

Donated Goods and Services and the Charities SORP - Discussion Briefing

Prepared by: CIPFA and Reviewed by the Charities SORP-making body, July 2021

Purpose of the briefing paper

To assist the engagement strands and the Charities SORP Committee in their reflections on the current approach to donated goods and services within the SORP and to undertake a problem-solving exercise to identify:

- the option(s) for changing what the SORP says about donated goods and services, if any and if so,
- a preferred option with a recommendation as to what the change to the SORP should be, if any.

Income recognition is the subject of a separate briefing paper. While CIPFA has attempted to avoid any duplication, there is overlap between the issues of income recognition and donated goods and services. To avoid duplication of effort on the part of the engagement strands, it is recommended that any comments on timing of income recognition are captured in engagement strands' feedback to the Income Recognition briefing document. All other aspects of accounting for donated goods and services should be captured in response to this briefing document.

Reflection - what does the SORP say about donated goods and services?

Module 6 (Donated goods, facilities and services, including volunteers) primarily contains the provisions of the current Charities SORP (FRS 102) relevant to donated goods and services. An introduction to the issues is provided in paragraphs 6.1, 6.4 and 6.8:

- 6.1. *The donation of goods, facilities and services to a charity provides an economic resource for use by the charity to further its aims and objectives.*
- 6.4. *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 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 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.

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

Further guidance on the treatment of donated goods and services as outlined in Module 6 is included in Appendix 1 below.

Other modules contain requirements and guidance relating to donated goods and services. Module 4 outlines presentation requirements for donated goods and services:

A3: Income from other trading activities

- 4.35. *Income from other trading activities includes income earned from both trading activities to raise funds for the charity and income from fundraising events. ... While selling donated goods is legally considered to be the realisation of a donation in kind, in economic terms it is similar to a trading activity and should therefore be included in this analysis heading.*

B1: Expenditure on raising funds

- 4.44. *Expenditure on raising funds includes all expenditure incurred by a charity to raise funds for its charitable purposes. It includes the costs of all fundraising activities, events, noncharitable trading activities, and the sale of donated goods. ...*

What is the reporting difference between ‘all’ and ‘larger’ charities?

There are no specific additional requirements for larger charities within the current SORP with respect to donated goods and services.

FRS 102 and the scope for changing the SORP to accommodate a different approach to donated goods and services

Section 34 of FRS 102 provides detailed guidance on accounting for income received from non-exchange transactions, including donated goods and services. Full detail is provided in the briefing document on Income Recognition. To facilitate discussion of donated goods and services, three key paragraphs are duplicated below:

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.
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.

Engagement strand feedback during the exploration stage

Engagement strand feedback: User of the accounts perspective

MFDGPB commented that with the exception of donated buildings, donated goods and services should be shown as a note rather than included on the SOFA.

No other comments were made on donated goods and services from a user of the accounts perspective.

Engagement strand feedback: Users of the SORP and preparers of accounts

The inclusion of a figure for donated goods and services in the SOFA was questioned although there was some concern about the opportunity for theft where there was no disclosure.

As above, MFDGPB commented that “with the exception of donated buildings – (donated goods and services) should be shown as a note rather than included on the SOFA.”

PTS (B) commented that “Consideration should be given to removing the requirement to recognise donated goods and services (but not donated fixed assets). However, some concerns were raised about the opportunity for theft if donated goods are not accounted for until they are sold.”

Observations from the SORP Committee:

At the second February 2021 meeting when SORP Committee members were invited to share their key conclusions on topics that had arisen during the exploration stage and that should inform the reflection stage, the committee considered that donated goods and services should be included in the list of topics.

What needs to be done now?

Step 1- Making the case for change - a ‘basis for conclusions’

A need for change in relation to donated goods and services has been raised through from two engagement strands and SORP Committee discussions to date. At this stage, clarity is required as to what changes are required, noting that in order to change the SORP, changes may be required to FRS 102. The reasons to support the proposed changes are then required.

Without a case for change, no change will be considered because its rationale cannot be explained to those affected.

Step 2 - Advising the change required to the SORP

Having made the case for change, the detailed changes required to the SORP and/or FRS 102 need to be set out. Consideration should be given in as much detail as possible for the requirements regarding donated goods and services and what else the SORP should include about donated goods and services – for example, additional disclosure requirements. If no detail is given, the conclusion drawn is that the detail is left wholly to the discretion of the SORP Committee and SORP-making body.

Undertaking an assessment of the impact (savings or costs on the preparer and benefits or disadvantages to the reader)

The FRC will require an impact assessment but until the implications of change are worked through the SORP framework, the impact is unlikely to be clear and so this will be considered at the drafting stage of the process.

Step 3 - Recommendation

The case made by each strand or combination of strands will inform the deliberations of the SORP Committee and so there needs to be a clear recommendation.

Following evidence provided by the engagement strands the SORP Committee will have its own discussion about what needs to be done and taking the evidence and views from the process, the Committee will settle on a recommended approach for drafting the SORP based on the evidence presented.

Detailed requirements for the recognition of donated goods and services

SORP reference	SORP Text
Module 6. Donated goods and services including volunteers	
6.6	<p>Donated goods, facilities and services must be recognised as income when the following criteria are met:</p> <p>Entitlement – control over the expected economic benefits that flow from the donation has passed to the charity and any performance-related conditions attached to the donation have been fully met.</p> <p>Probable – it is more likely than not that the economic benefits associated with the donated item will flow to the charity.</p> <p>Measurement – the fair value or value to the charity of the donated item can be measured reliably.</p>
6.7	<p>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.</p>
Measurement bases	
6.8	<p>Donated goods must be measured at their fair value, unless it is impractical to measure reliably the fair value of donated item(s).</p>
6.9	<p>When there is no direct evidence of fair value for an equivalent item, a value may be derived from:</p> <ul style="list-style-type: none"> • 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.
6.10	<p>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</p>

SORP reference	SORP Text
	information, the donated goods must then be recognised when they are sold.
6.11	The terms of a gift 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.
6.12	The cost of any stock of goods donated for distribution to beneficiaries is deemed to be the fair value of those gifts at the time of their receipt. If the goods held are to be distributed freely or for a nominal consideration, then the carrying amount should be subsequently adjusted to reflect the lower of deemed cost adjusted for any loss of service potential and replacement cost. Where replacement cost is the economic cost 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	
6.13	If a charity is given facilities and services for its own use which it would otherwise have purchased, these must be included in the charity's accounts when received, provided the value of the gift can be measured reliably.
6.14	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 are therefore measured and included in accounts on the basis of the value of the gift to the charity.
6.15	Value 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.
6.16	Donated facilities and services that are consumed immediately must be recognised as income, with an equivalent amount recognised as an expense under the

SORP reference	SORP Text
	appropriate heading in the statement of financial activities (SoFA).
6.17	Facilities such as office accommodation or services supplied by an individual or an entity as part of their trade or profession can usually be reasonably quantified and must be included in a charity's accounts.
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.
Accounting for donated goods and services capitalised as tangible fixed assets	
6.20	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.
6.21	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.

SORP reference	SORP Text
6.22	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	
6.23	Donated goods held by the charity for distribution to its beneficiaries should be recognised as stock, with the corresponding income recognised within donations and measured at its fair value.
6.24	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.
6.25	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.
6.26	If it is impractical to assess the 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 donations when it is distributed, with an equivalent amount recognised as charitable expenditure.
Accounting for donated goods for resale	
6.27	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.
6.28	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

SORP reference	SORP Text
	<p>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.</p>
<p>6.29</p>	<p>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.</p>
<p>6.30</p>	<p>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 'Income from other trading activities' and the proceeds of the sale are also recognised as 'Income from other trading activities'.</p>
<p>Disclosures in the notes to the accounts</p>	
<p>6.31</p>	<p>All charities receiving donated goods, facilities or services must disclose in the notes to the accounts:</p> <ul style="list-style-type: none"> • 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

SORP reference	SORP Text
	<ul style="list-style-type: none">• 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• 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.

Abbreviations - Engagement Strands

Engagement Strand	Abbreviation
Smaller charities and independent examiners	S&IE
Larger charities	L
Charity trustees	T
Academics and regulators and proxies for public interest	A&R&PPI
Professional, audit and technical strand A	PTS(A)
Professional, audit and technical strand B	PTS(B)
Major funders, donors and government and public bodies	MFDGPB