United Nations

Corporate Guidance

for

International Public Sector Accounting Standards

Funding Agreements

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Corporate Guidance # 5 - Funding agreements

This corporate guidance will cover the following topics with respect to funding agreements:

a) Indicators of conditionality; **see section 3.3.2**
b) Guidance on accounting for revenue for conditional funding agreements; **see section 3.3.2**
c) Revenue Recognition for multi-year funding agreements; **see section** 5
d) For pass-through grants, guidance on accounting for advance transfers to implementing partners vs. beneficiaries; guidance on the definition of an agent in this context; **see section 7.1**
e) Detailed procedures on treatment of project assets linked to agency accounting; **see section 6.2**
f) Guidance on when project asset is considered under the control of the organization; **see section 6.2**
g) Guidance on receipt of goods and services under funding arrangements; **see section 4**
h) Guidance for Programme Support Costs; **see section** 6.3
i) GEF Agreements; **see section** 9.2
j) Funding to implementation party; **see section 6**

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1 Introduction

Revenues received by the United Nations Secretariat (United Nations) arise both from exchange and non-exchange transactions. Significant portion of the United Nations operations are financed from non-exchange transactions, including assessed contributions from member states; voluntary contributions in-cash and in-kind; gifts and donations from a business organization or community at large.

The United Nations at times provides funds to an intermediary implementation partner or to an end beneficiary in the process of achieving its aims of facilitating cooperation in international law, international security, economic development, social progress, human rights, and achievement of world peace.

The pledges or arrangements of receiving funds (grants-in) are referred to as **donor agreements**, while providing funds to implementing partners or end beneficiaries (grants-out) are commonly referred to as **funding agreements**. Both of these arrangements are covered under this guidance on non-exchange transactions.

The goal of this document is to present relevant guidance on accounting for donor and funding arrangements and briefly touch upon certain other accounting aspects like programme support costs, foreign currency impact, and project assets in order for the United Nations to adopt and apply a comprehensive and consistent accounting treatment of revenue from non-exchange transaction across its entities. This document does not cover revenue recognition for exchange transaction.

This paper primarily is based on guidance under IPSAS 23 *Revenue from non-exchange transactions,* which deals with issues that need to be considered in recognizing, measuring and presenting revenue from non-exchange transactions.

2 Definitions

Exchange transactions: Transactions in which the United Nations receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions: Transactions which don't meet the definition of exchange transactions. In a non-exchange transaction, the United Nations either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Donor agreement: In cases where the United Nations is a grantee, that is the United Nations receives contributions from donors, the terms of the transfer of funds are detailed in a contractual document with the donor referred to as the donor agreement.

Funding agreement: In cases where the United Nations is a grantor, that is the United Nations gives money to an Implementing Partner or end beneficiary, the terms of the transfer of funds are detailed in a contractual document referred to as funding agreement.

Transfers are inflows or outflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the United Nations which may be classified as 'Restrictions' or 'Conditions'.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned in full to the transferor. The important factor in establishing conditionality is the risk - the probability of having to return the contribution to the donor following a post implementation verification audit.

The requirement to return the residual or excess donor contribution does not make the contribution 'conditional'.

Control of an asset arises when the United Nations can use or otherwise benefit from the asset in pursuit of its objectives, and can exclude or otherwise regulate the access of others to that benefit.

Monetary items: Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

Functional currency is the currency of the primary economic environment in which the United Nations operates.

Implementing Agency / Executing Agency: Substantive offices may operate in both rolls. In the role of implementing agency, the substantive office identifies the executing agency and enters into an agreement which facilitates effective oversight throughout the project implementing period. The timing of related cash flows are defined in the agreement with the executing agency. In these arrangements, the implementing agency retains the responsibility for reporting to the donor on the progress and eventual completion of the project.

The substantive office acts in the role of executing agency when that office executes the project directly and coordinates all related reporting to the donor in accordance with the terms of the related agreement with the donor.

GEF Implementing Agency - Agency making the funding available and providing oversight during the entire project cycle and being held accountable to the GEF Council for delivering global environmental benefits. Responsibilities include ensuring fiduciary standards are applied, and supervising the development and implementation of projects, including monitoring and evaluation, on behalf of the GEF.

Goods in-kind are tangible assets transferred to the United Nations in a non-exchange transaction.

Services in-kind are services provided to the United Nations in a non-exchange transaction.

A **contingent liability** is: (a) A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) A present obligation that arises from past events, but is not recognized because: (i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or (ii) The amount of the obligation cannot be measured with sufficient reliability.

3 Revenue recognition of non-exchange transactions (Grants in)

3.1 Overview of arrangements at the United Nations - Non-exchange transaction

The programme and activities of the United Nations are funded from assessed and voluntary contributions:

- **Assessed Contributions:**

  Assessed contribution covers the mandated activities of the United Nations Secretariat at all duty stations, the regional commissions, special political missions, the peacekeeping operations, the International Tribunals and the Capital Master Plan.

- **Voluntary Contributions:**

  Activities of United Nations that are not financed by assessed contributions are financed by voluntary contributions. Voluntary contributions are received by the United Nations from its member states, non-member states, private sector organizations (under international partnerships and/or global compact arrangements) and individuals.

  Voluntary contributions can either be contributions:

  - In-Cash: The contribution is monetary normally made by funds transfer through a bank or by cheque.
  - In-Kind (Gifts and Donations): An in-kind contribution is a contribution in a form other than money. In-Kind contributions include services in-kind, goods in-kind, or the “right-to-use" assets (e.g. land, building, etc.).

Assessed and voluntary contributions are accounted for as non-exchange transactions because the United Nations receives value from donors without directly giving approximately equal value in exchange.

3.2 Revenue recognition for assessed contributions

3.2.1 Assessed Contributions

Assessed contribution refers to the appropriations voted by the General Assembly to cover activities that are approved for funding from the Main fund (also known as the Regular Budget), for Peacekeeping Operations, the International Tribunals and the Capital Master Plan. Assessments on Member States to finance the regular budget are calculated annually based on a scale of assessment which is determined triennially by the General Assembly on the advice of the Committee on Contributions. The annual appropriations relating to peacekeeping operations are financed from Member States' contributions assessed at a rate of assessment applicable to peacekeeping operations.

The appropriation approved for Tribunals is funded from Member States' contributions - 50 per cent of which is assessed at the scale of assessment applicable to the regular budget and 50 per cent at the rates of assessment applicable to peacekeeping operations.

The scale of assessment for the Capital Master Plan is based on the regular budget scale of assessment for 2007.

Additionally assessed contribution also includes contributions from certain non-member states which are party to the Statute of the International Court of Justice or treaty bodies financed from United Nations appropriations.

3.2.2 Recognition principle for assessed contribution

An inflow of resources from a non-exchange transaction that is recognized as an asset should be recognized as **revenue**, except to the extent that a liability is also recognized in respect of the same inflow.

Revenue = Asset - Liability

Revenue recognition is based on an assessment of whether an asset or a liability has been created.

Since there is no specific condition (liability) attached to assessed contributions it must be determined when assessed contributions meet the criteria for recognition of an asset.

3.2.2.1 Asset recognition criteria

Assessed contributions will be recognized as an **asset** when:

a) The United Nations controls the funds as a result of a past event; **and**

   Assessed contributions represent legal obligations of the Member States; accordingly the balances of unpaid assessed contributions due from Member States are recognized as receivables on the date the United Nations has legal right to claim the assessed contribution.

   Assessed contributions are approved to be assessed for a one-year budget period or a portion thereof or for multiple years. Where budgets and/or appropriations are approved for multiple years, the related contributions are apportioned between the years of the budget period for payment. Assessed contributions are considered to be without any specific conditions as it primarily pertains to expenses of the United Nations which is shared among by Member States.

b) It is probable that the United Nations expects to receive **an inflow of** future economic benefits or service potential from the funds; **and**

This criterion has historically always been met for assessed contributions as the United Nations expects to receive the respective share of assessed contribution from member state. *However* if there is an anticipated delay in the settlement of the assessed contribution - for instance, a Member State is temporarily excluded due to suspension - then the revenue to be recognized will be net of the anticipated arrears.

The fair value of the funds can be **reliably measured**.

Assessed contributions are in cash; accordingly, this criterion has always been met

Example: Revenue recognition for assessed contribution

On 27 December 2011 under General Assembly resolution, assessed contribution of XYZ (Member State) for the year 2012 was $1,000,000.

Based on the above facts:

- The United Nations has a right to receive $1,000,000 from country XYZ on 1 January, 2012
- Country XYZ by way of acceptance of the budget has expressed its willingness to transfer funds to the United Nations
- Country XYZ has historically transferred agreed upon funds to the United Nations without default.

Analysis:

On the basis of the signed binding agreement an asset of $1,000,000 should be recognized. Contributions are considered due in full on the first day of the calendar year to which it relates. As the agreement imposes no conditions on the transfer, a liability need not be recognized. Revenue for the increase in net assets of $1,000,000 should be recognized on 1 January 2012.

Accounting:

1 January 2012

Dr	Assessed Contribution Receivable – Current Asset	$1,000,000	
Cr	Assessed Contribution Revenue		$1,000,000

On the day of the cash receipt

Dr	Bank – Current Asset	$1,000,000	
Cr	Assessed Contribution Receivable – Current Asset		$1,000,000

Assessed contribution from non-member states will be presented as part of Assessed Contribution Receivable on the Statement of Financial Position and the accounting entry will be same as above.

Note:

- For guidance on allowances for estimated irrecoverable receivables refer to UN IPSAS Corporate Guidance paper # 9 Financial Instruments.
- If contributions are paid in other currencies, the equivalent USD is calculated at the rate of exchange available to the United Nations on the date of transaction.

3.3 *Revenue recognition for voluntary contribution*

3.3.1 *Voluntary Contribution*

In addition to the programme work financed from assessed contributions (regular budget, peacekeeping, tribunals), additional activities are carried out by the United Nations in connection with those areas of work that are financed from **voluntary contributions**. These are extra budgetary resources that generally support or supplement the substantive work programme of the United Nations, provide humanitarian and/or other relief assistance, and provide technical assistance to developing countries either through multilateral arrangements or through the United Nations System.

3.3.2 *Recognition principle for voluntary contribution*

The basic revenue recognition principle remains the same as explained above in 3.2.

Revenue = Asset - Liability

3.3.2.1 *Asset recognition criteria:*

Voluntary contribution will be recognized as an **asset** when:

a) The United Nations controls the funds as a result of a past event; **and**

   The ability to exclude the access of others to the benefits of an asset is an essential element of control that distinguishes the United Nations' assets from those public goods that any other entities have access to and benefit from.

   The "past event" which gives rise to control in the context of donor agreements is generally the point at which the binding agreement is entered into. Therefore, control can occur earlier than the actual transfer of funds, which would lead to recognition of a receivable.

The term binding agreement is important, for example, where a contribution letter is received and acknowledged, but the allocation of the funds to specific projects is not specified or agreed until a later date, it can be considered that a binding agreement is in place.

Control of an asset is also subject to the presence of stipulations in the donor agreement relating to the future. If the receipt of future installments under the agreement is subject to parliamentary law/approval or any similar action by a third party like governing body approval or budgetary approvals, it may be difficult to state that the United Nations has control of those future installments, and therefore no asset should be recognized for those future installments.

b) It is **probable** that the United Nations expects to receive an inflow of future economic benefits or service potential from the funds; **and**

The probability criteria, more than 50%, is applied as a recognition criteria to refer to the degree of certainty that the future economic benefits or service potential associated with the item will flow to the United Nations. Asset cannot be recognized at all if the probability criterion is not met.

Assessment of the degree of uncertainty attached to the flow of future economic benefits is made on the basis of the available evidence.

An example could be where there is uncertainty as to whether a government will grant permission to donor to remit funds for the purpose of the donor agreement. Another example might be where the receipt of consideration is dependent on whether the donor can obtain funding, in which case recognition of asset would be delayed until that uncertainty was removed.

Past experience is one of the important indicators in the assessment of **probability criteria**. The United Nations bases this determination on its **past experience** with similar types of flows of resources and its expectations regarding the donor.

c) The fair value of the funds can be reliably measured.

Typically donor agreements have contribution in cash; accordingly, this criterion has historically always been met for cash contributions. Refer to section 4 for contributions in kind.

As compared to assessed contribution, where the United Nations has control over the manner in which the funds are managed, voluntary contributions usually have certain stipulations with regard to the usage of the transferred assets.

From an accounting perspective, it is very critical that all the stipulations are identified and further assessed to determine whether the stipulation is a condition or restriction on the transferred asset. This is critical because a liability should be recorded for all conditions on the transferred assets but not for restrictions on the transferred assets. All stipulations on the transferred assets should be analyzed based on the following guidance.

3.3.2.2 Stipulations on transferred assets

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed by external entities on the use of a transferred asset.

Assets may be transferred with the expectation and/or understanding that they will be used in a particular way and, therefore, that the recipient entity will act or perform in a particular way. Where laws, regulations, or binding arrangements with external parties impose terms on the use of transferred assets by the recipient, these terms are stipulations. In other words if a term is unenforceable it cannot be considered as a stipulation on the transferred assets.

Stipulations imposed by donors on the use of transferred assets are classified as either **conditions** or **restrictions**.

Restrictions on transferred assets:

Restrictions on transferred assets are *stipulations* that limit or direct the purposes for which a transferred asset may be used, but may not specify that the asset is required to be returned to the donor if not deployed as specified (i.e. no return obligation exists in case the stipulation is breached).

Restriction = Performance obligation

Restrictions on transferred assets may not include a requirement that the transferred asset is to be returned to the donor if the asset is not deployed as specified. Therefore, gaining control of an asset that is subject to a restriction may not impose on the United Nations a return obligation to third parties when control of the asset is initially gained.

Conditions on transferred assets:

Conditions on transferred assets are *stipulations* that specify that the asset is required to be consumed by the United Nations as specified or the entire asset must be returned to the donor and/or the donor's participation renegotiated (i.e. a return obligation or other renegotiation of the entire asset exists in case the stipulation is breached).

Condition* = Performance obligation + 100% Return obligation/renegotiation for non-compliance * A stipulation will be a condition if it imposes both performance and a return obligation/renegotiation of the level of participation for non-compliance. The assessment will be based on four criteria explained in section 3.3.2.3.

To identify whether a stipulation is a 'condition' or a 'restriction', it is necessary to assess whether it meets all the criterion of a 'condition' as explained in Section 3.3.2.2, if no, then the stipulation would be

categorized as a ‘restriction’. Revenue recognition for non-exchange transaction will depend upon whether there is a condition attached or not to a transferred asset. Section 3.3.2.3 and 3.3.2.4 explains steps for determining if a ‘condition’ exists on the transferred asset and accounting for non-conditional arrangements, respectively. Guidance for accounting for ‘conditional’ assets is provided at Section 3.3.2.6.

3.3.2.3 Conditions on transferred assets

A ‘condition’ only exists if **all** of the following criteria are met:

a) The asset should be used/ consumed for a particular purpose (performance obligation) and the performance obligation is one of substance not merely form; **and**

b) A condition must be specific on such matters as the nature or quantity of the goods and services to be provided or the nature of assets to be acquired as appropriate and, if relevant, the periods within which performance is to occur; **and**

Example - Performance obligation

A national government makes a cash transfer of $50 million to a social housing entity (reporting entity), specifying that it:

- Increases the stock of social housing by an additional 1,000 units over and above any other planned increases; or
- Uses the cash transfer in other ways to support its social housing objectives.

If neither of these stipulations is satisfied, the recipient entity must return the cash to the national government.

Analysis:

The stipulation of using cash for social housing project in the transfer agreement is stated so broadly that it does not impose a performance obligation on the social housing entity. Accordingly it does not qualify as a condition on the transferred asset despite the fact that there is an obligation to return funds if the objectives are not achieved.

c) An enforceable return obligation exists in case the stipulation is breached and would be enforced by the donor; **and**

Example - Enforcement of return obligation by the donor

A United Nations reporting entity receives a grant of $500,000 from the bilateral aid agency of Country B. The grant agreement stipulates that the grant is used to rehabilitate deforested areas of Country A’s existing wilderness reserves, but if the money is not used for the stated purpose, it

must be returned to Country B. This is the thirteenth year that United Nations has received a grant of this type from the same donor. In prior years, the grant has not been used as stipulated, but has been used to acquire additional land adjacent to national parks for incorporation into the parks. The United Nations has not conducted any rehabilitation of deforested areas in the past thirteen years. Country B's bilateral aid agency is aware of the breach of the agreement term.

Analysis:

The United Nations entity analyzes the transaction and concludes that, although the terms of the grant agreement are enforceable, because the bilateral aid agency has not enforced the condition in the past, and given no indication that it ever would, the terms have the stipulation and condition in form, but not in substance.

However, if the United Nations entity has no experience with the donor, or has not previously breached stipulations, it should be assessed, based on the facts and circumstances, whether the donor would enforce the stipulation and, therefore, whether the stipulation should be treated as a condition. Additionally, if the donor has historically requested back the amount unduly spent in the past then it would be an important factor indicating that the stipulation should be treated as a condition.

d) Performance against the condition is monitored by the donor on an ongoing basis and the donor has the ability to assess the performance. The standard does not define the frequency of monitoring by the donor however it should be determined based on contractual terms and other surrounding facts and circumstances and non-compliance requires the return of the full contribution and/or other reassessment of the donor's participation in funding the project.

Examples of return obligations clauses in an agreement:

- "If the Organization fails to supply a final report by the final report deadline laid down in Article 2.6, and fails to furnish an acceptable written explanation of the reasons why it is unable to comply with this obligation, the Contracting Authority may refuse to pay any outstanding amount and recover any amounts unduly paid." – Agreement with European Commission (FAFA).
- "Where the Organization: undergoes legal, financial, technical or organizational change that is liable to affect this Agreement substantially or to call the award decision into question; the Contracting Authority will enter into discussions with the Organization and, failing a proper solution within one month, may terminate this Agreement, without prior notice and without paying compensation of any kind. In that event the Contracting Authority may demand full or partial repayment of any amounts unduly paid, after allowing the Organization to submit its observations". – Agreement with European Commission (FAFA).
- "If, at any time during the life of the award, or as a result of final audit, it is determined that DOS / USAID funds provided under this award have been expended for purposes not in accordance with the terms of this award, the recipient must refund such amounts to DOS / USAID." – Agreement with United States

- "The Department reserves the right to reduce its contribution, stop transfers prematurely or claim repayment of all or part of the funds transferred, amongst others, if contractual obligations are not met." – Agreement with Ireland

3.3.2.4 Accounting for voluntary contribution – Non-conditional

Accounting for non-conditional voluntary contribution will theoretically be similar to accounting for assessed contribution.

Example - Restrictions

A national government (donor) transfers the title of 200 hectares of land in a major city to a United Nations reporting entity for the establishment of a training centre on 1 July 2014. The transfer agreement dated 1 July 2014 specifies that the land is to be used for a training centre, but does not specify that the land is to be returned if not used for that purpose. The land has a fair value of $1,000,000 on 1 July 2014.

Analysis:

On analyzing the direction for the use of land it seems that if there is any breach by the United Nations with regard to the usage of land, the donor may have the option of seeking a penalty against the United Nations. A breach by the United Nations may result in penalty for the United Nations and direction for future use of land but the United Nations need not return the land back to the donor. Such a penalty is not incurred as a result of acquiring the asset, but as a result of breaching the direction for the use of land. Hence the stipulation for direction for use of land is in the nature of a restriction.

The restriction does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore the United Nations recognizes the land as an asset in the balance sheet with corresponding revenue from voluntary contribution of the reporting period in which it obtains control of that land.

Further, the United Nations should disclose the amount of assets recognized that are subject to restrictions and the nature of those restrictions.

Accounting entries:

1 July 2012:

Dr	Property, Plant and Equipment – Land	$1,000,000	
Cr.	Voluntary Contribution Revenue – In kind		$1,000,000

Example: Restrictions and contribution in non USD denominated currency

The United Nations is receiving funding of €1,000,000 to support the implementation and monitoring of projects specified in the United Nations Flash Appeal for assistance to Country A. First installment of €500,000 is to be received on the date of signing the agreement upon request from the United Nations on 30 November 2011 and the balance of the funding was received on 28 February 2012. The United Nations treasury converts € to $ on the day cash is received.

UNORE* announced by the United Nations Treasury:
30 November 2011: €1 = $1.25
31 December 2011: €1 = $1.40
28 February 2012: €1 = $1.50

*UNORE - United Nations Operational Rates of Exchange

Analysis:

Revenue recognition:
On the basis of the signed, binding agreement, an asset of €1,000,000 should be recognized. As the agreement imposes no stipulation on the transferred asset, there is no liability requiring recognition. Instead, revenue for the increase in net assets of €1,000,000 is recognized on the date of the signing of the binding agreement (30 November 2011).

Currency impact:
Initial recognition of non USD denominated currency transaction:

IPSAS Guidance:

- A non USD denominated currency transaction is recorded, on initial recognition in the functional currency, by applying to the non USD denominated currency amount the spot exchange rate between the functional currency and the non USD denominated currency at the date of the transaction. The date of the transaction is the date on which the transaction first qualifies for recognition in accordance with IPSAS.

Application at the United Nations:

- The functional and presentation currency of the United Nations is the US dollar. At the date of transaction, a non USD denominated transaction shall be recorded in US dollars (functional currency) by applying to the non USD denominated amount the exchange rate between that currency and the US dollar announced by the United Nations Treasury for that period.
- On 30 November 2011; €1,000,000 will be recognized as revenue with €500,000 as cash received and €500,000 as receivable at UNORE rate of $1.25 per €. The foreign exchange adjustment on the amount

received in cash - arising from the difference between the (€/USD) spot rate and the UNORE on the date of the deposit is posted to the exchange gain/loss account at the project level.

Subsequent measurement of non USD denominated currency transaction:
IPSAS Guidance:

- Foreign currency monetary items outstanding at the end of the period end date are translated using the closing rate. Monetary items are units of currency held and assets and liabilities to be received or paid in fixed or determinable number of units of currency.
- Exchange differences arising on the settlement of monetary items[1], or on translating monetary items are recognized in the statement of financial performance in the period in which they arise, except in certain specific situations.

Application at the United Nations:

- At each reporting date, non USD denominated monetary items in the statement of financial position (other than the functional currency), shall be translated using the official closing rate for that reporting date.
- Exchange gains and losses resulting from the settlement of transactions other than in the functional currency and from translation shall be included in the statement of financial performance.
- On 31 December 2011; Receivable of €500,000, a monetary item, will be converted at $1.40 per €. Because the value of € has appreciated since the recognition of receivable there will be an exchange gain recognized in the statement of financial performance for the year ended 31 December 2011.
- On 1 January 2012; the unrealized exchange gain recorded at the end of prior period will be reversed.
- On 28 February 2012; €500,000 received will be converted to $ at UNORE rate and exchange gain recognized in the statement of financial performance for the year ended 31 December 2012. Note also that an additional gain/loss adjustment will be required to record any difference between the spot rate and the UNORE on the settlement date.

Accounting entries:

30 November 2011: On the day of signing agreement and receipt of cash

Dr	Voluntary Contribution Receivable – Current Asset	$625,000	
Dr	Bank – Current Asset	$625,000	
Cr.	Voluntary Contribution Revenue		$1,250,000

31 December 2011: Year end (($ 1.4-1.25)* €500,000)

Dr	Voluntary Contribution Receivable – Current Asset	$75,000	

[1] *Monetary Items*
Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

Cr.	Exchange gain		$75,000

Option 1: The United Nations **reverses** the entry to record unrealized foreign exchange gain recorded at the end of previous period.

1 January 2012: Reversal of exchange gain recorded on 31 December 2011: (($ 1.4-1.25)* €500,000)

Dr	Exchange gain	$75,000	
Cr.	Voluntary Contribution Receivable – Current Asset		$75,000

28 February 2012: On the day of cash receipt (($ 1.5-1.25)* €500,000)

Dr	Bank – Current Asset	$750,000	
Cr.	Voluntary Contribution Receivable – Current Asset		$625,000
Cr.	Exchange gain		$125,000

Option 2: The United Nations **does not reverse** the entry to record unrealized foreign exchange recorded at the end of previous period.

28 February 2012: On the day of cash receipt (($ 1.5-1.40)* €500,000)

Dr	Bank – Current Asset	$750,000	
Cr.	Voluntary Contribution Receivable – Current Asset		$700,000
Cr.	Exchange gain		$50,000

3.3.2.5 Pledged contributions

The first step will be to assess whether the pledge does meet the recognition criteria for an asset. Since the pledges are non-conditional, revenue should be recognized on the date the asset can be recognized as per the asset recognition criteria mentioned above in section 3.3.2.3.

Example - Pledging Conference (Hypothetical situation):

The 2012 United Nations Pledging Conference to support the United Nations development activities for 2013 was held on 20 December 2012. The Secretary-General, in accordance with rule 21of the rules of procedure for United Nations pledging conferences, circulated a statement of contributions for non-conditional pledge on 15 January 2013 at the 2012 United Nations Pledging Conference for Development Activities for 2013. Following is the summary of pledges made by Member States and other international organizations and their status as of 15 January 2013:

Sr No. of pledge	Pledgee	Amount	Pledged on	Paid on	Acknowledgement* by the United Nations controller's office	Agreement signed by both pledgee and the United Nations

1	ABC	$1,000,000	20 December 2012	20 December 2012	20 December 2012	15 January 2013
2	ABC	$1,000,000	20 December 2012	20 December 2012	31 December 2012	15 January 2013
3	XYX	$500,000	20 December 2012	5 January 2013	Not yet acknowledged	15 January 2013
4	CDE	$250,000	20 December 2012	Not paid	Not applicable	15 January 2013
5	PQR	$125,000	20 December 2012	Not paid	Not applicable	Not yet Signed

* Acknowledgement represents the date the United Nations accepts the pledge money. Further it is assumed that ABC does not have right to claim back contribution subsequent to acknowledgement by the United Nations.

*Analysis:*The following table analyses asset recognition criteria*:

Sr No. of pledge	Criteria a: Control of funds as a result of past event**	Criteria b: Probability of receiving funds***	**Asset to be recognized on the date when all the criteria are met**	Explanation
1	20 December 2012	20 December 2012	20 December 2012	All the criteria are met on the date of pledging conference hence revenue will be recognized on 20 December 2012
2	31 December 2012	20 December 2012	31 December 2012	All the criteria are met on the date of acknowledgement by the United Nations hence revenue will be recognized on 31 December 2012
3	15 January 2013	5 January 2012	15 January 2013	All the criteria are met on the date of signing of an agreement hence revenue is recognized on 15 January 2013.
4	15 January 2013	15 January 2013	15 January 2013	Although cash is not received, the United Nations has a right to claim contribution on signing of agreement. Based on past experience the donor has not defaulted payment obligations. Hence revenue will be recognized on 15 January 2013.
4	Not yet	Not yet	Not applicable	Since asset recognition criteria are not met it

	signed	signed		needs to be assessed whether contingent asset disclosure is required.

* Criteria c: Since the pledges are in cash the fair value criterion will be met for all the pledges.

** Past event is the pledge at the Pledging Conference.

*** Probability criterion is met earlier of; the receipt of cash or signing the agreement.

3.3.2.6 Accounting for voluntary contribution – Conditional

Initial recognition

The following is recognized for conditional funding agreements at initial recognition:

a) An **asset**; and
b) A **liability** for the conditions[2] attached to the funding agreement; and
c) **Revenue** to the extent that a liability is not recognized.

The positions are measured as follows at initial recognition:

- The acquired **asset** is measured at its fair value as at the date of acquisition;
- The amount recognized as a **liability** is measured at the best estimate of the amount required to settle the obligation at the reporting date. (In most arrangements at the United Nations where conditions exist, the liability will approximate to the fair value of the corresponding asset at initial recognition);
- The amount of the increase in net assets, if any, will be recognized as **revenue**.

Subsequent recognition

As the United Nations satisfies an obligation recognized as a liability (i.e. as the condition is satisfied) in respect of a conditional funding agreement, there will be a reduction in the carrying amount of the liability and recognition of **revenue** equal to the amount of reduction in liability.

The timing of subsequent revenue recognition is determined by the nature of the conditions and their settlement. For example, if a liability was initially recognized for a condition that specifies that the United Nations is to provide specific goods or services to third parties, then revenue is recognized as those specific goods or services are provided.

Depending on the nature of the condition, it may be fulfilled progressively, permitting the United Nations to reduce the amount of the liability and recognize revenue progressively, or it may only be fulfilled on the occurrence of a particular future event, in which case the United Nations entity eliminates the liability and recognizes revenue when that event occurs.

[2] *Refer to section 3.3.2.2 for a detailed explanation of conditions.*

Example - Conditions

The European Commission proposes to provide grant funds of $150,000 to the United Nations to deliver a fellowship programme. Grant funds are received upon signature of the agreement to cover the fellowship programme from 1 April 2013 to 31 March 2014.

The agreement specifies that:

- The United Nations is responsible to implement the fellowship programme;
- The United Nations will consult and involve the European Commission in the fellowship programme;
- The United Nations will submit a financial report to the European Commission on the utilization of the grant by 30 June 2014 and any unspent grant funds will be refunded before 30 September 2014;
- The grant funds will be used for eligible costs, including 7% programme support cost charges for the United Nations; and
- The United Nations agrees to re-pay European Commission for any breach of terms and conditions of the agreement[3].

The past experience of the United Nations with the European Commission has been that the terms of the contract are strictly enforced and there have been instances where the United Nations had to repay grant funds for breach of terms.

Analysis:

The United Nations analyzes the transaction and concludes that, the stipulations of the grant agreement are akin to conditions primarily because the agreement specifies; how the grant funds will be used, involvement of European Commission, the United Nations past experience with European Commission and re-payment of any unduly used funds to European Commission.

The United Nations recognizes the grant money as an asset and a liability in respect of the condition attached to the grant. As the United Nations satisfies the condition, that is, as it makes authorized expenditures, it progressively reduces the liability and recognizes revenue in the statement of financial performance of the reporting period in which the liability is discharged.

Accounting entries:

Upon signature of the agreement[4]:

[3] This requires the full return of the EC's contribution or at least the re-computation of the EC's participation in the project.
[4] As this is specifically earmarked for the fellowship project, it should be recorded at the project level.

Dr	Voluntary Contribution Receivable – Current Asset	$150,000	
Cr.	Liabilities for conditional arrangements		$150,000

Upon receipt of grant money:

Dr	Cash	$150,000	
Cr.	Voluntary Contribution Receivable – Current Asset		$150,000

Upon incurring eligible expenses for the fellowship programme (recorded at project level within the programme)

Dr	Expenses	$140.187	
Cr.	Accounts payable /Cash		$140.187

Indirect expenses for fellowship programme:
The earmarked contribution and related direct and indirect expenditure must be recorded at project level. PSC Income (based on actual direct expenditure) is credited to the PSC Income Fund.

Please refer to section 6.3 for further discussion on programme support cost.

Revenue recognized upon eligible expenditure for fellowship programme ($140.187 + $9,813) at the project level.

Dr	Liabilities for conditional arrangements	$150,000	
Cr.	Voluntary Contribution Revenue		$150,000

Example –Conditional revenue recognized based on estimate

Donor ABC proposes to provide grant funds of $150,000 to the United Nations to deliver a health programme. Grant funds are received upon signature of the agreement to cover the health programme from 1 April 2013 to 31 March 2014. The agreement was signed and cash received on 1 April 2013.

This agreement is assumed to be a **conditional non-exchange** transaction.

Budget approved by ABC is as follows:

Direct cost	136,364
PSC - 10%	13,636
Total	150,000

Project implementation:

The United Nations is responsible to implement the health programme. The United Nations appointed implementing agency XYZ to help implement certain portions of the health programme.

The expenditure budget is as follows:

	Total	UN	XYZ
Direct cost	136,364	36,364	100,000
PSC - 10%	13,636	13,636	-
Total	150,000	50,000	100,000

Expenditure by the United Nations:
The United Nations incurred direct expenditure of $36,364 during the year ended 31 December 2013

Expenditure by agency XYZ:
The amount of $100,000 was transferred upon approval to implementing partner XYZ on 1 July 2013. On 31 January 2014, the implementing partner XYZ submitted a detailed expense report for $70,000 expensed prior to 30 November 2013. On further enquiry, XYZ informed the United Nations that additional estimated expenditure of $30,000 was incurred in December 2013.

It is assumed that the expenditure will be recognized as expense and does not qualify for capitalization as PPE or inventory.

Approval of expense reports by ABC:

Donor had approved direct expense of $106,364 ($70,000 by agency XYZ and $36,364 by the United Nations) however approval of direct expenditure of $30,000 was in process as of the date the financial statements were finalized.

Based on past experience with donor ABC’s assessment of expenditure, it was probable that the expense would be approved by donor ABC.

Analysis:

Expense recognition:

Expense will be recognized as incurred by the United Nations and XYZ. Expenses related to the transfers to XYZ should be recognized when XYZ delivers the agreed services as evidenced by the submission of expense reports. In the absence of reporting at year-end date, an accrual should be booked which is measured at a best estimate of the goods and services delivered by XYZ up to that date.

Revenue recognition:

As the transaction is assumed to be conditional; the United Nations recognizes the grant money as an asset and a liability in respect of the condition attached to the grant. As the United Nations satisfies the condition, that is, as it makes/records authorized expenditures, it progressively reduces the liability and recognizes revenue in the statement of financial performance of the reporting period in which the liability is discharged.

It is important to note that revenue for unapproved/accrued expenditure should be recognized at the end of the period because the eligible expenses have been incurred and it is highly probable that the expense will be approved.

Journal entries:

1 April 2013 - Upon signature of the agreement[5]:

Dr	Voluntary Contribution Receivable – Current Asset	$150,000	
Cr.	Liabilities for conditional arrangements		$150,000

1 April 2013 - Upon receipt of grant money:

Dr	Cash	$150,000	
Cr.	Voluntary Contribution Receivable – Current Asset		$150,000

1 July 2013 – Advance transferred to XYX

Dr	Advance transfer	$100,000	
Cr.	Cash		$100,000

Upon incurring eligible expenses for the health programme by the United Nations

Dr	Expenses	$36,364	
Cr.	Accounts payable /Cash		$36,364

Indirect expenses:
The earmarked contribution and related direct and indirect expenditure must be recorded at project level. PSC Income (based on actual direct expenditure) is credited to the PSC Income Fund.

Please refer to section 6.3 for further discussion on programme support cost.

Upon incurring eligible expenses for the health programme by XYZ

[5] Entry made at the project level as these funds are earmarked.

Dr	Expenses	$70,000	
Cr.	Advance transfer		$70,000

Accrual for eligible expenses by XYZ:

Dr	Expenses	$30,000	
Cr.	Advance transfer[6]		$30,000

Revenue recognized upon approval of expense report up to November 2013:
($70,000+$36,364 = 106,364 + 10% = 117,000)

Dr	Liabilities for conditional arrangements	$117,000	
Cr.	Voluntary Contribution Revenue		$117,000

Revenue recognized for accrued expenditure which are probable of being approved by ABC:
($30,000 + 10%[7] = 33,000)

Dr	Liabilities for conditional arrangements	$33,000	
Cr.	Voluntary Contribution Revenue		$33,000

3.3.2.7 FAFA agreements

All European Commission (EC) agreements under the Financial and Administrative Framework Agreement (FAFA) will be accounted for as having conditions because the European Commission has requested refunds in the past where the funds were not used in accordance with the agreement.

- The initial recognition point of the asset/liability is the signature of the agreement by both parties.
- The asset/liability is measured at the total amount of the agreement if any future year's contribution is not dependent on the Commission's approval.
- Revenue is recognized when the expenditure report is approved by the EC *or* after forty-five day period following the submission of the report, whichever is sooner.

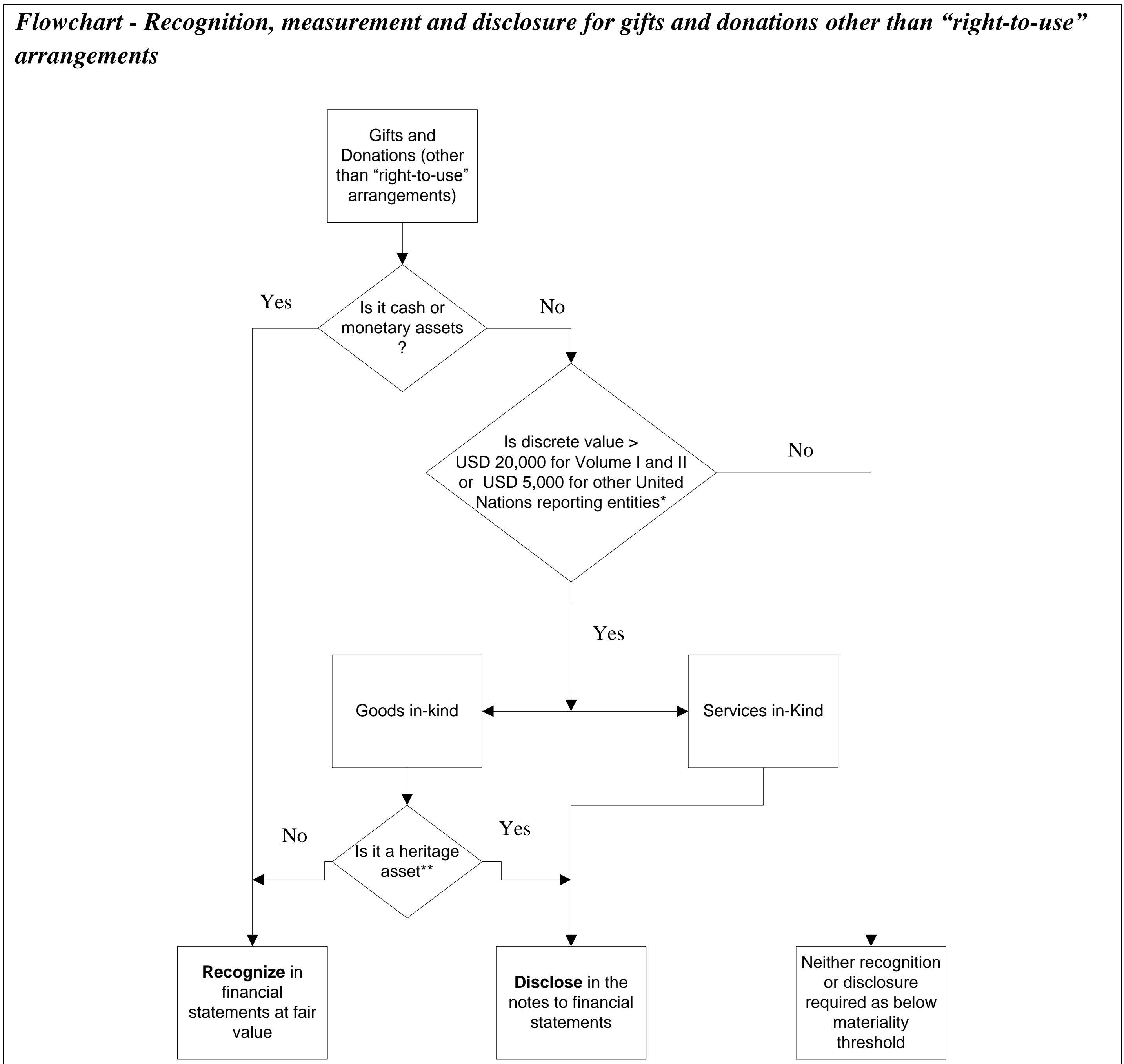
Note: It is important for every office to review the events and circumstances during the period to assess whether any contract that is currently accounted for as non-conditional should be accounted for as conditional or not.

[6] Advances in respect of accrued expenditure are reversed in the subsequent accounting period – eventually cleared when the expenditure report is received from the implementing partner.
[7] PSC charged to the project is credited to the PSC Income fund.

4 Gifts and Donations

Gifts and donations are voluntary transfers of assets - including goods in-kind, services in-kind, "right-to-use" arrangements with respect to assets (e.g. land or building) - that the United Nations receives from a government, an entity, whether within or outside the UN system or an individual.
Examples of goods in-kind are donated materials, equipment, inventory etc.
Examples of service in-kind are donated labor, non-reimbursable loan of personnel from governments, non-chargeable photocopy and mail services from the donor, travel tickets for the United Nations employees, etc.

Flowchart - Recognition, measurement and disclosure for gifts and donations other than "right-to-use" arrangements



* For Volumes I and II: The asset meets the minimum cost threshold of USD 20,000 except for the following commodity groups for which the lower threshold of USD 5,000 is applicable: a) Vehicles; b) Prefabricated buildings; c) Satellite communication systems; d) Generators; and e) Network equipment.

** Heritage assets: Some assets are described as heritage assets because of their cultural, educational or historical significance. Examples include works of art, monuments and historical buildings. Heritage assets should be disclosed in the notes to financial statements as they represent gifts received that are of a capital nature that cannot be used in the programmatic activities of the United Nations and the United Nations would not have purchased that asset otherwise.

Note: If the donor provides the United Nations simultaneously with all types of 'in-kind' contributions then the total value of the donation should be allocated between goods in-kind, and/or services in-kind, and/or "right-to-use" arrangements for IPSAS accounting and disclosure purposes.

4.1 Recognition and measurement of goods in-kind

The principle of **recognizing** revenue for 'goods in-kind' is consistent with guidance for non-exchange transaction. 'Goods in-kind' are recognized as assets when all asset recognition criteria as explained in section 3.3.2.1 are met; normally when the goods are received, or there is a binding arrangement to receive the goods. If 'goods in-kind' are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied. A threshold of USD 20,000 for volume I and II (USD 5,000 for other United Nations reporting entities) per discrete contribution is in place regarding the recognition of goods-in-kind, except for the following commodity groups for which the lower threshold of USD 5,000 is applicable: a) Vehicles; b) Prefabricated buildings; c) Satellite communication systems; d) Generators; and e) Network equipment.

The assets acquired through non-exchange transactions should be **measured** at their fair value as at the date of acquisition. Fair value represents the actual value the United Nations accrues as a result of the transaction. The initial measurement of assets acquired through non-exchange transactions at their fair value is consistent with the approach taken in IPSAS 12 *Inventories,* and IPSAS 17 *Property, Plant, and Equipment*. Please refer to the UN IPSAS Corporate Guidance paper # 4 - Inventories and paper # 6/ #10 - Infrastructure assets/ PP&E.

4.2 Disclosure of services in-kind

The principle of **recognizing** revenue for 'services in-kind' is an exception to the guidance on recognition of non-exchange transaction. The United Nations does not recognize services in-kind. However, the disclosure of the nature and type of services in-kind received during the reporting period is required if they are *material*. The disclosure to the financial statements should include information about services-in-kind with a

value above USD 20,000 for Volume I and II (USD 5,000 for other United Nations reporting entities), per discrete contribution, **measured** at fair value.

The recommended classes of 'services in-kind' for note disclosures are:
a) Technical assistance/expert services;
b) Administrative support;
c) Participation in training;
d) Other services in-kind.

4.3 Examples of goods in-kind and services in-kind

IPSAS 23 provides the following guidance for the classification of 'goods in-kind' and 'services in-kind':

- **Goods in-kind** are tangible assets transferred to the United Nations in a non-exchange transaction.
- **Services in-kind** are services provided to the United Nations in a non-exchange transaction.

Further IPSAS 31 provides examples of certain assets to be classified as 'Intangible assets' that are acquired through Non-Exchange Transaction.

Since IPSAS guidance is very generic, professional judgment should be applied to determine how the gift or donation should be classified.

Goods in-kind' and 'Services in-kind' for IPSAS will include only those goods and services that are received by the United Nations. Benefits to employees of the United Nations, i.e. exemption of payment of duty on a car are not accounted for as gifts and donations.

The following table summarizes 'goods in-kind' or 'services in-kind' that are typically received by the United Nations:

Category	Classification	Fair value determination	Accounting treatment assuming that the goods or services are unconditional and above threshold
Machinery and equipment	Goods in-kind	Refer to the UN IPSAS Corporate Guidance paper # 6/ #10 Infrastructure assets/ PP&E.	Dr PP&E Cr Revenue - Contributions in-kind
Fuel, rations, medicines and water	Goods in-kind	Refer to the UN IPSAS Corporate Guidance paper # 4 Inventories.	Dr Inventory Cr Revenue - Contributions in-kind

Category	**Classification**	**Fair value determination**	**Accounting treatment assuming that the goods or services are unconditional and above threshold**
Registration of United Nations vehicles	Services in-kind (Subsidy on PP&E)	Compare to a fee for registration of private vehicles.	Note disclosure if above the threshold
Annual road fitness fee	Services in-kind	Obtained from Government/host country authorities.	Note disclosure if above the threshold
Right-to-use a particular radio frequency/ Airport landing rights / Broadcasting rights / Import licenses or quotas	Intangible assets (IPSAS 31.43 specifically considers this as intangible assets)	Use rates charged by airports/ commercial broadcasting right fees. For military airports, estimate using IATA rates - however *restrictions* on the use of right should be considered in the valuation process. Refer to the UN IPSAS Corporate Guidance paper # 12 Intangible Assets for further guidance.	Dr Intangible asset Cr Revenue - Contributions in-kind
Government provides its employee to the United Nations for specific period of time.	Service in-kind	Obtained from Government authorities or estimate based on the cost the United Nations would have incurred to employ additional staff.	Disclose if above materiality threshold as explained in section 4.2
Import duty on fuel	Goods in-kind (Subsidy on inventory)	Amount waived by the Government; United Nations is entitled to a special price for fuel.	Dr Inventory Cr Revenue - Contributions in-kind

5 Unconditional multi-year voluntary donor agreements

Agreements with Donors in which the undertaking to provide funding is spread across more than one accounting period are referred to as **multi-year donor agreements**. Revenue from a multi-year donor agreement is generally in the nature of voluntary contributions. Generally, multi-year voluntary contribution agreements are unconditional; however there are certain multi-year voluntary contribution agreements which are conditional. This section discusses revenue recognition guidance for unconditional[8] multi-year voluntary contribution donor agreements.

- Unconditional multi-year voluntary contributions received by the United Nations are typically supported by a formal agreement; however there are instances where cash is received in advance without a formal agreement. **Revenue recognition** guidance for both patterns is as follows:

    - **Cash received in in relation to formal agreement:**

        - Amount(s) is/are not specified as being provided for a specific year(s): Full amount of the agreement is recognized as revenue upon signature of the agreement when it becomes binding.

Example - Amounts of multi-year contributions are not specific to a certain year A United Nations' reporting entity enters into an unconditional voluntary contribution agreement with a donor, which provides the United Nations with funds to support the United Nations objectives over a two-year period. The agreement is binding on both parties. The United Nations measures the fair value of the development assistance at $5 million. When the agreement becomes binding, the United Nations recognizes an asset (a receivable) for the amount of $5 million, and revenue in the same amount. The resources meet the definition of an asset and satisfy the recognition criteria when the agreement becomes binding.

        - Funding is split into portions that are specific to a certain year of contribution and where unused funds of that year are to be returned: The revenue will be recognized in the year to which the funding relates. Funding amounts relating to future years will be disclosed as contingent assets.

    - **Cash received without formal agreement:**

      For instances where cash is received in advance of a formal agreement being signed by both parties to the arrangement, related analyses should be completed to assess whether

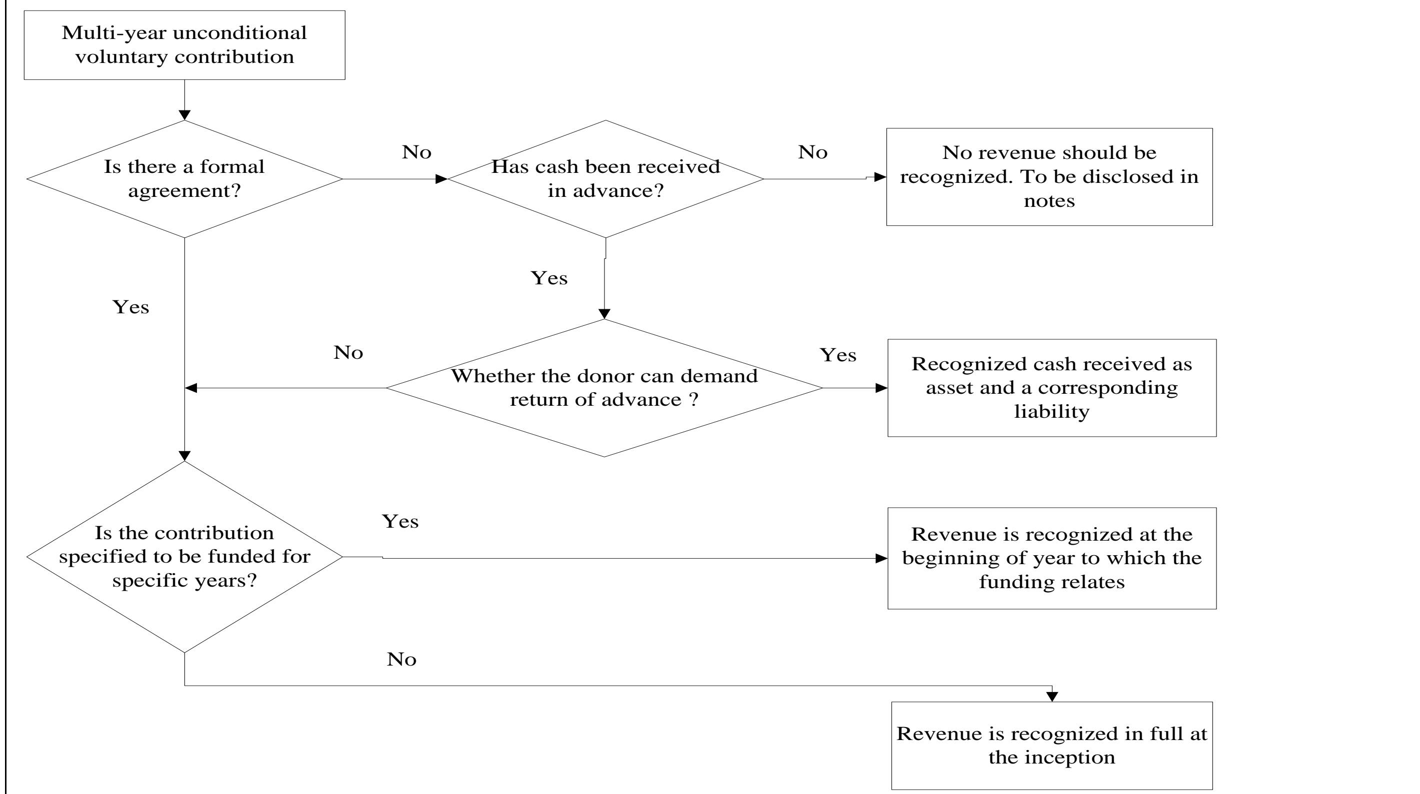
[8] *Refer to section 3.3.2.2 and 3.3.2.4 for revenue recognition of conditional funding agreements.*

revenue can be recognized upon receipt of the cash. The accounting treatment is as follows:

- If the UN is legally bound to return the full amount advanced for an**y** reason then the advance should be recorded as an asset with a corresponding liability;
- If the UN is legally not bound to return the advance for any reason then the advance will be recorded as an asset with corresponding revenue.

- If third party approval[9] (such as parliamentary or budgetary approvals) is required then **revenue should be recognized** for the contributions after such authorization is obtained. For a multi-year donor agreement, the donor normally remits cash to the United Nations after obtaining the necessary approvals and authorizations; accordingly, revenue will be recognized when the cash is received.

Flowchart – Revenue recognition for **unconditional multi-year voluntary contributions**



[9] *Approval outside of the donor's control.*

6 Other topics

6.1 *Expense recognition under funding agreements (Grants out)*

Expenses are decreases in the economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/equity.

Expense recognition with regards to funding agreements will be based on the type of recipient i.e. implementing partners or end beneficiary.

6.1.1 *Expense recognition applied to funding agreements with implementing partners*

Many United Nations reporting entities advance funds to **implementing partners** (governments, NGOs, other United Nations System Organizations) in order to allow the implementing partners to provide services for United Nations programmes. The services are generally provided to a target population by the implementing partner utilizing financing received from the United Nations and the United Nations receives in return substantive and financial reports from the implementing partners on the delivery of the requisite programme deliverables. At the same time, the United Nations does not:

- Receive any goods or services directly in return, as would be the case with a purchase/sale transaction;
- Expect to be repaid in the future, as would be the case with a loan; or
- Expect a financial return, as would be the case with an investment.

Expenses related to transfers to implementing partners should be **recognized** when the implementing partner delivers the agreed services as evidenced in the financial reports from them. In the absence of reporting at year-end date, an accrual is booked which is measured at a best estimate of the goods and services delivered by the implementing partner up to that date. Such expenses should be recorded using the following Finance and Budget network expense categories:

- Staff and other personnel costs;
- Supplies, commodities, materials;
- Equipment, vehicles and furniture (including depreciation);
- Contractual services;
- Travel;
- Transfers and grants to counterparts;
- General operating and other direct costs; and
- Indirect support costs.

Note: Expense should ideally be recorded on receipt of expense report; however the practice will vary based on the procedures followed at local offices.

6.1.1.1 *Expense accrual at the end of the reporting period*

Typically, expenses are recorded throughout the year; however, there is a lag between the time goods and services are delivered by the implementing partner and captured in the financial statements. (Refer to Corporate Guidance Paper #5 Delivery principle for guidance on accounting for expenses during the year). At each year-end, prior identification of these situations will be necessary for accurate expense accrual. The following methods can be applied to identify and record expense accrual:

- Review open purchase orders at the year-end to see if services were provided, goods received, etc. but were not yet invoiced or posted to the ledger;
- Determine who within the unit/department has purchasing oversight or who signs off on invoices and request a list from these individuals of unprocessed invoices or known incurred expenses as part of the year-end closing procedures;
- Analyze expenses posted subsequent to the year end to assess whether the expense accrual at the year-end is accurate/appropriate.

Example – Accrual of expenses at the year end

The United Nations was responsible for implementing a prison education programme across 2 territories.

For territory A, an amount of $100,000 was transferred in full upon approval to disburse to the implementing partner A on 1 November 2013. The implementing partner A submitted a detailed expense report for $65,000 to the United Nations on 31 January 2014. The expense report specified that all of the expenses were incurred prior to 30 November 2013. On further enquiry, the implementing partner A informed the United Nations that additional estimated expenditure of $30,000 was incurred in December 2013.

For territory B, an amount of $70,000 was transferred upon approval to the implementing partner B on 1 November 2013. The balance of the grant amount of $30,000 was transferred to the implementing partner B on 1 January 2014. The implementing partner B submitted a detailed expense report for $65,000 to the United Nations on 31 January 2014. The expense report specified that all the expenses were incurred prior to 30 November 2013. On further enquiry, the implementing partner B informed the United Nations that the estimated expenditure of $30,000 was incurred in December 2013.

Accounting entries:

Accounting entries for the year ended 31 December 2013 for the implementing partner A

On transfer of funds to the implementing partner

Dr	Advance transfers	$100,000	
Cr	Cash		$100,000

Recording expenses based on expense report

Dr	Expense	$65,000	
Cr	Advance transfers		$65,000

Accrual of expenses based on estimate[10]

Dr	Expense	$30,000	
Cr	Advance transfers		$30,000

Accounting entries for the year ended 31 December 2013 for the implementing partner B

On transfer of funds to the implementing partner

Dr	Advance transfers	$70,000	
Cr	Cash		$70,000

Recording expenses based on expense report

Dr	Expense	$65,000	
Cr	Advance transfers		$65,000

Accrual of expenses based on estimate

Dr	Expense	$30,000	
Cr	Advance transfers		$5,000
Cr	Liability to implementing partner		$25,000

Example: (Continuation to example in section 3.3.2.3 – Contribution in non USD denominated currency and expenditure in USD

The United Nations is receiving funding of €1,000,000 to support the implementation and monitoring of projects specified in the United Nations Flash Appeal for assistance to Country A. The first installment of €500,000 is received on the date of signing the agreement, upon request from the United Nations on 30 November 2011 and the balance of the funding was received on 28 February 2012. The United Nations treasury converts € to $ on the day cash is received.

Exchange rate announced by the United Nations Treasury*:

30 November 2011: €1 = $1.25

31 December 2011: €1 = $1.40

28 February 2012: €1 = $1.50

*UNORE - United Nations Operational Rates of Exchange

[10] Accrued at period end and reversed immediately at the beginning of the subsequent period where the actual expenditure is reported after the year-end cut-off is recorded.

Additional facts:

- The donor agreement specified that the United Nations will provide a report to the donor specifying the amounts expended at the end of each accounting period.
- The unspent donation should be returned to the donor at the end of the agreement. Donor reporting should be in € at a pre-determined exchange rate of: €1 = $1.30.
- The United Nations will absorb exchange gains or losses - if any.
- The United Nations did not incur any expenditure as at 31 December 2011 and expects to incur all of the expenditure during the year 2012.
- The United Nations incurred expenditure (including PSC) of $1,300,000 during the year 2012. The expenditure did not qualify for capitalization as PP&E or inventory.
- Donor reporting at the end of the project is as follows:

	€	Exchange Rate	$
Donation	1,000,000	1.3	1,300,000
Direct expenses			1,181,818
Indirect expenses (10% PSC)			118,182
Total expense			1,300,000
Balance			-

Analysis:

Revenue recognition: Journal entries are similar to example in section 3.3.2.3

Accounting entries:

Year ended 2011

30 November 2011: On the day of signing agreement and receipt of cash

		Dr	Cr
Dr	Voluntary Contribution Receivable – Current Asset	$625,000	
Dr	Bank – Current Asset	$625,000	
Cr.	Voluntary Contribution Revenue		$1,250,000

31 December 2011: Year end (($ 1.4-1.25)* €500,000)

		Dr	Cr
Dr	Voluntary Contribution Receivable – Current Asset	$75,000	
Cr.	Exchange gain		$75,000

Year ended 2012

28 February 2012: On the day of cash receipt (($ 1.5-1.40)* €500,000)

		Dr	Cr
Dr	Bank – Current Asset	$750,000	
Cr.	Voluntary Contribution Receivable – Current Asset		$700,000
Cr.	Exchange gain		$50,000

Expenditure incurred during the year

Dr	Expenses (direct + indirect)	$1,300,000	
Cr.	Bank / Payable		$1,300,000

Example - Transfers to an implementing partner

For Participation Programme and Emergency Assistance grants, the grant amount is transferred in full upon approval. Taking into account that it concerns transfers to implementing partners, the expenses related to these transfers are only recognized by the United Nations (as Grantor) in the statement of financial performance once the delivery of the services by the implementing partner(s) took place as evidenced by the reporting received from the implementing partners.

Grant transfers are booked as advance payments (no expense recognition) if conditions are considered to be present in the Implementation Partnership Agreements. Expenses will only be recognized by the United Nations (as Grantor) as conditions or terms of the arrangement are fulfilled.

6.1.2 Expense recognition applied to funding agreements with end beneficiaries.

The United Nations also provides grants or donation directly to **end beneficiaries**.

Where a transfer is deemed to be an outright grant - with payment made directly to the end beneficiary and reporting is not required, the full amount shall be **recognized** as an expense upon the authorization and disbursement of the grant. Fellowships and Donations to Quick-impact-projects (QIP) are examples of payments made by the United Nations directly to end beneficiaries. The key differentiating factor with regards to grants or donation to end beneficiaries is that the United Nations does not execute the project or closely monitor the utilization of funds to achieve all deliverables as may be specified in the document detailing the basis for the arrangement and authorization of the amount disbursed. .

Example - Transfers to an end beneficiary

Funds provided by the United Nations (as Grantor) to entities for Quick Impact Projects (QIPs) or funds provided by the United Nations (as Grantor) under CERF arrangements are examples of outright grants with payment to the end beneficiary. The expense is recognized in full by the United Nations (Grantor) in the statement of financial performance upon disbursement of the grant.

For unconditional multi-year funding agreements expense will be recognized upon authorization of the grant if amounts are not specified for specific years and split into portions if amounts are specific to a certain year.

Example- Funding agreement

The United Nations signed an agreement on 1 January 2014 to provide grant funds of $50,000 to the PQR Government to acquire certain software and subsequent training to promote the development of marine scientific capacity (the Project) for the benefit of the PQR Government. Grant funds are transferred to the PQR Government upon signature of the agreement to cover the cost of the project with an implementation period estimated to be from 1 January 2014 to 31 December 2015.

Budget for expenditure is as follows:

- Two Software license and installation ($20,000 each) - $ 40,000 - one license to be purchased each year.
- Training cost - $7,000 – During the year 2015
- Maintenance cost - $3,000 – During the year 2015

The agreement specifies that:

- The United Nations shall not make payment for costs in excess of the approved grant funds;
- The PQR Government shall refund any unspent funds to the United Nations at the end of the project;
- The PQR Government shall not assign the agreement nor any rights thereto to anyone without the permission of the United Nations;
- The PQR Government is responsible for the performance/completion of the project activity;
- The ownership of the assets purchased from the grant funds belong to the PQR Government;
- The Grant funds cannot be used for any purpose other than as detailed in the above referenced budget; and
- The United Nations can suspend the agreement for breach of terms by the PQR Government.

Actual expenditures that were approved by the United Nations were as follows:
Year 2014

- License cost - $40,000 – Both license were purchase in 2014
- Training cost – estimated - $2,000

Year 2015

- Training cost - $4,000
- Maintenance cost - $4000

There was no balance refundable at the end of the project.

Analysis:

The analysis shows that the PQR Government gets the benefits out of the Project and also implements the Project. The stipulations of the grant agreement are such that the United Nations has the right to monitor how the project is being implemented and how the grant funds are expensed. Further, the United Nations has the right to claim a refund of the grant money for unduly spent money.

Accordingly, expenses under the funding agreements should be recognised in line with the expenses incurred by the grant recipient (the grantee) as per the grant agreement, independently of when the cash advances and balancing payments are made to the beneficiary. Grant expenditures should be recognised when the PQR Government incurs eligible expenditure, and at the reporting date, the United Nations should recognise as expenditure the estimated portion of the incurred eligible expenses.

In determining the eligible expenses incurred at the year end, the use of the most accurate information can be made based on:

- Cost claims validated by the United Nations containing confirmed amounts for eligible expenditure - the full amount of expenditure should be recognised here;
- Cost claims received but not yet validated by the United Nations - the United Nations should recognise the expense based on available evidence like a rate based on the amounts that in the past have been rejected from claims;
- Estimates of expenditure obtained from beneficiaries.

Contingent liability disclosure at the end of year 2014:
Contingent liability is disclosed for a **possible obligation arising from past events** and whose existence depends on one or more uncertain future events not wholly within the control of the United Nations; or a **present obligation** that arises from past events but which is not recognized as a provision.

The unspent advance at the end of the year 2014 represents the expected expense the PQR Government will incur in the year 2015. This should not be considered as a contingent liability because it does not met the requirements of a contingent liability. Refer to Corporate Guidance paper # 7 Provisions and (contingent) liabilities.

Accounting entries:
Year 2014
Cash advanced to the PQR Government on signing of the agreement

Dr	Advance transfers	50,000	
Cr	Cash		50,000

On purchase of software license and partial training cost:

Dr	Expense	42,000	
Cr	Advance transfers		42,000Year 2015

On expenditure for partial training cost and maintenance:

Dr	Expense	8,000	
Cr	Advance transfers		8,000

Note:

- An analysis should be made for each arrangement based on the terms of the agreement and other facts and circumstances to assess whether the accounting should be based on section 6.1.1 or 6.1.2.

- Since the end beneficiary controls the software the UN should recognize expenditure on the purchase of the software by the end beneficiary. The software will be recognized as an intangible asset by end beneficiary and not the United Nations. Refer to section 6.2 for guidance on who should recognize project assets.

6.2 Project assets

The United Nations records expenditure in the process of the implementation of a project. The expenditure can be broadly divided into cash outlays for capital assets (capital expenditures) or cash outlays for operating purposes (operating expenditures). The cash outlays for capital assets are referred to as project assets in the United Nations context.

Key IPSAS considerations for project assets are:. (a) Which entity should capitalize project assets as PP&E and (b) How to account for capitalized project assets.

This paper focuses on the determination of which entity i.e. the United Nations, the implementing agency or the end beneficiary should capitalize the project asset. (Refer to the UN IPSAS Corporate Guidance paper # 6 / # 10 Infrastructure assets / PP&E for how to account for capitalized project assets).

6.2.1 Determination of controls of the project assets

The key to deciding whether project assets will be capitalized as Property, Plant and Equipment (PP&E) in the books of the United Nations, the implementing agency or the end beneficiary is based on the determination of who **controls** those assets. The project assets should be capitalized in the books of the entity that controls the project assets as Property, Plant and Equipment (PP&E).

Control over assets arises when an entity can:

- Use or otherwise benefit from the asset in pursuit of its objectives; **AND**
- Exclude or otherwise regulate the access of others to that benefit.

The following indicators assist in determining the existence of control by the United Nations:

- The act of purchasing the asset was carried out (or resulted from instructions given) by the United Nations;
- Legal title is in the name of the United Nations;
- The asset is physically located on premises or locations used by the United Nations;
- The asset is physically used by staff employed by the United Nations or staff working under the United Nations instructions;

- The United Nations decide on alternative uses for the asset;
- The United Nations can decide to sell or dispose of the asset;
- If the asset were to be removed or destroyed, the United Nations take the decision whether to replace;
- A United Nations representative regularly inspect the asset to determine its current condition;
- The asset is used in achieving the objectives of the United Nations;
- The asset is retained by the United Nations at the end of the project.

Professional judgment should be applied to determine whether the United Nations has control over the project asset. Assessment of control is based on an evaluation of related facts and circumstances. The above indicators should not be considered as exhaustive indicators of control.

In relation to the control criteria, please also refer to the UN IPSAS Corporate Guidance on PP&E for capitalization when the assets are controlled by the United Nations[11].

6.2.2 Recognition of project assets

Situation where project assets should be recognized by **the United Nations** can be summarized as follows:

- The project is **under the control of and executed directly by the United Nations.**

- The project is **under the control of the United Nations and the implementing/executing third party is considered a *direct agent* of the United Nations.**

  An implementing/executing third party is considered a *direct agent* of the United Nations when the United Nations is directly involved in the choice of staff to be hired by such third party and/or the type of assets to be purchased to execute the project.

Example - Implementing partner is considered a direct agent of the United Nations The staff security program is implemented by the United Nations Development Programme (UNDP) on behalf of the United Nations Secretariat. The UNDP is considered a *direct agent* of the United Nations in this fact pattern and the United Nations will capitalize the related project assets.

- The project is **under the control of the United Nations and the implementing/executing third party has the responsibility to deliver a capital asset to the United Nations.**

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[11] *In addition to the "control" criterion, **all** of the following conditions must be met to capitalize an asset:*
- *The asset has a useful life of more than one year;*
- *For all United Nations reporting entities other than Volumes I & II: The asset meets the minimum cost threshold of USD5,000;*
- *For Volumes I and II: The asset meets the minimum cost threshold of USD20,000 except for the following commodity groups for which the lower threshold of USD5,000 is applicable:*
  Vehicles, Prefabricated buildings, Satellite communication systems, Generators and Network equipment.

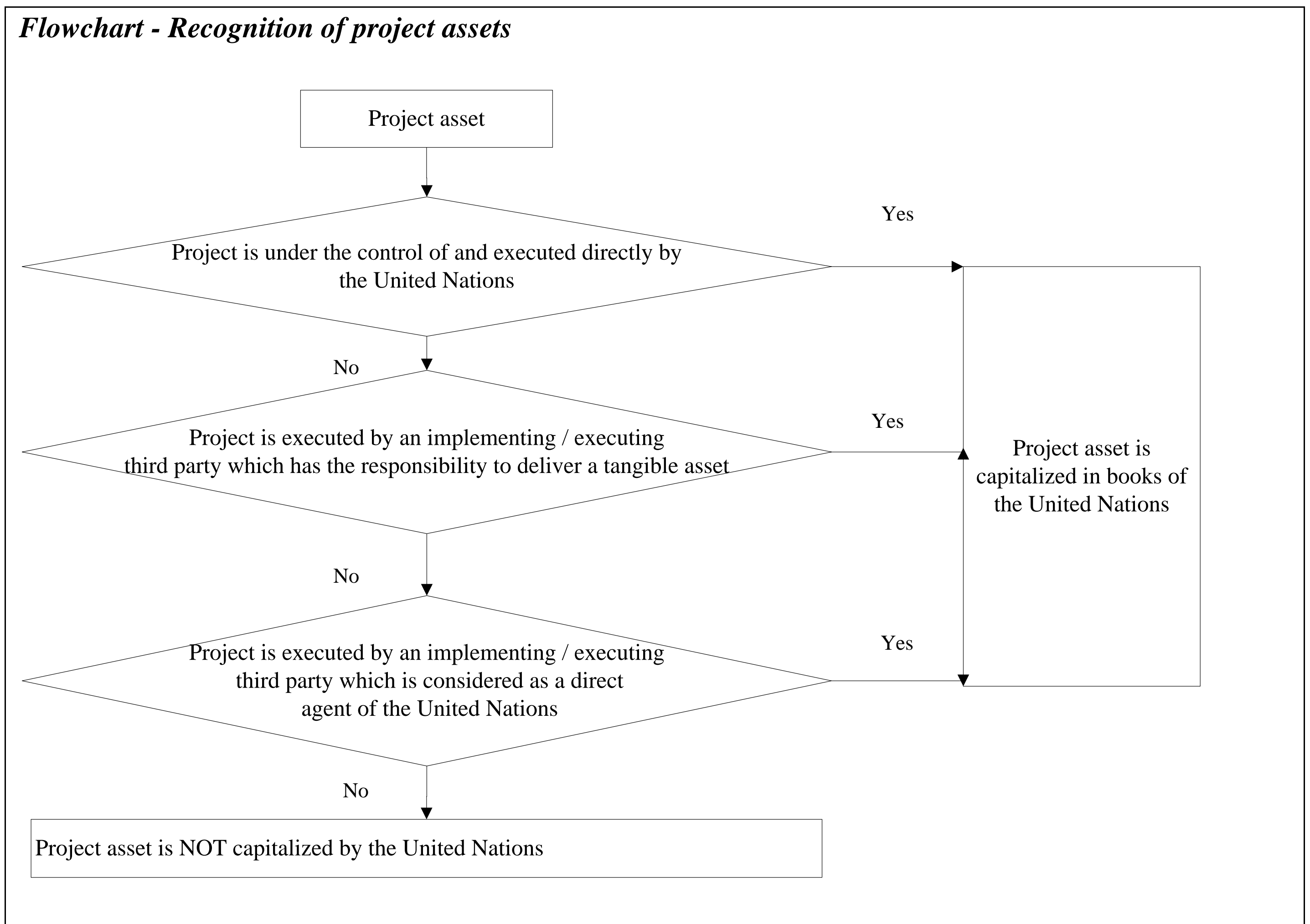
Example - Implementing partner needs to deliver a tangible asset

Prisons built by the United Nations Office for Project Services (UNOPS) on behalf of the United Office for Drugs and Crime (UNODC) will be recorded in the UNODC asset register as UNOPS (the implementing partner) has the responsibility to deliver the constructed prisons.

Note: In circumstances where the assets have to be capitalized by the United Nations but the assets are in the possession of implementing partner, it is important that these assets are tracked. Projects assets that are legally owned but not controlled by the United Nations, would not be depreciated for IPSAS purposes, but it may still be necessary to track the asset(s) until legal title is transferred to the grantee at the end of the project implementation period. The United Nations therefore needs to maintain a register of such project assets until their official hand-over. (This highlights the need for the distinct identification in the asset register of assets that are not capitalized because they are linked to end beneficiary projects).

The below flowchart can be used in determining whether project assets need to be capitalized by the United Nations.

Flowchart - Recognition of project assets



6.3 Programme Support Cost

Background:

The United Nations refers to the fees that it collects on "extra-budgetary" funded expenditure as **Programme Support Costs (PSC)**. This charge is intended to ensure that the additional costs of supporting activities that are financed from extra-budgetary contributions have no financial implications on the Regular Budget (i.e assessed contributions and /or other core resources that are central to the budget process in the United Nations Secretariat.

Incremental costs are defined as additional costs incurred for supporting activities. Incremental costs are usually financed from extra-budgetary contributions (also referred to as **voluntary contributions**). Incremental costs can be divided into **direct** costs and **indirect** costs.

- **Direct costs** are those that can be readily and directly attributed to, and are therefore charged either wholly or in part to an operation, programme or project. i.e. substantive and operational staffing, facilities, equipment and other costs that would not have been otherwise incurred.

- **Indirect costs** are those that cannot be linked unequivocally to specific activities, project or programmes, i.e. the central administration of human resources, financing and related activities, the implementation of United Nations wide initiatives like Umoja and IPSAS.

The purpose of the **PSC charge** is to recover incremental indirect costs of administering the project/programme. The PSC charge is expressed as a percentage of the project's/programme's direct costs (actually disbursed/expended and unliquidated obligations/commitment),also referred to as the PSC rate. The PSC rate applied is based on the Organization's historical experience and various other factors. Please refer to Interoffice memorandum from the Controller, dated 8 June 2012 "Cost Recovery: programme support costs" for more information on PCS rate.

Interoffice memorandum:

Adobe Acrobat Document

The PSC rate is agreed with the donor and may vary in each donor agreement.

As per inter-office memorandum, the United Nations applies the following PSC rates unless exempted:

- **13%** of all voluntary contributions where the United Nations retains primary and overarching programmatic responsibility and is the first or primary recipient of these funds;

- **7%** of all voluntary contribution in support of inter-agency and "Delivering As One" for programmes and collaboration with other multi-lateral institutions;

- **3%** of all voluntary contributions for projects that are entirely implemented by other United Nations organizations (other than the United Nations Secretariat), NGOs or government services and 'Pass through' arrangements.

Analysis:

Revenue recognition for voluntary contribution should be as per the guidance in section 3.3.

Cost recognition for direct and indirect cost should be based on guidance for expense recognition. There is no single specific IPSAS, which deals with all expenses and expense recognition. Expenses are decreases in economic benefits during the reporting period in the form of outflows or consumption of assets or increases in liabilities that result in decreases in net assets and should be recorded as per accrual basis accounting. Specific types of expenses are dealt with directly by other standards – for example, IPSAS 17 for depreciation relating to property, plant and equipment, IPSAS 25 for employee benefits and IPSAS 19 for increases in liabilities relating to provisions.

Refer to following example for unconditional voluntary contribution and section 9.1 for comprehensive case study on conditional voluntary contribution.

Example – Unconditional

XYZ proposes to provide grant funds of $150,000 to the United Nations to deliver a fellowship programme. Grant funds are received upon signature of the agreement to cover fellowship programme from 1 July 2013 to 31 March 2014.

The agreement specifies that:

- United Nations will submit financial report to XYZ on utilization of the grant by 30 June 2014 and any unspent grant funds will be refunded before 30 September 2014; and

The grant funds will be used for eligible costs, including 13% programme support cost for United Nations. The past experience of the United Nations with XYZ has been that there are no instances where the United Nations had to repay grant funds for breach of terms.

The actual expenses were as follows:

- The United Nations incurred direct cost of $120,000 up to 31 December 2013 and $ $10,000 from 1 January 2014 to 1 April 2014.
- The balance computed as follows was refunded to XYZ on 30 September 2014

Total direct cost = 120,000+10,000	=	130,000
PSC charge (indirect cost) (@13%)	=	16,900
Total	=	146,900
Less:	=	150,000
Refund	=	3,100

Analysis:

The United Nations analyzes the transaction and concludes that, the stipulations of the grant agreement are akin to restrictions but not conditions primarily because the agreement specifies that the funds should be used for a fellowship programme without any specific details.

The United Nations recognizes the grant money as an asset and corresponding revenue upon signature to the agreement. As the United Nations incurs cost for the project it records expense as per accrual method of accounting. At the end of the project the refundable amount should be recognized as liability and reduction of revenue.

Accounting entries:

During the year ended 2013:
Upon signature of the agreement:

		Dr	Cr
Dr	Voluntary Contribution Receivable – Current Asset	$150,000	
Cr.	Voluntary Contribution Revenue		$150,000

Upon receipt of grant money:

Dr	Cash	$150,000	
Cr.	Voluntary Contribution Receivable – Current Asset		$150,000

Upon incurring eligible direct expenses for fellowship programme

Dr	Expense	$120,000	
Cr.	Accounts payable /Cash		$120,000

Programme Support Charge ($300,000 * 13%)

Dr	PSC Expense	$16,900	
Cr	PSC Revenue		$16,900

During the year ended 2014:

Upon incurring eligible direct expenses for fellowship programme

Dr	Expense	$10,000	
Cr.	Accounts payable /Cash		$10,000

Indirect expenses for fellowship programme:
PSC @ 13% should be charged on direct expenditure to the project and credited to the relevant administrative support income account

On determination of refund due at the end of project:

Dr	Net assets**	$3,100	
Cr.	Payable		$3,100

Refund to XYZ:

Dr	Payable	$3,100	
Cr.	Cash		$3,100

** Note: In the above example if the reporting year ends on 31 July 2014 then the accounting entries will be as follows:

Upon signature of the agreement: Same as above

Upon receipt of grant money: Same as above

Upon incurring eligible direct expenses for fellowship programme: Same as above. However the amount will be $130,000 as all the expenditure are incurred during the year.			
Dr	Expense	$130,000	
Cr.	Accounts payable /Cash		$130,000
Indirect expenses for fellowship programme: Same as above			
On determination of refund due at the end of project:			
Dr	Voluntary Contribution Revenue	$3,100	
Cr.	Payable		$3,100
Refund to XYZ: Same as above			

In certain situations (e.g. where project implementation is completed in the entirety or partially by an implementing partner), the United Nations shares the PSC income with the implementing partner. For example, if the agreed PSC rate with the donor is 7% the United Nations will give 4% to the implementing partner. Such an arrangement between the United Nations and the implementing partner does not impact the revenue recognition because this does not alter the donor agreement; however it will impact expense reporting because the United Nations' financial reports will reflect the agreed upon PSC charge that was paid to the implementing partner as a part of the project expenditure.

6.3.1 PSC Fund Accounting

Background:

PS revenue – All cost plans for Trust Funds, including those for operational activities, must include provisions for Programme Support Costs. The Trust Fund is charged an agreed percentage of expenditure in respect of programme support services for the implementation of projects and programmes, unless otherwise agreed with the Controller. This arrangement is essential to the proper funding of necessary support services. In this regard, the equitable deployment of PS revenue within and between substantive offices, programmes and departments must best address the operational, human and other resources management challenges associated with extra-budgetary funded activities. In accordance with the policy in ST/AI/286, PSC income is used in areas where a relationship exists between the supporting activities concerned and the activities that generated the programme support revenue.

Programme support cost revenue is used where costs cannot be readily and directly attributed and charged to, the extra-budgetary funded substantive activities, projects or programmes.

Accounting:
The PSC charge represents the application of the agreed percentage to amounts inspected - representing the value of goods/services actually received - and/or on resources committed for extra-budgetary funded substantive activities, projects or programmes. The charge is accounted for as a part of the total activity/project/programme cost which progressively utilizes the voluntary contribution as agreed with the donor(s). This revenue is applied towards the recovery of incremental indirect cost. Each month the system will calculate PSC charge on the actual expenses incurred and any unliquidated obligations. PSC allocation represents the PSC cost allocated to PSC fund.

6.4 *Interest income - donor agreement*

During the period that voluntary contributions are made available for use by a particular implementing/executing office of the United Nations, interest income may accrue on any unutilized portion of the funds that were received from donor. The interest income will be recognized as follows:

- Where the United Nations has the right to manage and direct the use of the interest income: Recognize as interest income on accrual basis;
    - Where the Donor retains the right to the interest income, the interest income should be considered as additional contribution under the direction of the donor accounted for as follows:
        - Where the Donor arrangement is classified as a ‘conditional’ arrangement: Recognize interest as conditional liability;
        - Where the Donor arrangement is classified as a‘non-conditional’ arrangement: Recognize interest as additional voluntary contribution;
    - Where the interest income can be used only after approval of donor: Recognize interest as payable to the donor until approval is obtained;
    - Where the interest income must be paid back to donor: Recognize interest as payable to donor.

6.5 *Checkpoints*

These checkpoints are designed to summarize important aspects that should be considered as a substitute of the guidance in the paper.

No.	Question	Analysis	Refer Section
1	**Is the contribution assessed contribution?** **Assessed contribution** refers to the scale of assessment determined by the General Assembly to finance the approved appropriations, which is shared among Member States to pay for the expenses of the United Nations.		3.2.1

No.	Question	Analysis	Refer Section
2	**Is the contribution voluntary contribution?** **Voluntary contributions** are extra budgetary resources that generally support or supplement the substantive work programme of the United Nations.		3.3
3	**Is there a formalized agreement?** A written agreement should be signed by the Controller (or his/her representative) and the donor. This can be in the form of Exchange of letters, a Framework Agreement or other formal written communication with an offer and an acceptance, signed by the donor and UN.		3.3.2.1 (a)
4	**Is the amount clearly stated or can a reasonable estimate be done?** Certain clause that should be assessed: "The contribution is up to a maximum of US$ xxxx"		3.3.2.1 (b)
5	**For multi-year agreements, does United Nations have control over the whole amount of the contribution at the time of signing the agreement?** Certain clause that should be assessed: "It gives me a great pleasure to inform you that the Government of … has decided to allocate a contribution of … to UN regular resources in year20XX. Moreover, to facilitate your financial planning and budgeting, I can tentatively inform you that, subject to parliament approval, our contribution to UN in year 20XX+1, 20XX+2, 20XX+3 is expected to be …"		3.3.2.1 3.3.2.4 5
6	**Do performance obligation clauses exist in the agreement?** Certain stipulation that should be assessed: "….reserves the right to claim repayment in full or in part if the funds are found to be misused or not satisfactorily accounted for.		3.3.2.2

No.	Question	Analysis	Refer Section
	Before such a claim is made, consultations will be undertaken between the parties." "… reserves the right to discontinue transfers if contractual and/or reporting and accounting obligations are not met; if there are substantial deviations from agreed plans and budgets or if doubt arises with regard to the proper use of funds under the Agreement."		
7	**Do the future installments require additional approvals?** Certain stipulation that should be assessed: Parliamentary "Any payment to be made under this Arrangement is subject to there being an appropriation by the Parliament of a Country for the fiscal year in which the payment is to be made."		3.3.2.2
8	**Are the future disbursements based on certain schedule?** Certain stipulation that should be assessed: "The contribution amount will be paid in three equal installments. The first installment in an amount of US$ xxx shall be paid upon signature of this agreement. The two other installments shall be paid according to the actual implementation schedule."		
9	**If return obligation (RO) clauses exist, does history with the specific donor indicate that the entire amount of resources is normally received?** Every office should review the event and circumstances during the period to assess whether any contract that is currently accounted for as non-conditional should be accounted for as conditional.		3.3.2.6
10	**Is the contribution in-kind?** Gifts and donations are voluntary transfers of assets, including goods in-kind, services in-kind, "right-to-use" arrangements.		4

No.	Question	Analysis	Refer Section
11	**Is the United Nations acting as an 'agent' or 'principal'?** Presentation for funding arrangements depends whether the United Nations is acting as: • An **agent** acting as an intermediary; or • A **principal** acting on its own account.		7 6.1.1 6.1.2
12	**Have expenses related to the advances to implementing partners been accounted for?** Expenses related to transfers to implementing partners should be **recognized** <u>when the implementing partner delivers the agreed services</u> as evidenced in the reports from them.		6.1.1
13	**Have expenses been accrued at the end of reporting period?** At year-end, prior identification of these situations will be necessary for accurate expense accrual.		6.1.1.1
14	**Where should project assets be capitalized?** The project assets should be <u>capitalized</u> in the books of the entity that controls the project assets as Property, Plant and Equipment (PP&E).		6.2.1
15	**Is the PSC charge a non-exchange transaction?** The percentage on direct project costs representing programme support (PSC) is intended to ensure that the additional costs of supporting activities financed from extra-budgetary contributions is not borne by assessed contributions and /or other core resources that are central to the budget process in the United Nations Secretariat. PSC is considered as non-exchange revenue.		6.3

7 Presentation

7.1 *Agent Principal accounting*

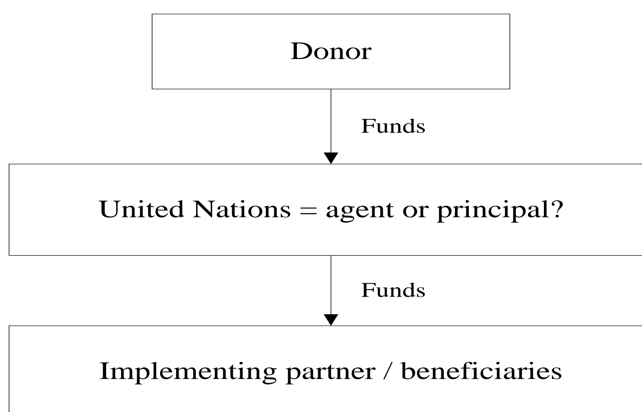
The United Nations receives and disburses funds based on the agreement with the donor.

From an IPSAS perspective, the accounting presentation for funding arrangements within the statement of financial performance depends on whether the United Nations is acting as:

- An **agent** - acting as an intermediary; or
- A **principal -** acting on its own account.

Whether the United Nations is acting as a principal or an agent in a transaction is dependent on the facts and circumstances of the relationship.

Flowchart - Fund streams



7.1.1 *Determine whether the United Nations acts as an agent or a principal*

Features that indicate that the United Nations is acting as **an agent** include:

- United Nations does not benefit from the arrangement except for the commission received or receivable for the handling of the cash flows;
- The commission the United Nations earns is predetermined;
- United Nations has no control over the arrangement (Amount of the grants, purpose of the grants, etc.);
- The donor has the primary responsibility for providing the funds to the implementing partners/ beneficiaries;
- The donor bears the credit risk for advance funding to the implementing partners.
- The donor has a direct contractual arrangement with the implementing partner / beneficiaries;
- The donor has discretion in selecting and directing the implementing partner / beneficiaries without United Nations' involvement / intervention.

Determining whether the United Nations Secretariat (reporting entity) is acting as an **agent** requires professional judgement and consideration of all the relevant facts and circumstances.

7.1.2 Accounting for arrangements where the United Nations is acting as an agent

Revenue and expenses will not be recorded where the United Nations is acting as an agent, only the commission, if any will be recorded as exchange revenue.

Example - United Nations acting as an agent

NYC Medical Foundation, through the United Nations, has sent $100,000 to SYC Medical Foundation to administer flu shots to SYC residents. NYC Medical Foundation had to send funds through another agency as it did not have the infrastructure to do it on its own. United Nations did not charge any commission to the NYC Medical Foundation.

Analysis:

The United Nations is acting as an agent of the NYC Medical Foundation to send $100,000 to the SYC Medical Foundation. The activity of administering flu shot is being performed by the SYC Medical Foundation; further United Nations does not have any involvement in overseeing or managing the transaction. The United Nations will record an asset and a liability when it receives $100,000 from the NYC Medical Foundation. The liability would be cleared on the transfer of $100,000 to the SYC Medical Foundation.

8 Disclosures requirements

United Nations specific disclosures for **revenue from non-exchange transactions** either on the face of, or in the notes to the financial statements include:

- The amount of revenue from non-exchange transactions recognized during the period by major classes;
- The amount of receivables recognized in respect of non-exchange revenue;
- The amount of liabilities recognized in respect of transferred assets subject to conditions;
- The amount of assets recognized that are subject to restrictions and the nature of those restrictions;
- The existence and amounts of any advance receipts in respect of non-exchange transactions; and
- The amount of any liabilities forgiven.

United Nations specific disclosures for **revenue from non-exchange transactions** in the notes to the financial statements include:

- The accounting policies adopted for the recognition of revenue from non-exchange transactions;
- The basis on which the fair value of incoming resources was measured, for major classes of revenue from non-exchange transactions;
- The nature and type of major classes of gifts, and donations, showing separately major classes of goods in-kind and services in-kind received.

Example - Extract of the statement of financial performance from the United Nations IPSAS Policy Framework

United Nations Volume I - Statement of Financial Performance For the Year ended 31 December 20X1 (Thousands of United States dollars)			
	Notes	**31-Dec 20X1**	**31-Dec 20X0**
REVENUE			
Assessed contributions			
Member States voluntary contributions			
Other voluntary contributions			
Inter-organizational arrangements			
Other transfers and allocations			
Investment revenue			
Contributions for self-insurance programmes			
Revenue producing activities			
Revenue from services rendered			
Other/miscellaneous revenue			
TOTAL REVENUE			

United Nations – Volume II Statement of Financial Performance (Thousands of United States dollars) For the Year ended 30 June 20X1			
	Notes	30-Jun 20X1	30-Jun 20X0
REVENUE			
Assessed contributions			
Member States voluntary contributions			
Other voluntary contributions			
Other transfers and allocations			
Investment revenue			
Other/miscellaneous revenue			
TOTAL REVENUE			

9 Appendices

The case study in this section is based on a practical (hypothetical) situation at the United Nations. It does not however represent an existing contractual arrangement.

9.1 Case Study – Conditional agreement

9.1.1 Agreement between, the ABC Ministry of Foreign Affairs (ABC) and the UNODC

- On the request of the United Nations Office on Drug and Crime (UNODC), ABC agreed to support the Counter Piracy Programme (the programme) by a signed agreement dated 23 November 2011.
- The goal of the programme was to ensure fair and efficient trials, as well as secure and humane imprisonment in Somalia.
- The UNODC and ABC agreed that the UNODC shall be responsible under the terms of this agreement for the management of the funds contributed by ABC.
- Subject to parliamentary appropriations ABC shall place at the disposal of the UNODC the sum of up to $1,000,000. Parliamentary approval was obtained on 15 January 2012. Funds were deposited to the UNODC bank account on 31 January 2012.
- The agreement specified the manner of utilization of the funds and the mechanism to monitor the planned utilization as follows:
    - Utilization of funds:

Sr. No.	Activity	Amount (in $)
1	Armored vehicle to make sure that prison advisors can go back and forth to prison safely*	400,000
2	Prison maintenance	150,000
3	Literacy course for the prison	235,000
4	Consumable equipment and material for literacy course	100,000
	Total	885,000
	Program support cost charges @13%**	115,000
	Total project cost	1,000,000

*Ownership of the vehicle shall vest in UNODC until the expiration or termination of the agreement. Subsequently the ownership of the vehicle shall be with the recipient Government.

** The project will be charged with 13% of all expenditure for the programme support services provided by the UNODC in the implementation of the activities financed.

- Mechanism to monitor utilization of funds and other conditions:
    - The UNODC shall commence and continue to conduct operations to implement the programme per the agreement terms.

        - If unforeseen expenditure arises, the UNODC will submit a supplementary budget to the ABC showing the necessity for further funding. If no such additional funding is available, the assistance provided under this agreement may be reduced or terminated.
        - Evaluation and audit of the activities, including joint evaluation shall be undertaken periodically.
        - Any interest accruing on the aforesaid fund shall be used to meet the costs of the programme after approval by the ABC.
        - After consultation with the UNODC, ABC may withhold disbursement in case of substantial deviations from agreed plans and budget, failure of the UNODC to provide the reports as agreed or evidence of financial mismanagement of the programme.
        - ABC may claim repayment in full or in part of funds from the contribution if the funds are found to be misused or not satisfactorily accounted for.
        - Either party can terminate the agreement by giving 90 days notice. Before a decision to terminate, there shall be consultations between the parties.
- UNODC incurred the following expenditure:
    - During the year 2012:
        - $400,000 for armored vehicle on 31 December 2012, (payment was made on 15 January 2013; and
        - $140,000 for prison maintenance on 31 November 2012.
    - During the year 2013:
        - $200,000 for literacy course in prison during March 2013; and
        - $100,000 for consumables and materials during March 2013 were in the nature of inventory and consumed during the year 2013.
- Interest income of $10,000 had accrued on the fund balance during the year 2012.
- At the closure of the project on 1 July 2013, unspent funds will be refunded back to ABC and the vehicle transferred to the recipient Government.
- The UNODC prepares it financial statements for the year ended 31 December every year.

9.1.2 IPSAS accounting analysis

9.1.2.1 Recognition of revenue from non-exchange transaction

Revenue Recognition will be based on an assessment of whether an asset and liability was created:

Asset recognition: Funds will be recognized as an **asset** when:

- The United Nations controls the funds as a result of a past event:
  The “past event” which gives rise to control in the context of the funding agreements is generally the point at which the parliamentary approval was obtained by ABC. Accordingly, a receivable should be recognized on 15 January 2012.

- It is probable that the United Nations expects to receive an inflow of future economic benefits or service potential from the funds:
  On obtaining parliamentary approval, a receivable can be deemed to be probable i.e. there is no uncertainty that the future economic benefits associated with the item will not flow to the United Nations. Probability determination is also based on past experience with similar types of flows of resources and its expectations regarding the donor.

- The fair value of the funds can be reliably measured:
  Since the funding agreement has the contribution in cash, the fair value can be reliably measured.

  Accordingly UNODC should recognize a receivable on 15 January 2012.

Liability recognition:

The inflow is subject to 'conditions' and should be recognized as a liability (e.g. performance with potential return obligations):

- The funds should be used/ consumed for a particular purpose as identified in the agreement;
- An enforceable return obligation exists in case the stipulation is breached and can be contractually enforced by the donor;
- The condition is specific to the nature of goods and services to be provided and the nature of assets to be acquired;
- Performance against the condition is monitored by ABC on an ongoing basis;
- ABC has historically requested for refunds for any breach of condition.

Initial Measurement:
UNODC has performance and potential return obligation towards ABC; accordingly on the 15 January 2012 a liability should be recognize for conditions.

Subsequent Recognition:
UNODC's performance and return obligation towards ABC, reduces as the funds are appropriately spent in accordance with the contractual terms. Accordingly liability recognized on 15 January 2012 should be reduced and there will be a corresponding recognition of revenue as and when the conditions are satisfied.

9.1.2.2 Recognition of PSC charges

In its role as Implementing Agency, UNODC earns PSC from ABC. PSC represents the fee payable to UNODC to cover UNODC's incremental administrative costs in respect of services performed by UNODC for the project.

In this example, PSC accrues at the rate of 13% of all the expenditure incurred during the period of the programme. Accordingly, revenue of 13% should be recognized based on the direct expenditure reported for the period.

9.1.2.3 Recognition of interest income

The bank balance will increase by the interest received during the year with a corresponding increase in the payable to ABC. Per the agreement interest income shall be used to meet project cost only after ABC's approval; accordingly it can be considered as an additional funding to the project only after ABC's approval.

9.1.2.4 Expense recognition

Under the accrual basis, expenses are recognized when the transaction or event causing the expense occurs. The recognition of the expense is therefore not linked to when cash or its equivalent is received or paid. Expenditures may be cash outlays for capital assets (capital expenditures) or cash outlays for operating purposes (operating expenditures).

Expense that qualify for capitalization:
The armored vehicle meets the criteria for capitalization as PP&E as UNODC has control over the vehicle until the end of the project. The vehicle will be recognized as PP&E and depreciated over the life of the vehicle. On transfer of the vehicle to the respective government, the net book value of the vehicle will be expensed as grant expenditure. Depreciation for the armored vehicle will be $100,000 for every year of use assuming that the useful life is four years.

Refundable balance at the end of the project:
The unspent balance of the contribution plus related accrued interest will be classified as Transfers payable on the statement of financial position.

9.1.3 Accounting entries

Date	Dr/Cr	Journal entry	Amount
On signing of the agreement			
15 January 2012	Dr	Voluntary contribution receivable (current asset)	1,000,000
	Cr	Conditional liability (current liability)	1,000,000
On receipt of cash			
31 January 2012	Dr	Bank (current asset)	1,000,000
	Cr	Voluntary contribution receivable (current asset)	1,000,000
On incurrence of expense			
30 November 2012	Dr	Expense – prison maintenance (expense)	140,000
	Cr	Bank (current asset)	140,000
On purchase of vehicle			
31 December 2012	Dr	Property, plant and equipment - Vehicle (non-current asset)	400,000
	Cr	Accounts payable – other (current liability)	400,000

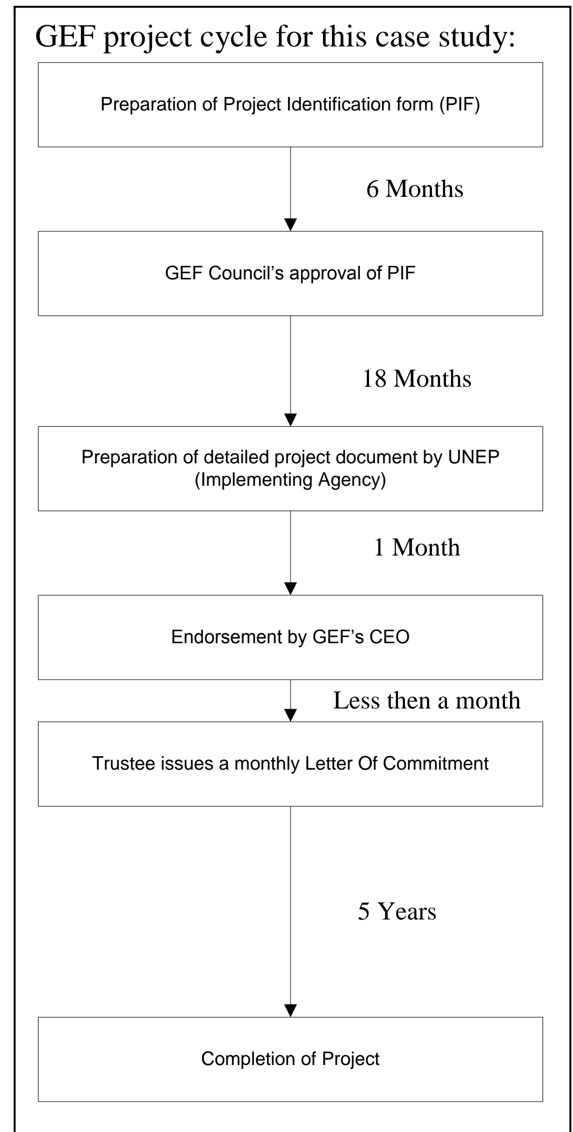
Date	Dr/Cr	Journal entry	Amount
Recognized revenue to the extent conditions are complied			
31 December 2012	Dr	Conditional liability (current liability)	540,000
	Cr	Voluntary contribution (revenue)	540,000
PSC charges (13% of $540,000)			
31 December 2012	Dr	Programme Support Expense	70,200
	Cr	Programme Support Revenue	70,200
Interest income payable to ABC			
31 December 2012	Dr	Bank (current asset)	10,000
	Cr	Transfers payable (current liability)	10,000
Liabilities paid off			
January 2013	Dr	Accounts payable – other (current liability)	400,000
	Cr	Bank (current asset)	400,000
On incurrence of expense			
March 2013	Dr	Expense - literary course (expense)	200,000
	Cr	Bank (current asset)	200,000
On purchase of inventory			
March 2013	Dr	Inventories - Material purchased (current assets)	100,000
	Cr	Bank (current asset)	100,000
On use of inventory for project			
March 2013	Dr	Expense - literary course (expense)	100,000
	Cr	Inventories - Material purchased (current asset)	100,000
Depreciation for 6 months			
June 2013	Dr	Depreciation for six months (expensed to the project)	50,000
	Cr	Accumulated depreciation - Property, plant and equipment (non-current asset)	50,000
Recognized revenue to the extent conditions are complied			
1 July 2013	Dr	Conditional liability (current liability)	300,000
	Cr	Voluntary contribution (revenue)	300,000
Transfer of vehicle			
1 July 2013	Dr	Transfer of vehicle (expensed to the project)	350,000
	Dr	Accumulated depreciation - Property, plant and equipment (non-current asset)	50,000
	Cr	Property, plant and equipment (non-current asset)	400,000
PSC Charge ($300,000 * 13%)			
1 July 2013	Dr	Programme Support Expense	39,000

Date	Dr/Cr	Journal entry	Amount
	Cr	Programme Support Revenue	39,000
Refund due to ABC			
1 July 2013	Dr	Conditional liability (current liability)	50,800
	Cr	Transfers payable (current liability)	50,800
Cash transferred to ABC			
1 July 2013	Dr	Transfers payable (current liability)	60,800
	Cr	Bank (current asset)	60,800

9.2 Case study - GEF

9.2.1 The Global Environment Facility Trust Fund Arrangement

Summary of project cycle:



The United Nations Environmental Programme (UNEP), as an Implementing Agency of the Global Environment Facility Trust Fund (GEF), assists partners to submit project concepts by way of Project Identification Forms (PIFs), typically covering multi-year funding periods and budgets, to the GEF Secretariat for review and for the GEF Council's approval. The proposals approved by the GEF Council are communicated to UNEP on a project-by-project basis and the World Bank, acting as the GEF Trustee, "sets aside" the proposed GEF funding at the time of the GEF Council's approval of the project concept, subject to the availability of funds.

UNEP and the Project Executing Agency partner then prepare a detailed project document for GEF CEO's endorsement. Following such endorsement, the GEF Trustee commits the corresponding project funds to UNEP and, following the end of each month, issues to UNEP a Letter of Commitment outlining the individual projects that were approved by the GEF's CEO and resources committed by the GEF Trustee in the previous month.

UNEP then finalize and sign a project agreement with the project executing partner. The agreement includes a copy of the project document endorsed by the GEF which incorporates a costed work-plan, a results based budget setting out activities, outputs and milestones, a detailed annual expenditure budget by budget line, reporting and audit requirements, details of the initial cash advance (further cash advances that are subject to meeting the agreed milestones and reporting requirements), monitoring and independent evaluation requirements, etc. On signature of the agreement the initial cash advance is disbursed to the partner to cover the estimated costs for the forthcoming period, normally 3-6 months, and project implementation commences. Further cash advances are disbursed on request subject to the receipt of the required substantive reports, expenditure reports showing substantial use of previous cash advance(s), and an estimate of the cash requirements for project activities in the forthcoming period. The reports are reviewed in tandem and any queries arising are cleared with the partner. Once approved, the reported expenditures are recorded in the project accounting

system on the same budget lines as the approved budget allocations. In the event that the partner fails to report on the use of the cash advances, which has to be used for the activities and outputs set out in the detailed project document and budget, they are required to refund the amount unspent or not properly spent.

On completion of the project activities, delivery of outputs and expected accomplishments, receipt of all final substantive and financial reports, refund by the partner to UNEP of any unspent cash advances, and completion of the independent evaluation, the project is closed and any unspent funds are returned by UNEP to the GEF Trustee by way of a quarterly report to the Trustee on the closure of projects and unspent commitments. The GEF Trustee reduces the project's allocation and the cumulative commitment to UNEP by the amount unspent.

Funds management for all projects:

To aid the GEF Trustee with managing the treasury position of its GEF Trust Fund, the Trustee's procedures require that UNEP draws down funds against their GEF commitments to the extent that they are required to meet the immediate cash-flow needs of their ongoing GEF project portfolio. UNEP's cash advance request to the Trustee for project finance is based on UNEP's overall GEF trust fund cash position, not on individual project commitments. The "verbally" agreed procedure that has been in operation since 2004 is that UNEP requests a cash advance of $20 million whenever its cash balance for its GEF project portfolio falls below $20 million. ***UNEP should record a receivable for the amount stated in the GEF Trustee's Letter of Commitment at the project level. This will mirror the related record in the Trustee's financial records.***

UNEP Fees:

In its role as a GEF Implementing Agency (IA), UNEP earns 'IA Fees' from GEF. Approx. 9.3% of the GEF project grant of which 40% payable on Council approval of the concept (after development of the concept and submission of the PIF but prior to project development) and 60% payable on GEF CEO endorsement (prior to implementation). Corporate costs are expected to be covered by the same fee but no nominal amount has been specified.

In the case where projects are dropped or cancelled before completion, the unutilized fees for UNEP's project cycle management services will be returned to the GEF as follows:

- For Council approved project that is dropped before approval by UNEP (the Implementing Agency), 60% of the fee would be returned;
- For any project cancelled after approval by UNEP (the Implementing Agency), fee returns would be prorated based on project duration as stated in the project document endorsed by the GEF's CEO.

Background of hypothetical GEF project (based on the 2006-2012 fee system which covers most of UNEP's ongoing portfolio):

- GEF Council approved PIF on 1 January 2012, for $5.5 million GEF project grant and $0.55 million fee which is "set aside" by the GEF Trustee;
- Project was under development for 3 years of which 12 months was developing the concept, before the PIF was approved, and 24 months after the PIF was approved for developing the detailed project document and obtaining the CEO endorsement;
- Final CEO's endorsement letter is received from the GEF's CEO on 1 January 2014 but with a reduced budget of $5.0 million and fee of $0.5 million. A summary of annual budget allocations, as set out in the detailed multi-year approved budget, are shown in the table below;
- In the month following the GEF CEO's endorsement and GEF Trustee's commitment, a Letter of Commitment dated 1 February 2014 for the project grant and fee was received from the GEF Trustee. The full $0.5 million fee is claimed by UNEP and received that same month;
- The project is completed and closed after seven years, with total expenditure of $4.8 million, and the under expenditure of $0.2 million is returned to GEF by way of a reduction of cumulative unpaid commitments.

$ 000's	Original GEF & UNEP approved budget	Budget revision 1	Project closing revision 2	Cash advances approved and disbursed by UNEP at the beginning of the year	Expenses reported by executing agency at the end of the year**
2014	500	-	-	200	-
2015	1,500	700	700	1,000	700
2016	1,500	1,800	1,200	1,400	1,200
2017	1,000	1,600	1,400	1,300	1,400
2018	500	900	900	700	900
2019			500	400	500
2020			100	(200)	100
Total	5,000	5,000	4,800	4,800	4,800

** It is assumed that the expenses reported by executing agency do not qualify for capitalization.

9.2.2 Analysis of facts

Project contributions:

UNEP's Revenue recognition for project contributions should be based on an assessment whether an asset has been created:

9.2.2.1 Is UNEP acting as an agent for GEF?

UNEP is the GEF implementing agency responsible for project management oversight and reporting. UNEP is actively involved at all the stages of the project in addition to providing project cycle and corporate activities. The executing partner is required to report expenditures quarterly to UNEP against the individual budget lines approved with little scope for deviation without the consent of UNEP and (if significant) from the GEF Secretariat.

This indicates that UNEP is acting as principal for the GEF arrangement.

9.2.2.2 Has an asset been created?

Does the inflow satisfy the criteria for asset recognition? (Enforceable claim and probable)

Framework agreement:

The Financial Procedures Agreement (FPA) is the overarching framework agreement between UNEP and the GEF Trustee (acting on behalf of GEF) and constitutes the past event that generates the potential for future economic benefits / service potential.

Each GEF project is executed as per the provisions of FPA; accordingly the FPA does not specify the value of the future economic benefits / service potential that UNEP will generate on signing of FPA.

Funding of the GEF arrangement: Project level approval

The GEF Trustee commits the amount approved for GEF funding and the related fees to UNEP on a rolling basis and issues a signed Letter of Commitment to UNEP monthly for funds committed in the previous month. It is at this point (receipt of the Letter of Commitment) that UNEP has an enforceable claim to the funds and fees, as they are both approved and available. It is also at this point that UNEP can reliably measure the value of the asset being transferred.

Asset & Revenue recognition:

Voluntary contribution will be recognized as an **asset** when:

a) The United Nations controls the funds as a result of a past event; **and**

   Past event that gives rise to control is the point at which the binding agreement is entered into. At the point of receipt of the Letter of Commitment, UNEP has an enforceable claim to the funds and fees, as they are both approved and available. Accordingly this criterion is met on receipt of monthly commitment letter.

b) It is **probable** that the United Nations expects to receive an inflow of future economic benefits or service potential from the funds; **and**

   Assessment of the degree of uncertainty attached to the flow of future economic benefit should be made on the basis of the available evidence, and past experience is one of an important indicator in assessment of **probability criteria**.

   The proposals approved by the GEF Council are communicated to UNEP on a project-by-project basis and the World Bank, acting as the GEF Trustee, "sets aside" the proposed GEF funding at the time of the GEF Council's approval of the project concept, subject to the availability of funds.

In the past UNEP has received committed funding from the GEF. Accordingly this criterion is met on the GEF Council's approval.

c) The fair value of the funds can be reliably measured.

The Trustee procedures require that UNEP draw down funds against the GEF commitments to the extent that funding is required to meet the immediate cash-flow needs of their ongoing GEF projects. Essentially the funds are available on demand. Accordingly, this criterion is met as the funds are in the form of cash and available on receipt of the implementing agency's request.

Through the issuance of the monthly commitment letter, the asset recognition criteria are satisfied. **Accordingly, UNEP should recognize the asset and revenue on that date.**

9.2.2.3 Expense recognition

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/equity. Expenses related to transfers to implementing partners should be **recognized** when the executing agency delivers the agreed services as evidenced in the reports from them. The executing agency reports expenses as per the financial reporting clause of the agreement with the contracting entity. In this example it is assumed that the expenses reported by the executing agency do not qualify for capitalization; accordingly the expense will be recognized based on the expense report provided by the executing partner.

Advances to executing partner will be recorded as advance transferred with a corresponding reduction in cash balance.

9.2.2.4 UNEP Fees

Revenue from rendering a service is recognized on a straight line basis over the specified time frame when services are performed by an indeterminate number of acts over a specified time frame, unless there is evidence that some other method better represents the stage of completion. UNEP provides its project cycle management services from the project identification stage until completion of the project. UNEP also provides corporate services to the GEF independently of the project life cycle.

- UNEP's project cycle management services

UNEP's project cycle management services are provided over the full duration of the project. The refund clause give an indication of revenue earned over different stages of the project life cycle.

- 40% of revenue accrues on approval of the project concept by the GEF Council; accordingly, 40% of the revenue related to the project cycle management should be recognised on approval of the project by the GEF Council;
- 60% of revenue accrues from approval of project document by GEF CEO till completion of the project; accordingly, 60% of the revenue related to project cycle management should be recognized over the period starting from approval of project document by GEF CEO till the end of the project. Allocation of revenue over the period should represent the stage of completion, which could be:
  - Apportion equally over the estimated time; or
  - Apportion based on the amount of actual expenditure to expected expenditure i.e similar to project accounting.

- UNEP's GEF corporate activities including quality assurance and support to the GEF on policy and outreach matters.

In substance, UNEP's responsibilities cover the entire project life cycle of approved projects and its corporate responsibilities. However it is difficult to allocate the revenue among different stages of the project life cycle, or between project and corporate activities in a precise manner, accordingly 40% of the fees should be recognized up to approval of project by GEF Council and the balance of 60% over the period of estimated project.

9.2.3 Accounting entries

Date	Dr/Cr	Journal entry	$000,s
Project revenue and expenditure			
Recognition of asset and revenue			
1-Jan-14	Dr	Voluntary contribution receivable (current asset)	5,000
	Cr	Voluntary Contribution	5,000
Cash advances approval and disbursement to executing agency			
1-Jan-14	Dr	Advance transfers	200
	Cr	Cash	200
Cash advances approval and disbursement to executing agency			
1-Jan-15	Dr	Advance transfers	1,000
	Cr	Cash	1,000
On receipt of expense report			
31-Dec-15	Dr	Expense	700
	Cr	Advance transfers	700

[similar scheme of entries should be followed for Year 2016, 2017, 2018 and 2019]

On receipt of expense report

31-Dec-20	Dr	Expense	100
	Cr	Advance transfers	100

Unspent funds received from executing agency

31-Dec-20	Dr	Cash	200
	Cr	Advance transfers	200

Unspent funds payable to GEF

31-Dec-20	Dr	Voluntary Contribution	200
	Cr	Net Assets	200

Project Fee charges

Upon endorsement by GEF's CEO: (40% of 10% of $5.5 million)

1-Jan-12	Dr	Voluntary Contribution Receivable – Current Asset	220
	Cr	Revenue from services rendered	220

Reversal of fee charges due to reduction in total project cost
[40% of 10% of ($5.5 - 5.0) million]

1-Jan-14	Dr	Revenue from services rendered	20
	Cr	Voluntary Contribution Receivable – Current Asset	20

Fees received and claimed for the project (10% of $5 million)

Jan-14	Dr	Bank	500
	Cr	Voluntary Contribution Receivable – Current Asset	200
	Cr	Deferred revenue	300

Every year: (1/7 the of 60%)

	Dr	Voluntary Contribution Receivable – Current Asset	43
	Cr	Revenue from services rendered	43

9.2.4 Periodic payment from GEF

In order that the GEF Trustee can properly manage the treasury position of its GEF Trust Fund, the Trustee procedures require that implementing agencies only draw down funds against the GEF commitments to the extent that they are required to meet the immediate cash-flow needs of their on-going GEF projects. The 'verbally' agreed procedure that has been in operation since 2004 is that UNEP requests a cash advance by way of a Cash Transfer Request for $20 million whenever its cash balance for its GEF project portfolio falls below $20 million. Journal entry on periodic receipt of cash from GEF will be as follows:

On receipt of Cash

Dr	Cash	20,000
Cr	Voluntary Contribution Receivable – Current Asset	20,000

Note: IPSAS team proposes that GEF funds should be accounted at the project level. The periodic draw-downs should be applied to reduce the project receivable in UNEP's book of account guided by the project cash flow needs detailed in the draw-down request. Additionally, as necessary, accounting adjustments would also be done for cash reassigned between projects to account for the transfer of residual/excess cash between projects. Additionally, as necessary, accounting adjustments would also be done for cash reassigned between projects to account for the transfer of residual/excess cash between projects that are also reported to the IBRD in the periodic cash draw-down requests.

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