Opportunity Shops – New Accounting Standards, a problem, and a pragmatic solution

Registered charities are now starting to grapple with new accounting standards. For some this means changes in accounting treatment and for larger entities the required treatment may be more complex. We look at an issue that has arisen with the application of the new revenue standard in relation to donated goods and opportunity shops and a great story of a prompt and practical response.

Donated Goods & the new Accounting Standard

Opportunity shops have been a very common form of income generating business enterprise for larger NZ charities. They are a common feature of our town shopping streets providing a magnet for bargain hunters, an income stream for charities, and an outlet for people to donate unwanted clothes and household goods to a good cause rather than throw them out. They are also often largely staffed by volunteers further adding to their sustainable nature and income generation for the charity.

So far,so good. Then along comes the new accounting standards for larger (Tier 1 & 2) registered charities, and specifically PBE IPSAS 23: Revenue from Non-Exchange Transactions. This is the new accounting standard specifically concerned with how charities are required to account for donated goods and services. This standard is unique to the Public Benefit Entity (PBE) sector as non-exchange transactions (providing something for no return) are simply not a feature of For-Profit entities. No-one gives profit seeking companies something for nothing.

One of the requirements of PBE IPSAS 23 is that goods in-kind (donations of tangible assets transferred to an entity in a non-exchange transaction) are measured at their fair value at the date of acquisition. This generally makes good sense. For example if someone say donated Alzheimers Auckland a new car then Alzheimers should on receipt of the gift account for that as revenue and an asset at the fair value of that car. This fair value would be determinable relatively easily by reference to the value of similar cars on the open market. Alzheimers would credit their income statement with revenue being the fair value of the asset donated and debit their balance sheet with the equivalent value of their new fixed asset.

The Problem

However, if I was to clean out my wardrobe, as my wife suggests I need to do from time to time, and donate some of my old favourite shirts and trousers to Alzheimers Auckland for their recently opened opportunity shop, what value should they put on this bag of items? Now I may consider these old favourites as priceless. My wife on the other hand informs me that there are two definitions of the term "priceless". And therein lies the potential accounting problem.

Applying the new mandatory PBE IPSAS 23 would result in the Alzheimers Auckland opportunity shop having to try and value my bag of donated second-hand clothes on receipt. This may be practically quite difficult to do. Even though I may consider these clothes the epitome of good taste, albeit perhaps a little worn, this view may not be borne out by the market. In fact it may be that despite their best efforts at display and marketing, the team at Alzheimers Auckland's opportunity shop fails to sell my donated "treasures" and has to eventually throw them out. Hence my donation would have been of no value at all. And it would have taken some time and effort by the opportunity shop staff in order to determine that fact.

It is for this precise reason that the common existing accounting treatment for such donations of low value items to opportunity shops is to only value the donations and recognise the revenue at the point that they are sold. i.e. the point at which a true market value has been determined by an exchange transaction sale to a willing buyer.

Hence while the requirements of PBE IPSAS 23 appear completely logical as a general rule, here is an example of application to large quantities of low value goods where it may prove practically very difficult and expensive to apply.

The Proposed Solution

This practical application challenge was advised to the accounting standard setter, the NZASB (the New Zealand Accounting Standards Board of the External Reporting Board). Delightfully and somewhat impressively they have promptly turned their mind to the issue. While recognising the value of the general requirement of the standard, the NZASB has also quickly grasped the practical implications of applying the standard to donations of large quantities of low value donated goods.

The result is the release of an exposure draft proposing to amend PBE IPSAS 23 to be clear that entities do not have to recognise donated goods in-kind at the date of acquisition where it is not practicable to measure reliably the fair value of the goods in kind. i.e. where the entity makes a practical judgement that the costs of recognising the donated goods in-kind at the date of acquisition clearly outweigh the benefits. If those donated goods in-kind are intended for sale then they will be permitted to recognise the revenue in the period when the goods in-kind are sold.

Also proposed are amendments to the implementation guidance accompanying the standard to further clarify the accounting and disclosure requirements relating to donations of goods in-kind.

In our view this is what is technically known as common sense. Hence a very large bouquet should go to the NZASB and XRB for their prompt and pragmatic response. Also it is to our knowledge the fastest accounting standard setting response to an identified issue in NZ history! In our opinion the NZASB have nicely balanced the importance of the general accounting principle in this area with a sensible exemption where, in the small number of instances, application of the standard is likely to result in a practical problem.

Democracy and your part in it

It is important to appreciate however that these PBE accounting standards are in effect legal instruments. i.e. legislation. In order to change them the XRB needs to go through a proper due process and their Exposure Draft is an important part of this. What the XRB now needs is comments back to them either in support or against their proposal.

The exposure draft entitled Exposure Draft NZASB 2015-3: Donated Goods (Amendments to PBE IPSAS 23) is available on the XRB website www.xrb.govt.nz (under Accounting Standards/Current Exposure Drafts) and a submission is as easy as a quick email to submissions@xrb.govt.nz The exposure period's closing date for submissions is 30 October 2015.

We would strongly suggest this very pragmatic solution be supported.

P.S. If anyone has any advice to the author for a suitable response to his wife to support his view that a 20+ year old favourite shirt, even though he hasn't worn it for years, is still well worth keeping please email me!

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