



FRS 102 and FE HE SORP Revenue, Government grants and non exchange transactions Version 3

March 2019

This guidance document has been produced by BUF DG for BUF DG members to assist institutions in the practical interpretations of applying the FE HE SORP and specific examples. It is for each institution to exercise its own professional judgement and take responsibility for applying FRS102 and the SORP. This document has not been considered or approved by the SORP Board and is expected to be updated from time to time by BUF DG Financial Reporting Group.

Introduction

Version 3 - March 2019

The FE HE SORP sets out the accounting policy choices that can be applied for government grants and non exchange transactions. The two options being the accrual model and the performance model. This document aims to provide more detail on when each option is permitted and more detail on how it should be applied – for example identifying performance related conditions. Institutions should also refer to the SORP chapters 17 and 18 which cover government grants and non exchange transactions respectively.

This document sets out

Pages 2 - 3 Understanding of performance related conditions

Pages 4 - 7 Frequently asked questions

Pages 8 A summary of the examples and how they should be recorded within the statement of comprehensive income

Pages 9 – 20 A number of worked examples based on actual transactions within institutions, identifying the appropriate accounting treatment in accordance with the SORP.

Version /Date	Key changes
Version 1 - 17 April 2014	
Version 2 - 27 June 2014	Minor changes following BUFDG FRG comments on 20 June
Version 3 – March 2019	Minor changes as part of the updating of guidance notes for the FE HE SORP 2019

Understanding Government grants, Non exchange transactions and Performance related conditions

Version 3 - March 2019

Government grants

Chapter 17 of the SORP includes the following definition of government grants:

“Government grants are provided by government bodies and do not include donations or funding from other charities or benefactors (which are referred to as non-exchange transactions in FRS 102 and this SORP). Economically, government grants and non-exchange transactions may be very similar, in that they reflect money which is granted or donated as opposed to a commercial transaction arising under contract.” “for the purposes of this SORP, where a funding entity receives a significant portion of its income from non-Government sources, it is considered a non-Government entity and therefore funding provided by them would be a non exchange transaction.”

Government grants may be accounted for using the **accrual model** or the **performance model**. Under the accrual model income is recognised on a systematic basis over the periods in which the entity recognises the related costs for which the grant is intended to compensate. Under the performance model income is recorded as the performance related conditions to which the income relates are met.

Institutions may choose an accounting policy for government revenue grants and a separate policy for government capital grants. The policy chosen must be applied consistently across that class of grant – e.g. The same policy for all revenue grants. Capital grants for land must be accounted for using the performance model.

Non exchange transactions

Chapter 18 of the SORP includes the following definition of non exchange transactions:

“Non-Exchange Transactions are those transactions whereby an entity receives, or gives value to another entity without directly receiving approximately equal value in exchange. Non-exchange transactions include, but are not limited to, donations of cash, goods and services and endowments. These transactions will include gifts in kind, for example, a donation of an asset or piece of equipment for operational use. A donated asset may be classified as a heritage asset as set out in section 26 of this SORP.....Non-exchange transactions include grants from private and charitable individuals or organisations including research grants.”

Non exchange transactions with performance-related conditions, including grants from non-government sources, must be accounted for using the performance model.

Performance related conditions

The SORP sets out definitions for performance related conditions and restrictions. However in practice it is recognised that distinguishing between performance related conditions and restrictions is not so simple. Institutions should refer to the **Donations and endowments guidance note** which provides additional guidance in determining income with and without restrictions and how they should be accounted for. This also considers when income should be classified as either a permanent or expendable endowment.

This guidance note, and the one in relation to donations and endowments, intends to assist institutions when making judgements by providing more practical interpretations and specific examples of income.

This guide does not, and indeed should not, give definitive guidance to an area where individual circumstances will differ and in all instances professional judgement should be applied.

Accounting policy choice

When choosing appropriate accounting policies institutions should consider:

- The impact on surplus and net assets (any deferred capital grants are held as deferred income on the statement of financial position),
- Consistency of accounting for similar grants from government and non government sources,
- Potential administration time arising from adopting a particular policy, and
- The future of FRS102 – Accounting standards more generally are moving more towards a recognition criteria for income based on the nature of the income and the conditions attached to them. The FRC may review the accrual model in future years which MAY result in the accrual model not being permitted, at which point it is likely that any adjustments arising would result in a prior year adjustment from the change in accounting policy.

Understanding Government grants, Non exchange transactions and Performance related conditions

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Some Basic Principles

- A performance-related condition is: *A condition that requires the performance of a particular level of service or units of output to be delivered, with payment of, or entitlement to, the resources conditional on that performance.*
- The donor / grantor may also include a restriction on the use of the funds. Restrictions apply in many circumstances where a donor / grantor has requested a specific use of the funds which restricts the way in which the institutions may spend the funds
- The timing of cash receipts should not be the driver for income recognition. Entitlement to the income will be the driver of income recognition rather than the actual cash transaction.
- In many instances there are a number of approaches to classifying performance related conditions. Institutions should be pragmatic and adopt an approach which is simple to implement and likely to result in an appropriate accounting outcome for the institution.

This section sets out a number of frequently asked questions:

- Q1) What is a performance related condition in practice?
- Q2) Can a grant for revenue and capital spend be treated as one income stream or should it be separated into the capital and revenue elements?
- Q3) When do capital grants have performance related conditions and when do they have restrictions?
- Q4) What is included within the definition of government grants?
- Q5) When does a grant without performance related conditions have a restriction and when is it unrestricted?
- Q6) How is income classified within the Statement of Comprehensive Income

Q1) What is a performance related condition in practice?

FRS 102 sets out the definition of a performance related condition as being *“A condition that requires the performance of a particular level of service or units of output to be delivered, with payment of, or entitlement to, the resources conditional on that performance.”* The critical words within this definition are “level of service” and “unit of output”.

It is worth noting that there are frequently a number of ways that performance related conditions can be identified within a particular grant. One of these options will result in a more logical income recognition profile than another. We would expect institutions to adopt the most logical method as its policy and apply this consistently.

As an example: let's take a typical research grant. The institution will have to develop a detailed bid for the grant setting out the expected hours and other expenditure required including any capital requirements. The research grant awarded will include requirements that the institution has to deliver a milestone, e.g. a report at the end, with perhaps additional milestones along the way. The contract may not identify the original detailed costings within the proposal.

Revenue grant considerations

In this instance there are two main views on what the performance related conditions are:

1. The grant includes milestones and a final deliverable. These are deemed to be the performance related conditions. In this instance grant income would be recognised as each milestone was met in proportion to the % of work completed to that date. This could result in a mismatch between income and expenditure within the statement of comprehensive income and therefore result in greater volatility in annual results. If the accrual model is adopted (for government grants only) income is matched to costs on an accruals basis.
2. Although the grant document may not specify the detailed costing, it was awarded on the basis of the proposal. Therefore there is an expectation of the grantor that the institution will deliver the resources as listed within the proposal. The resources (e.g. man hours / days and related costs) equate to the *“level of service”* to be provided and therefore income would be recorded in line with the delivery of these costs. It is reasonable that a grantor anticipates that actual costs may not exactly match the proposal in terms of timing and mix up to a point in time. Therefore it is also reasonable to record income in line with the actual costs incurred. If the accrual model is adopted (for government grants only) income is matched to costs on an accruals basis.

Whilst both of the above are acceptable interpretations, we expect that the majority of institutions will adopt a bid cost, “level of service”, approach to performance related conditions. This is demonstrated in the second view of performance related conditions above.

Capital grant considerations

FRS 102 requires that an institution must adopt an accounting policy for each class of grant and indicates that these classes are likely to be capital, revenue and land. The institution must apply its capital grant accounting policy to the capital element of a research contract. In both instances the specific capital purchase has a clear performance related condition i.e. purchasing the asset. Therefore the income in relation to the capital element should be separated from the total grant income and recorded when the asset is purchased.

If the accruals model is adopted, on recognition the capital grant element will be shown as deferred income and then released to the SOCI as funding body income, (see Q7 below) whereas if the performance model is adopted the capital grant element will be recognised immediately.

Q1) Continued.....

Most research grants are awarded on the basis of a successful proposal which identifies the level of service to be provided. Therefore most research grants will result in income being matched to expenditure. This is highly likely to be the case for government research grants where government funded entities have a requirement to demonstrate value for money, which would normally be executed through a robust proposal process.

However there are occasional instances where grants are given for a purpose, but with no proposal or requirement to deliver a level of service. Examples have been identified from charities who provide charitable grants to institutions who demonstrate particular expertise in an area of research. These are akin to donations although institutions will be keen to retain the definition of research income rather than donations where the funding is for research (provided Frascati definitions are met).

These grants do not have performance related conditions and therefore income is recognised as the institution is entitled to the income, frequently in advance of expenditure being incurred. Such grants may or may not have restrictions in use.

Q2) Can a grant for revenue and capital spend be treated as one income stream or should it be separated into the capital and revenue elements?

Section 23 of FRS 102 states that the revenue recognition criteria should be applied to the separately identifiable components of a single transaction where necessary to reflect the substance of the transaction.

When applying the performance model it is also necessary to consider income recognition requirements i.e. Income is recognised on entitlement to the income. The institution is entitled to the income when the performance related conditions to which it relates are met. In the same way that the revenue sections of FRS 102 require elements of an income stream to be broken into their constituent parts the income from grants should be allocated to their constituent parts. The same should be applied for government and non government grants.

Further to this, paragraph 17.9 of the SORP states “*where an institution receives a government grant for a combination of two or more of revenue, land and other capital, the institution must allocate the grant between the revenue, land and other capital elements. The grant allocated for revenue, land and other capital must be accounted for in accordance with the institution’s accounting policy for each class of grant*”.

Therefore grant income should be allocated between capital and revenue elements and income recognised in line with the performance related conditions of each element. It should not be treated as one income stream allocated across the performance related conditions linked to the revenue resources applied.

If the performance model is adopted under FRS 102, revenue components of research grants are likely to be accounted as they currently are, effectively identical to the accruals model. However, the capital component of the grant will be recognised as income within the SOCI rather than deferred income released to income within the SOCI over time as under current accounting.

Q3) When do capital grants have performance related conditions and when do they have restrictions?

For performance related conditions to exist the grantor / donor needs to stipulate the level of service or unit of output. The requirement to spend on capital or Building A would not meet the definition of performance related conditions unless the donor / grantor specified details about Building A (e.g. a detailed design specification).

- A typical research grant may include an element for a specific capital item of equipment. Where this is the case the level of service to be provided includes buying a very specific item of equipment. In this instance income is recognised when the performance related condition is met i.e. when the equipment is purchased.
- A capital grant where the donor / grantor requires the income to be spent on the capital plan or even specific capital projects will include a restriction on how the income should be spent but is unlikely to include performance related conditions.
- There may be instances of capital grants where the donor / grantor requires the income to be spent on a specific project and also includes details such as the design specification to which the assets must be built. In this scenario there may be performance related conditions arising from the level of service expected during the build phase. Therefore income should be recognised in line with the level of service i.e. build costs.

Q4) What is included within the definition of government grants?

The SORP includes the following relating to the definition of government grants:

“Government grants are provided by government bodies and do not include donations or funding from other charities or benefactors..... Government grants are transfers of resources from Government bodies including, but not limited to:

- *Government departments and their agencies and non-departmental public bodies;*
- *local government;*
- *EU funding agencies;*
- *local and regional funding agencies (e.g. Regional Growth Fund and UK Research Councils); and*
- *NHS bodies.*

For the purposes of this SORP, where a funding entity receives a significant portion of its income from non-Government sources, it is considered a non-Government entity and therefore funding provided by them would be a non exchange transaction.”

Government grants excludes charities such as the Arts Council which receive the majority of its funding from non governments sources. (e.g. lottery funding)

Q5) When does a grant without performance related conditions have a restriction and when is it unrestricted?

Firstly it is important to remember that any grant without performance related conditions will be recognised in income when the institution is entitled to the income. The question of having restrictions or not is only relevant for disclosing which reserves the income is retained in and the related disclosures.

Many further and higher education institutions receive expendable charitable donations with specific terms attached to them which are general to the objectives of the institution. The primary activities of further and higher education institutions are teaching and research. Where the terms of the donations contain restrictions that are sufficiently general that the restriction has no material impact, the donation is, in substance unrestricted, and should be accounted for as unrestricted income.

Judgement will be required for each institution's own circumstances.

Institutions should refer to the **Donations and endowments guidance note** which provides additional guidance in determining income with and without restrictions and how they should be accounted for. This also considers when income should be classified as either a permanent or expendable endowment.

Q6) How is income classified within the Statement of Comprehensive Income?

The guidance within this question relates to classification of income under both the accrual model and the performance model.

The SORP includes the following references to the classification of income:

16.11 Research income may be received as commercial revenue transactions, from government sources and from non-government sources. In all instances, the income should be recorded within research within the Statement of Comprehensive Income

Government grants

17.13 An institution adopting the performance model must recognise income from Government grants within the Statement of Comprehensive Income when performance-related conditions are met.

17.11The income must be recorded within the Statement of Comprehensive Income under the relevant heading of funding body grants, research grants or other income as appropriate to the nature of the grant.

Non exchange transactions

18.6: Institutions may wish to distinguish donations for research and similar grants from other donations and endowments by recording income within research, donations and endowments or other income as appropriate.

This guidance includes further clarity on how universities should interpret the SORP.

- Any funding received from funding bodies e.g. OfS should be included within the funding body income including funding body research allocations.
- Research income should be identified in line with the Frascati definitions of research which should result in consistency with the HESA requirements.
- Capital grants should be recorded as follows:
 - Capital grants from funding bodies should be recorded within funding body income. Institutions adopting the performance model may wish to include an additional line item in the SOCI if income in a particular year was material to aid the readers of the accounts.
 - Capital grants from other sources should be recorded within the relevant income category (i.e. research grants and contracts, donations and endowments). Once again institutions adopting the performance model may wish to include an additional line item in the SOCI if income in a particular year was material to aid the readers of the accounts.

Summary of Examples

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Ref	Title	Classification *	Performance related condition?	Recognition under the Performance model	Funding body grants	Tuition fees and education contracts	Research grants and contracts	Other income	Investment income	Donations and endowments
1	Office for Students recurrent grant	GG	Yes	In line with teaching related activity	✓					
2	Studentships - Principal	GG	Yes	In line with level of service		✓				
3	Studentships - Agent	Rev	No	Commission only - In line with services provided				✓		
4	Office for Students capital grant	GG	No	When entitled to the income	✓					
5	As Example 1 but where there is franchising of teaching	GG	Yes	In line with teaching related activity	✓					
6	Arts Council museum grant	NET	Yes	In line with services provided						✓
7	NHS contracts	GG	Yes	In line with teaching related activity		✓				
8	Tuition fees	Rev	N/A	In line with teaching services provided		✓				
9	Research grant RC	GG	Yes	In line with resources used / costs			✓			
10	EPSRC equipment grant	GG	Yes	When the equipment is purchased			✓			
11	Philanthropic donation for use in research	NET	No	When entitled to the income			✓			
12	Charitable trust donation for use in research (with significant capital element)	NET	No	When entitled to the income			✓			
13	Capital grant: Medical Research Council	GG	No	When entitled to the income			✓			
14	Capital Grant British Heart Foundation	NET	No	When entitled to the income			(✓)			(✓)
15	Capital grant-match funding	GG and NET	No	See detail					(✓)	✓
16	Research Grant – Charity	NET	Yes	In line with resources used / costs			✓			
17	Research Grant: Charity post doc fellowship	NET	Yes	In line with resources used / costs			✓			
18	Research Grant – Charity with audit requirements	NET	Yes	In line with resources used / costs			✓			
19	Grant for a collaborative research project	GG	Yes	Institutions share only - In line with resources used / costs			✓			
20	Services rendered	Rev	N/A	In line with services provided				✓		
21	Capital grant: Royal Society Award	NET	No	When entitled to the income						✓
22	Capital Grant St Mary's Trust	NET	No	When entitled to the income						✓
23	Privately funded capital grant	NET	No	When entitled to the income						✓
24	Regional development agency grant with output conditions	GG	Yes	In line with build spend						✓
25	Arts Council museum grant	NET	Yes	In line with services provided						✓

* Rev – revenue transaction

GG – Government Grant

NET – Non exchange transaction

	Example 1 – OfS recurrent grant	Example 2 –Studentships - Principal
Background / Key terms and conditions	A funding council passes government funding for HE to the institution in the form of block grants, in a number of elements with separate calculations, and subject to Terms and Conditions. One element within the block grant relates to the teaching grant.	A Institution receives from a Research body, funding for studentships. The Institution is acting as a principal. Indicators of the Institution acting as principal include; <ul style="list-style-type: none"> • Institution has control over students selected to receive studentships • Institution can determine how studentships are split between different subjects
Is this a revenue, government grant or non exchange transaction?	Government grant OfS is a government agency and therefore this is a government grant. OfS does not get anything directly in return and therefore this is NOT a revenue transaction.	Government Grant
What performance related conditions or restrictions exist?	Whilst the grant letters are fairly broad in terms, in substance they anticipate the provision of teaching related activity over the year. In addition the funding has specific student numbers attached – supporting the view that the funding is to support teaching over the year. This “level of service” (i.e. provision of teaching related activity over the year) is considered to be a performance related condition.	The grant letters include reference to the specific years in which the grants will be received and the purpose of the spend for those years, i.e. the level of service to be provided over those years. The levels of service referenced within the letter are performance related conditions. Where an Institution has discretion over which students awards are payable to, the selection of the students is defined as a performance condition.
What is the appropriate accounting and disclosure requirements for institutions adopting the performance model?	Income should be recognised in line with the delivery of teaching i.e. the “level of service” over the year to which the grant relates. The grant will be disclosed within funding body grants within the statement of comprehensive income.	Where the substance of a transaction is that the seller acts as principal, the entity should report income based on the gross amount received or receivable in return for its performance under the contractual arrangement. Income should be accounted for once - as a gross studentship and the billing of tuition fees to the student should not be included in fee income. Where an Institution has received funding at the reporting date but not all the performance conditions have been met (for instance the Institution has discretion over which students awards are payable to) then the unspent income should be deferred as a liability at the date. If there is no discretion over which students are paid then the amounts unpaid at the year end should not be deferred.
What is the appropriate accounting and disclosure requirements for institutions adopting the accrual model?	Under the accrual model income will be recorded in line with the services provided.	Under the accrual model income will be recorded in line with the services provided. In practice this will either be in line with spend or straight-line across the period of the studentship whichever as appropriate.
Other comments:		Funds for general research studentships cannot be treated as endowments. This is because teaching and research are primary purpose activities of the Institution so cannot be restricted.

Examples

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	Example 3 - Studentships - Agent	Example 4 – OfS Capital grant
Background / Key terms and conditions	An Institution receives from a Research body, funding for studentships. The Institution is acting as an agent.	OfS passes government funding for HE to the HEI in the form of capital allocations which the institution allocates to specific assets.
Is this a revenue, government grant or non exchange transaction?	Revenue It is not expected that there would be any circumstance under which an Institution would receive agency fees in the form of a government grant as it would suggest that the contract has commercial substance, the fee being for the provision of administrative services.	Government grant OfS is a government agency and therefore this is a government grant.
What performance related conditions or restrictions exist?	N/A	This arrangement does not include performance related conditions as the Institution can choose the nature of the capital build. The nature of the funding leads to the conclusion that there are no restrictions in use as the capital expenditure is line with the Institution's ongoing estates plan and therefore part of normal ongoing operations.
What is the appropriate accounting and disclosure requirements for institutions adopting the performance model?	Where the substance of a transaction is that the seller acts as agent, it should report as income the commission or other amounts received or receivable in return for its performance under the contractual arrangement. In the Institution example there is no commission but by default this means that in an agency situation the income associated with the studentship should be excluded from the accounts.	Income should be recognised on entitlement within the statement of comprehensive income. This will give rise to a mismatch with future depreciation charges incurred on the capitalised assets. The grant will be disclosed within funding body grants.
What is the appropriate accounting and disclosure requirements for institutions adopting the accrual model?	Accrual model not permitted for revenue transactions.	Record as a creditor until the grant is spent. At this time the creditor is recorded as deferred income or income depending on whether the grant is spent on revenue or capital or revenue items respectively. The deferred income must be allocated between creditors due within one year and due after more than one year. Recognise in income on a systematic basis over the expected useful life of the asset to which the grant relates. The income will be disclosed within funding body grants.
Other comments:	Agency arrangements will typically include the following characteristics: (a) the seller has disclosed the fact that it is acting as agent; (b) once the seller has confirmed its customer's order with a third party, the seller will normally have no further involvement in the performance of the ultimate supplier's contractual obligations.	

	Example 5 – As Example 1 but where there is franchising of teaching to another institution	Example 6 – Arts Council museum grant
Background / Key terms and conditions	A funding council passes government funding for HE to the institution in the form of block grants, in a number of elements with separate calculations, and subject to a financial memorandum. One element within the block grant relates to the franchising of teaching to other education providers (typically further education colleges).	Arts Council for England (ACE) provides multi-year core funding for selected museums on the basis of principles set out in an agreed programme. The institution is required to deliver various reports including annual programme of activity (in advance) accounts, minutes, annual report on activity. Of no monetary value to ACE.
Is this a revenue, government grant or non exchange transaction?	Government grant The funding council is a government agency and therefore this is a government grant.	Non exchange transaction ACE is government and lottery funded and as a charity receives a significant amount of its income from non-government entities. Therefore ACE is not a government body. (see SORP 17.3) ACE does not receive direct benefit in exchange for the grants provided.
What performance related conditions or restrictions exist?	Whilst the grant letters are fairly broad in terms, in substance they anticipate the provision of teaching related activity over the year. In addition the funding has specific student numbers attached – supporting the view that the funding is to support teaching over the year. This “level of service” (i.e. provision of teaching related activity over the year) is considered to be a performance related condition. Within the total student numbers, a specific number will be taught by a third party provider.	The grant letters include reference to the specific years in which the grants will be received and the purpose of the spend for those years, i.e. the level of service to be provided over those years. The levels of service referenced within the letter are performance related conditions.
What is the appropriate accounting and disclosure requirements for institutions adopting the performance model?	This is a jointly controlled operation and therefore the institution should only record as Income its share of the block grant, which should be recognised in line with the delivery of teaching i.e. the “level of service” over the year to which the grant relates. The net grant will be disclosed within funding body grants within income.	Recognise income in accordance with the level of service set out within the grant letter. Recognise the income as restricted income within restricted reserves. Recognise expenditure as restricted expenditure as incurred to reduce the restricted reserve to nil as the income is spent. The income will be disclosed within donations and endowments.
What is the appropriate accounting and disclosure requirements for institutions adopting the accrual model?	Under the accrual model, income will be recorded in line with the services provided. i.e. matched to the costs incurred. Since it is the franchisee which incurs the costs, the franchisor should only record its share of the block grant.	Accrual model not permitted for non exchange transactions.

	Example 7 - NHS contract	Example 8 – Tuition fees
Background / Key terms and conditions	NHS passes funding for a certain number of students to receive education for NHS professions. Funding is received for individual academic years.	Students pay tuition fees to an institution for a specific year of teaching. Some of this tuition fee is paid by the government through the Student Loan Company ("SLC").
Is this a revenue, government grant or non exchange transaction?	Government grant NHS funding is received from NHS bodies – all of which are part of government.	Revenue (exchange transaction) The student is paying tuition fees in return for education. The fact that some of the cash is paid by the SLC does not change the nature of this transaction. The SORP clarifies that the SLC transaction is accounted for between the student and the SLC as cash in return for a loan.
What performance related conditions or restrictions exist?	The grants are awarded for teaching certain student numbers for specific academic years. The teaching of students is the "level of service" to be delivered over time. This level of service is considered to be the performance related condition.	Not applicable
What is the appropriate accounting and disclosure requirements for institutions adopting the performance model?	Income should be recognised in line with the delivery of teaching the "level of service" over the year to which the grant relates. The grant will be disclosed within tuition fees and education contracts within the statement of comprehensive income.	Recognise income in line with the education provided. The income will be disclosed within tuition fees and educational contracts.
What is the appropriate accounting and disclosure requirements for institutions adopting the accrual model?	Under the accrual model income will be recorded in line with the services provided.	Not applicable
Other Comments	It is common in the sector that NHS contracts remain unsigned for a number of months into the academic year. However, provided there is past evidence that these are signed and that the final contracts include performance related conditions in relation to the students and academic year, then the income can be recognised in line with these expected performance related conditions.	

	Example 9 – Research council grant	Example10 – EPSRC Equipment grant
Background / Key terms and conditions	Defined research project or activity over fixed period with funding agreed in advance based on (proportion of) full costing. The institution is required to deliver a completion report as part of the research contract terms.	Contribution towards purchasing of scientific equipment (application for grant value includes reference to expected period of research undertaking and nature of anticipated research activity for 24 months).
Is this a revenue, government grant or non exchange transaction?	Government grant The research council is a government agency and does not receive the direct benefit from the research undertaken.	Government grant The EPSRC is a government agency and does not receive the direct benefit from the research undertaken.
What performance related conditions or restrictions exist?	The grant is awarded on the basis of pre-agreed budgets for project spend. These pre-agreed budgets set out the resources required to deliver the project. They are the “level of service” or “units of output” that meet the definition of performance related conditions within FRS 102. The delivery of the completion report is considered a milestone rather than a performance related condition.	The institution is restricted on the use of the cash – i.e. it has to be spent on certain scientific equipment. Since in this instance the grant requires the purchase of very specific equipment this would meet the definition of a performance related condition which is met on purchasing the equipment.
What is the appropriate accounting and disclosure requirements for institutions adopting the performance model?	Recognise income in line with the level of service (resources applied). Where actual spend profiles differ from the budgeted spend profiles the income should be recorded in line with the actual spend. The grant will be disclosed as part of research income. Cash in advance of expenditure is held as deferred income with disclosures to demonstrate the source of grants deferred, likely to be by sponsor type. The grant will be disclosed within research grants and contracts.	Recognise income when the performance related condition is met. The grant will be disclosed within research grants and contracts.
What is the appropriate accounting and disclosure requirements for institutions adopting the accrual model?	Under the accrual model income will be recorded in line with the services provided.	Record as a creditor until the grant is spent on the asset to which it relates. At this time the creditor is recorded as deferred income. The deferred income must be allocated between creditors due within one year and due after more than one year. Recognise in income on a systematic basis over the expected useful life of the asset to which the grant relates. The grant will be disclosed within research grants and contracts
Other comments:	A typical UKRI grant will be granted based upon a proposal which includes the resources applied to the research and therefore the level of service.	

	Example 11 – Philanthropic donation for use in research	Example 12 - Charitable trust donation for use in research (probable significant capital element)
Background / Key terms and conditions	£100k donation to support Paediatric Gastroenterology research, at discretion of named academic. There are no specific output requirements from the donation.	£50k donation to support development of Open Source Microscope supported research activities.
Is this a revenue, government grant or non exchange transaction?	Non exchange transaction. Donating individual not a government body.	Non exchange transaction Charities are not considered part of government and therefore this is not a government grant.
What performance related conditions or restrictions exist?	Despite the specific element of research, paediatric gastroenterology is a significant part of HEI and departmental core research activities. Therefore this donation in effect has no restrictions. See SORP 18.8 'An institution should consider its own circumstances to determine if funds are restricted or not.'	Despite the specific element of research, open source microscope research is a significant part of HEI and departmental core research activities. Therefore this donation in effect has no restrictions. There is no restriction in relation to capital spend as the donation does not specify whether the donation should be spent on capital or revenue items.
What is the appropriate accounting and disclosure requirements for institutions adopting the performance model?	Recognise as a donation for research when the institution is entitled to the income. The income will be disclosed within research grants and contracts.	Recognise as a donation for research when the institution is entitled to the income. Any subsequent spend on capital will be capitalised within property plant and equipment with depreciation charges in future years. The grant will be disclosed within research grants and contracts.
What is the appropriate accounting and disclosure requirements for institutions adopting the accrual model?	Accrual model not permitted for non exchange transaction.	Accrual model not permitted for non exchange transaction.
Other comments:	This example gives a mismatch between income and expenditure recognition in the statement of comprehensive income.	This example gives a mismatch between income and expenditure recognition in the statement of comprehensive income.

	Example 13 – Capital grant: Medical Research Council	Example 14 – Capital Grant British Heart Foundation
Background / Key terms and conditions	<p>Medical Research Council (MRC) funding towards construction of new research facility (L Block).</p> <p>Funding is collected as the building progresses.</p>	<p>British Heart Foundation Strategic Initiative Application – funding towards construction of new research facility.</p> <p>Funding is collected as the building progresses.</p>
Is this a revenue, government grant or non exchange transaction?	The MRC is a government agency and therefore this is a government grant.	<p>Non exchange transaction</p> <p>Charities are not part of government and therefore this is not a government grant.</p>
What performance related conditions or restrictions exist?	<p>Although there are milestones to draw down cash these are not performance related conditions.</p> <p>The institution is restricted to spending the cash on certain buildings.</p> <p>There are no ongoing restrictions in the use of the buildings.</p>	<p>Although there are milestones to draw down cash these are not performance related conditions.</p> <p>The institution is restricted to spending the cash on certain buildings.</p> <p>There are no ongoing restrictions in the use of the buildings.</p>
What is the appropriate accounting and disclosure requirements for institutions adopting the performance model?	<p>Recognise income when entitled to the income as research grants and contracts. When expenditure is incurred on the capital item the restricted reserve should be released to general reserves.</p> <p>The SORP requires that the income is classified under the most relevant heading. Following the Francati definitions this income would be classified as research.</p>	<p>Recognise income when entitled to the income as restricted income and hold as a restricted reserve. When expenditure is incurred on the capital item the restricted reserve should be released to general reserves.</p> <p>The SORP requires that the income is classified under the most relevant heading. Following the Francati definitions this income would be classified as research.</p>
What is the appropriate accounting and disclosure requirements for institutions adopting the accrual model?	<p>Record as a creditor until the grant is spent on the asset to which it relates. At this time the creditor is recorded as deferred income. The deferred income must be allocated between creditors due within one year and due after more than one year.</p> <p>Recognise in income on a systematic basis over the expected useful life of the asset to which the grant relates.</p> <p>The grant will be disclosed within research.</p>	Accrual model not permitted for non exchange transactions.

	Example 15 – Capital Grant – Match Funding	Example 16 – Research Grant – Charity
Background / Key terms and conditions	<p>The Institution receives a £5m BIS capital grant for specific equipment with the institution given flexibility on the choice of equipment.</p> <p>This is matched by a charitable grant for the same amount and relating to the same equipment.</p> <p>The combined capital sum is £10m.</p>	<p>Defined research project or activity over fixed period with funding agreed in advance based on (proportion of) full costing.</p>
Is this a revenue, government grant or non exchange transaction?	<p>The BIS grant is a government grant.</p> <p>The charitable grant is a non exchange transaction.</p>	<p>Non exchange transaction</p> <p>Charities are not part of government and therefore this is not a government grant.</p>
What performance related conditions or restrictions exist?	<p>The Institution is restricted on the use of the cash, i.e. it has to be spent on certain scientific equipment.</p> <p>However this required spend does not meet the definition of a performance related condition</p>	<p>The grant is awarded on the basis of pre-agreed budgets and project spend. These pre-agreed budgets set out the man hours and other expenses required to deliver the project. They are the "level of service" or "units of output" that meet the definition of performance related conditions within FRS 102.</p> <p>The delivery of the completion report is considered an administrative task rather than a performance related condition.</p>
What is the appropriate accounting and disclosure requirements for institutions adopting the performance model?	<p>Recognise income when grant receivable as restricted income and hold as a restricted reserve. When expenditure is incurred on the capital item the restricted reserve should be released to general reserves.</p> <p>The grant will be disclosed within donations and endowments.</p> <p>This applies to both the BIS and charity element.</p>	<p>Recognise income in line with the level of service (man hours and other expenses incurred).</p> <p>Where actual spend profiles differ from the budgeted spend profiles the income should be recorded in line with the actual spend.</p> <p>The grant will be disclosed within research grants and contracts.</p>
What is the appropriate accounting and disclosure requirements for institutions adopting the accrual model?	<p>BIS grant</p> <p>Record as a creditor until the grant is spent on the asset to which it relates. At this time the creditor is recorded as deferred income. The deferred income must be allocated between creditors due within one year and due after more than one year.</p> <p>Recognise in income on a systematic basis over the expected useful life of the asset to which the grant relates. The deferred capital grant release will be disclosed within donations and endowments</p> <p>Charity grant</p> <p>Can only apply performance related condition. Therefore a significant mismatch arises between the 2 elements of the grant.</p>	<p>Accrual model not permitted for non exchange transactions.</p>

Examples

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	Example 17– Research Grant: Charity post doc fellowship	Example 18 – Research Grant – Charity with audit requirements
Background / Key terms and conditions	Grant is for the employment of a named individual to work in a specific area of research.	Early stage clinical research: Association between DNA damage and high-risk plaques. Audited returns confirming spend are required to support the grant.
Is this a revenue, government grant or non exchange transaction?	Non exchange transaction Charities are not part of government and therefore this is not a government grant.	Non exchange transaction Charities are not part of government and therefore this is not a government grant.
What performance related conditions or restrictions exist?	The “level of service” which meet the definition of performance related conditions is the requirement that the named individual delivers specified research over a period of time.	The grant is awarded on the basis of pre-agreed budgets and project spend. These pre-agreed budgets set out the resources required to deliver the project. They are the “level of service” or “units of output” that meet the definition of performance related conditions within FRS 102. The delivery of the audited returns is considered an administrative task rather than a performance related condition.
What is the appropriate accounting and disclosure requirements for institutions adopting the performance model?	Recognise income in line with the level of service (delivery of research by an individual over time). Where actual spend profiles differ from the budgeted spend profiles the income should be recorded in line with the actual spend. The grant will be disclosed within research grants and contracts.	Recognise income in line with the level of service (resources). Where actual spend profiles differ from the budgeted spend profiles the income should be recorded in line with the actual spend. The grant will be disclosed within research grants and contracts.
What is the appropriate accounting and disclosure requirements for institutions adopting the accrual model?	Accrual model not permitted for non exchange transactions.	Accrual model not permitted for non exchange transactions.
Other comments:	Institutions should ensure that the terms of the arrangement do not result in an agency arrangement.	

	Example 19 – Grant for a collaborative research project	Example 20 – Services rendered
Background / Key terms and conditions	<p>Institution X is awarded a multi-million pound grant by a UK research council to fund a five year project that involves three other HEIs.</p> <p>Institution X is required to deliver a completion report for the whole project as part of the research grant terms.</p>	Laboratory analysis work carried out for a private sector customer at a fixed price agreed in advance.
Is this a revenue, government grant or non exchange transaction?	<p>Government grant</p> <p>The research council is a government agency and does not receive the direct benefit from the research undertaken.</p>	<p>Revenue (exchange transaction)</p> <p>The commercial customer receives the output of the laboratory work in return for the fixed fee paid.</p>
What performance related conditions or restrictions exist?	<p>The grant is awarded on the basis of pre-agreed budgets and project spend by each of the four HEIs. These pre-agreed budgets set out the man hours and other expenses required to deliver the project. They are the “level of service” or “units of output” that meet the definition of performance related conditions within FRS 102.</p> <p>The delivery of the completion report is considered a milestone rather than a performance related condition.</p>	Not applicable
What is the appropriate accounting and disclosure requirements for institutions adopting the performance model?	<p>This is a jointly controlled operation and therefore all four institutions, including Institution X, must recognise their share of the grant as income in line with the level of service (man hours and other expenses incurred).</p> <p>Where actual spend profiles differ from the budgeted spend profiles the income should be recorded in line with the actual spend.</p> <p>The grant will be disclosed within research grants and contracts. Cash in advance of expenditure is held as deferred income with disclosures to demonstrate the source of grants deferred, likely to be by sponsor type.</p>	<p>Recognise income in line with the services provided.</p> <p>The income will be disclosed within other income.</p>
What is the appropriate accounting and disclosure requirements for institutions adopting the accrual model?	Under the accrual model income will be recorded in line with the services provided.	Not applicable

	Example 21 – Capital grant: Royal Society Award	Example 22– Capital Grant St Mary's Trust
Background / Key terms and conditions	<p>Royal Society (RS) contribution to costs of construction of a specific new laboratory facility (building refurbishment).</p> <p>The RS pay for construction costs only. The college/department cover direct costs and VAT.</p> <p>Funding is received on completion of the building.</p>	<p>Joint 50/50 contribution to full cost of St Mary's Library building refurbishment.</p> <p>Funding is collected as the building progresses.</p>
Is this a revenue, government grant or non exchange transaction?	<p>Non exchange transaction</p> <p>Charities are not part of government and therefore this is not a government grant.</p>	<p>Non exchange transaction</p> <p>Charities are not part of government and therefore this is not a government grant.</p>
What performance related conditions or restrictions exist?	<p>Although there is a milestone at the end of the project to draw down cash this is not a performance related condition.</p> <p>The institution is restricted to spending the cash on certain buildings.</p> <p>There are no ongoing restrictions in the use of the buildings.</p>	<p>Although there are milestones to draw down cash these are not performance related conditions.</p> <p>The institution is restricted to spending the cash on certain buildings.</p> <p>There are no ongoing restrictions in the use of the buildings.</p>
What is the appropriate accounting and disclosure requirements for institutions adopting the performance model?	<p>Recognise income when entitled to the income (on grant award) as restricted income and hold as a restricted reserve. When expenditure is incurred on the capital item the restricted reserve should be released to general reserves.</p> <p>The grant will be disclosed within donations and endowments.</p>	<p>Recognise income when entitled to the income as restricted income and hold as a restricted reserve. When expenditure is incurred on the capital item the restricted reserve should be released to general reserves.</p> <p>The grant will be disclosed within donations and endowments.</p>
What is the appropriate accounting and disclosure requirements for institutions adopting the accrual model?	<p>Accrual model not permitted for non exchange transactions.</p>	<p>Accrual model not permitted for non exchange transactions.</p>

	Example 23 – Privately funded capital grant	Example 24- Regional development agency grant with output conditions
Background / Key terms and conditions	<p>Contribution to costs of construction of a specific new laboratory building. The finished building should be used to deliver a specific activity, but over no specified period.</p> <p>The institution collects cash as construction progresses.</p>	<p>Grant from Regional Development Agency (RDA) to construct and establish facilities, the use of which is expected to achieve a number of regional target outcomes over the following years.</p> <p>The grant has very specific requirements for the build including budgets, square footage and quality of space. The finished building has to be used for a particular purpose.</p> <p>Outputs under performance bond have value to a number of regional stakeholders, but not direct to RDA.</p>
Is this a revenue, government grant or non exchange transaction?	<p>Non exchange transaction.</p> <p>The private donor is not a government body and does not receive direct benefit from the donation.</p>	<p>Government grant as the RDA is a government agency</p>
What performance related conditions or restrictions exist?	<p>The donation has been provided subject to restrictions on how the funding is spent. However these are not considered performance related conditions.</p> <p>The collection of cash during construction is deemed as an administration task rather than performance related conditions.</p>	<p>In this instance there is a specific level of service required during the build process as the contract specifies the detailed build requirements. This level of service meets the definition of performance related conditions which exist during the build phase.</p> <p>Upon completion of the building there are no further performance related conditions. The final building may have restrictions on how it can be used, but it is highly likely that the nature of these restrictions are in effect unrestricted in relation to the overall purpose of the institution.</p> <p>Funding is collected in instalments, subject to construction and installation progress. However these are considered administration tasks for cash collection and not performance related conditions.</p> <p>Provided the institution believe that outcome conditions will be achievable at the contract outset (e.g. through appropriate due diligence at grant award) these outcome measures are again not performance related conditions.</p>
What is the appropriate accounting and disclosure requirements for institutions adopting the performance model?	<p>The income will be recognised on entitlement as restricted income. The restricted reserve created will be released to unrestricted reserves during construction of the building. This example gives a mismatch between income and expenditure recognition.</p> <p>The grant will be disclosed within donations and endowments.</p>	<p>Recognise income in line with the building expenditure.</p> <p>At each reporting date the institution should consider whether a contingent liability should be disclosed or a provision accounted for in relation to claw back of funds through outcome measures not being met.</p> <p>The grant will be disclosed within donations and endowments.</p>
What is the appropriate accounting and disclosure requirements for institutions adopting the accrual model?	<p>Accrual model not permitted for non exchange transactions.</p>	<p>Record as a creditor until the grant is spent on the asset to which it relates. At this time the creditor is recorded as deferred income. The deferred income must be allocated between creditors due within one year and due after more than one year.</p> <p>Recognise in income on a systematic basis over the expected useful life of the asset to which the grant relates.</p> <p>At each reporting date the institution should consider whether a contingent liability should be disclosed or a provision accounted for in relation to clawback of funds through outcome measures not being met.</p> <p>The grant will be disclosed within donations and endowments.</p>