STATUTORY BOARD FINANCIAL REPORTING STANDARD GUIDANCE NOTE 2

Accounting and Disclosure for Donations

SB-FRS Guidance Note 2 *Accounting and Disclosure for Donations* applies to Statutory Boards for annual periods beginning on or after 1 January 2009.

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Statutory Board Financial Reporting Standard Guidance Note 2 *Accounting and Disclosure for Donations* is set out in paragraphs 1-22. All the paragraphs have equal authority. SB-FRS Guidance Notes are issued to standardise the accounting and disclosure requirements of Statutory Boards in specific areas and are to be complied with by Statutory Boards. These Guidance Notes rank behind SB-FRS and INT SB-FRS in terms of importance.

Statutory Board Financial Reporting Standard Guidance Note 2

Accounting and Disclosure for Donations

Objective

1. The objective of this Guidance Note is to prescribe guidance on the accounting and disclosure requirements for donations received by Statutory Boards (SBs).

Scope

2. This Guidance Note applies when a SB receives a donation. A donation arises when a SB receives an asset, including the right to receive cash or other forms of asset without directly providing approximately equal value to the giving party or parties.

3. The three distinguishing characteristics of donations are:

   i. They are non-reciprocal transfers;
   ii. They involve transfers from entities other than owners of the SBs; and
   iii. These contributions are voluntary.

4. Donations are generally non-reciprocal transfers. However there may be instances where nominal consideration is provided by the SBs to the donors. For such donations, where the consideration provided to the donors is significantly lower than that of the donations received, such that it results in an unfair exchange transaction, they should be recognised as donations received.

5. This guidance note does not cover Government grants. Government grants are assistance by government in the form of transfers of resources to an enterprise in return for past or future compliance with certain conditions relating to the operating activities of the enterprise [SB-FRS 20 paragraph 3]. Government grants should be accounted for in accordance with the provisions of SB-FRS 20.

Accounting for Donations

Recognition of donations

6. For the purposes of this Guidance Note, donations include *transfers of cash and other assets, services and promises to give*.

7. **Donations whether of cash or assets (e.g. property, plant and equipment), shall be recognised as income in the period it is received or receivable** when and only when all of the following conditions has been satisfied:

   (a) the SB obtains control of the donation or the right to receive the donation;

   (b) it is probable that the economic benefits comprising the donation will flow to the entity; and

   (c) the amount of the donation can be measured reliably.

8. ***Donations with restrictions and/or conditions attached*** shall be recognised as income if the restrictions and conditions are under the entity's purview and it is probable that these restrictions and conditions would be met. If otherwise, these donations shall be recognised as deferred income until the above criteria are fulfilled or when the restrictions and/or conditions expire.

9. For *services* received to be recognised as donations, the services must

    (a) Create or enhance non-financial assets; or

    (b) Require specialised skills which are usually provided by individuals with the professional competency and would typically need to be purchased if not provided by donation. Examples include professional services by accountants, architects, doctors, engineers, lawyers etc.

10. A *promise to give* is an agreement to donate cash or assets to the SB. For promises to give to be recognised as donations, there must be sufficient evidence in the form of verifiable documentation that a promise was made and received by the SB.

11. Donations may be received with conditions attached that must be fulfilled before the SB has unconditional entitlement of the resources. Meeting such conditions may be either within the SB's control or reliant on external factors outside its control. Where meeting such conditions are within the SB's control and there is sufficient evidence that the conditions will be met, then income should be recognised. Where uncertainty exists as to whether the recipient SB can meet conditions within its control, income should not be recognised but deferred as a liability until certainty exists that the conditions imposed can be met.

12. Conditions such as the submission of accounts or certification of expenditure can be seen as simply an administrative requirement as opposed to a condition that might prevent the recognition of income.

13. There may also be donor-imposed conditions that specify the time period in which the expenditure of resources can take place. Such a pre-condition for use limits the SB's ability to expend the resource until the time condition is met. For example, the receipt in advance of a donation specified to cover an expenditure that must take place in a future accounting period should be accounted for as deferred income and recognised as a liability until the accounting period in which the recipient SB is allowed by the condition to expend the resource.

14. Where the existence of a condition prevents the recognition of an incoming resource, a contingent asset should be disclosed where it is probable (but not virtually certain) that the condition will be met in the future.

15. Recognition of a donation without pre-conditions should not be deferred even if the resources are received in advance of the performance of the activity funded by the donation, if the SB is the party in control of the timing of the activity. In such cases the SB has entitlement to the resource with the timing of the expenditure being within the discretion of the charity.

Measurement at recognition

16. **Income shall be recognised at the fair value of the donations received or receivable**.

17. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

18. Donations in the form of services may be measured by referring to either the fair value of the services received or the fair value of the asset or the asset enhancement resulting from the services. A possible proxy on the fair value of the services received will be the consideration that would have to be paid by the SB if it had purchased the service.

Disclosure for Donations

19. SBs should provide the following disclosures :

    i. the accounting policies applied in recognising donations;

    ii. nature of any donations not recognised in the financial statements due to unreliability of the value of the donations;

    iii. details of any restrictions imposed by the donors on the donations (both cash and other assets); and

    iv. valuation basis for non-cash donations.

20. For promises to give, the following shall be disclosed.

    Unconditional promises to give:

    i. The amounts of promises receivable in less than one year, in one to five years, and in more than five years; and

    ii. The amount of allowance for uncollectible promises receivable, if any.

    Conditional promises to give:

    i. The total of the amounts promised; and

    ii. A description and amount for each group of promises having similar characteristics, including the nature of the conditions attached.

21. Where the recognition of donation income is deferred, a reconciliation of deferred revenue at the beginning and end of the year should be provided showing:

    i. amount recognised as deferred revenue in current year that increases the deferred revenue balance; and

    ii. amount recognised as income in current year that decreases the deferred revenue balance.

Effective Date

22. This Guidance Note is operative for financial statements covering periods beginning on or after 1 January 2009.