS 102 paragraph PBE34.69)</p> <p>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.</p> <p>(FRS 102 paragraph PBE34.70)</p>

The overall principle that the resources received or receivable should be capable of being measured with sufficient reliability is consistent. As an accounting standard, FRS 102 provides more detail on when resources might be considered receivable and provides further guidance on applying the principles to specific circumstances.

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**Measurement**

<b>Statement of Principles: Interpretation for public benefit entities</b>	<b>FRS 102</b>
<p>Measurement should be based on the current value to the recipient. (Paragraph 4.48)</p>	<p>An entity shall measure incoming resources from non-exchange transactions as follows:</p> <ul style="list-style-type: none"> <li>(a) Donated services and facilities that would otherwise have been purchased shall be measured at the value to the entity.</li> <li>(b) All other incoming resources from non-exchange transactions shall be measured at the fair value of the resources received or receivable.</li> </ul> <p>(FRS 102 paragraph PBE34.73)</p> <p>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.</p> <p>(FRS 102 paragraph PBE34B.15)</p>

In many cases there will be no change in the measurement of resources received in non-exchange transactions.

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**Disclosures**

<b>Statement of Principles: Interpretation for public benefit entities</b>	<b>FRS 102</b>
<p>This does not generally address detailed disclosure requirements, but does recommend disclosure of the nature and scale of donated services received that have not been recognised.</p> <p>(Paragraph 4.51)</p>	<p>Disclosure is required of:</p> <ul style="list-style-type: none"><li>(a) The nature and amounts of resources receivable from non-exchange transactions that have been recognised in the financial statements.</li><li>(b) Any unfulfilled conditions or other contingencies attached to resources that have been received in non-exchange transactions, but have not yet been recognised as income.</li><li>(c) An indication of any other forms of resources from non-exchange transactions from which the entity has benefited.</li></ul> <p>(FRS 102 paragraph PBE34.74)</p>

There are no differences of principle between the requirements.

## Examples

### Example 1 Donated goods provided to charity shops

A charity receives many donations of unwanted clothes, books etc. The charity will need to sort through the donations to identify those suitable for sale in its shops, which may need cleaning, repairing etc before being ready for sale.

Some of the donated goods will not be suitable for sale, and the charity will then need to dispose of these goods, although textiles can be sold as rags, there may be costs involved in the disposal.

Typically the donated goods have low individual second-hand values. Overall, over the course of a year, the cash proceeds from the sale of donated goods are a material source of income to the charity.

There are no performance-related conditions attached to the donated goods, and therefore, in principle, the resources should be recognised as income when the goods are received. However, in order to recognise the income, the charity must be able to measure their value reliably, and have assessed the benefits of doing so as outweighing any costs involved.

The charity believes that, because it does not receive donations of high value items and it is difficult to reliably estimate the fair value less costs to sell of individual donations, the costs of determining the value of resources received at the time of receipt, outweighs the benefits of providing users with more timely information on receipt of donated goods. Instead, the charity recognises the donated resources as income when cash has been raised from the subsequent sale of the donated goods.

The charity discloses its accounting policy for donated goods. The charity should disclose any additional information that is relevant to understanding the extent of support received by the charity through donations.

### Example 2 Donated services – Volunteers

A university receives help from a number of volunteers in running its library.

The volunteers are not trained librarians, and do not work in libraries as part of their paid employment.

In accordance with FRS 102 paragraph PBE34B.11, it is not possible to reasonably quantify the value of the services provided by the volunteers, and donated services are not recognised in the financial statements.

The university provides narrative disclosure of the assistance received from its volunteer librarians.

### **Example 3**

#### **Donated services – Services that would otherwise have been purchased**

A public benefit entity receives pro bono legal services. The public benefit entity would otherwise have had to pay for legal services.

The public benefit entity is able to make a reliable estimate of the costs it would have incurred if it had paid for the legal services, based on price it estimates it would pay in an open market. Therefore the public benefit entity recognises the value of the donated legal services as income, and a corresponding expense is also recognised.

The public benefit entity provides disclosure of the nature and amount of the donated services received.

### **Example 4**

#### **Donation with performance-related conditions**

A local sports club that is charity receives a donation from a former member, on condition that it is spent on purchasing a specific piece of sports equipment; a rowing boat costing approximately £20,000 which must be made available for use to club members. The donor makes the donation in advance of the order being placed for the boat.

The sports club's year end falls between the order being placed for the boat, and its delivery to the club. At the year end the sports club does not recognise the donation as income; it has not yet fulfilled the performance-related conditions attached to the donation which requires the purchase of the rowing boat and for it to be made available for use to members. Instead it will recognise a liability for the full amount of the donation.

The sports club will disclose the unfulfilled performance-related conditions attached to the donation.

The following year end, after the boat has been received and made available for use, the sports club will derecognise the liability, and recognise the donation as income in full. The boat will be recognised as an item of property, plant and equipment and be depreciated over its estimated useful life.