

Step	Diagnostic Question	Indicators of a Contract (Apply 5-Step Model)	Indicators of a Gift / Grant (Recognize or Restrict)
0. The Agreement	Does the arrangement create enforceable rights and obligations?	Yes. There is a signed formal agreement with specific deliverables and a clawback clause if services aren't delivered.	No. The agreement is verbal, or a simple letter of award with no requirement to return funds if specific outputs aren't met.
1. Commercial Substance	Is the funder receiving a service or benefit in return?	Yes. The charity is delivering a service <i>on behalf</i> of the funder (e.g., statutory care duties, specific research rights).	No. The payment is a contribution to the charity's general mission or a specific project without a direct quid pro quo service back to the funder.
2. Performance Obligations	Can you identify distinct goods or services promised?	Yes. The contract specifies distinct units (e.g., 2,000 hours of care, 5 workshops, 100 vaccinations).	No. The stipulations are vague or broad (e.g., to support the elderly, to eliminate poverty).
3. Transaction Price	Is the payment amount linked to the volume of delivery?	Yes. Payment is contingent on delivery volume (e.g., £60 per hour). Price may vary based on performance penalties.	No. The amount is a fixed block grant regardless of the exact volume of activity achieved (provided the general purpose is met).
4. Allocation	Does the contract cover multiple distinct services?	Yes. The grant covers different activities (e.g., Training + Consultancy) that need separate revenue values assigned.	No. The grant covers a single activity or project, so no complex allocation is needed.
5. Recognition Timing	When does the customer (funder/beneficiary) receive the benefit?	Over Time. The funder/beneficiary benefits as you work (e.g., home help). Revenue = Recognize as you deliver.	Immediate/Point in Time. The funder has no further claim once the cash is given, or benefits only when a final asset is finished.