INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

IFR4NPO Project

Advice and Requests
Technical Advisory Group meeting

10 January 2023

TAGED09

Session outline

- Grant expenses
- Revenue
- Sections 11, 21 and 22
- Sections 25, 26 and 28
- Sections 29, 31 and 32

Agenda item 1 –Grant expenses

1.1 Advice
a) Change the name of the section to make clear that this section is not about accounting for the use of grants received, but grant making and also be clearer that the section also includes donations
b) Consider whether there can be binding arrangements without conditions and if so, how it fits into the proposed model. Donations may be more informal arrangements.
c) Better to use terms that are well established in accounting standards as these are likely to be familiar to accountants, but this should be balanced against the needs of those less steeped in accounting terminology.
d) If a binding arrangement can be enforceable legally or otherwise, clarify the expectation of what arrangements might fall outside of legal enforceability
e) The degree of obligation needs to be clear in the Guidance, particularly for translation purposes. The degree of obligation can be explained in the Basis for Conclusions

Agenda item 1 –Grant expenses

1.1 Advice
f) Grant providers might not understand the practical implications of the proposal that recognition of an expense is based on the meeting of grant conditions. This may be more difficult to apply than current practice.
g) NPOs should be putting in place monitoring arrangements consistent with the level of risk to check whether obligations have been delivered. Risk assessments are good practice. Monitoring should be based on risk rather than accounting requirements.
h) A lot of work could be needed to identify the compliance obligations in grant agreements and consequently attribute consideration. The requirements to identify obligations should not be overly complex, noting that this could also impact audit. Examples will be helpful in explaining the intention of the proposals.
i) Grant prepayment assets could be monetary or non-monetary. Additional text may not be needed for grant prepayment assets in Section 11 or elsewhere – it may be sufficient to explain the concepts only in the grant expenses section, with other sections already adequate.

Agenda item 1 – Grant expenses

1.1 Advice
j) Accountants may not think of a grant prepayment asset as a financial asset. This could be confusing and suggest the term prepayment asset is not used.
k) May be difficult to inter-relate compliance obligations with conditions for those used to thinking about conditions and restrictions.
l) Make clear in the text that a grant given for capital purposes will likely result in an asset that can be used for multiple years
m) Consider the wording around matched funding to make clear when an accrual/provision might be needed as in the majority of cases this might be expected to be a contingent liability

Agenda item 1 –Grant expenses

1.2 Requests
a) If not already in place, text is needed to address measurement where payments are to be made at some point in the future.
b) Look at the characteristics of the grant prepayment asset and grant payment liability to determine whether additional text is needed and if so in which Section.
c) Make clear the distinction between conditions and general restrictions, particularly through the implementation guidance.

INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Agenda item 2 – Revenue

2.1 Advice
a) The analysis of the international frameworks is helpful in understanding the likely similar accounting outcome of different international standards. It would be useful to clarify the level of specificity required for compliance obligations under IPSAS, particularly regarding the passage of time, and as a consequence whether this in particular results in a different accounting outcome.
b) There is a possibility of confusion in moving away from performance obligations to compliance obligations, particularly for those familiar with commercial transactions.
c) The term non-exchange revenue is widely understood by NPOs in the UK, with no feedback that the term is inappropriate.
d) Both a single section or two sections for revenue would be acceptable, but two sections feels more appropriate. It is not clear that entities have difficulty in practice in deciding which section to use in jurisdictions that have multiple revenue sections.

Agenda item 2 – ED1 Revenue

2.1 Advice
e) Noted that it is important to separate non-exchange transactions and grants from other types of revenue for NPOs, particularly for disclosure.
f) The 5 step model for commercial revenue might not be applicable for grants and donations and might create additional complexity, particularly where NPOs only have one or two conditions in a grant arrangement. It would be helpful to simplify the five step model so that it is less onerous for more straightforward transactions, if it is used.
g) The 5 step model was designed to apply across a range of sectors and therefore in theory should work for exchange and non-exchange transactions. If adopting the 5 step model for all revenue, a single section might be preferable – a single section for a single model - with appropriate highlighting of NPO specific transactions including grants and a section for revenue with no binding arrangements.

Agenda item 2 – Revenue

2.1 Advice

h) While there is a logic for a single section for a single model, emotionally the sector sees commercial revenue and revenue from grants and donations as quite different. Two sections will feel more intuitive. A single section might generate an adverse reaction, with a concern that NPO specific issues are not being addressed.

i) The rules of the road for IFR4NPO might better support a two section approach. Comparability and simplicity might argue for leaving the existing IFRS for SMEs revenue section largely untouched and for a grants and donations section to mirror grant expenses.

j) NPOs can have non-charitable subsidiaries that are following IFRS for SMEs. There may be implications for the preparation and audit of consolidated accounts if there is a single section, but this might be addressed through guidance.

k) Separate but parallel sections might be more useful in providing appropriate text for gifts in-kind and services in-kind. There is a risk that in-kind revenues get lost in a single section

Agenda item 2 – Revenue

2.2 Requests
a) Clarify the intentions around the level of specificity needed for a compliance obligation to exist.

Agenda item 3 – Sections 11, 21 and 22

3.1 Advice
a) Remove the word 'statement' for the positioning of fair value adjustments that go through net assets.
b) The proposals for the definition of equity do not address concerns about where there is the grant of an asset, which could be taken straight to equity or treated as a revenue. If the grant of an asset does not lead to some form of shareholding it may in character be the same as a capital grant or donation. The dividing point needs to be in the right place.
c) A pro rata share of net assets seems to be more equity like in character, whereas a right to a specific asset might be more likely to be a liability. Need to consider whether the proposals move away from the IFRS for SMEs definition of equity.
d) The contents of Section 22 may rarely apply because equity is not expected to be common and therefore needed by many NPOs. While it is helpful for the few that do have equity, devoting a section to something that rarely happens might create clutter and/or undermine credibility. An alternative could be to rely on other international guidance.

Agenda item 3 – Sections 11, 21 and 22

3.1 Advice
e) Founding contributions to establish an NPO feel like equity. The provision of assets does not sound like an arrangement that provides for a residual interest in the assets of the NPO.
f) Making tweaks to the IFRS for SME's Section might inadvertently create unintended consequences.
g) Contribution by owners is a separate standard in Australia and this might be relevant to the consideration of assets provided to NPOs. It would be helpful to consider this separately to other provisions of equity, where no changes may be needed.

Agenda item 3 – Sections 11, 21 and 22

3.2 Requests
a) Develop a range of examples of different kinds of arrangements where assets are provided to an NPO, whether any have the characteristics of equity and the possible accounting treatment.
b) Defer consideration of updates to Section 22 until feedback has been received on ED1 and include it instead in ED3.

Agenda item 4 – Sections 25, 26 and 28

4.1 Advice
a) Not clear that there is evidence that a section on share based payments is needed as this is not likely be necessary for NPOs. Including a section on share based payments could cause confusion if such a need is not clear.
b) Agree that INPAG should be standalone, but if share based payments are incredibly rare INPAG could default to alternative guidance.
c) If NPOs are pointed to a particular policy for defined benefit pensions, this would create a rebuttable presumption.

Agenda item 5 – Section 29, 31 and 32

5.1 Advice
a) The term taxable profit or loss is appropriate.
b) Could references to those with equity claims be removed in relation to post balance sheet events, given the discussion on equity. More generally on the balance sheet in relation to equity could the approach be to add a column on equity if required rather than delete if not required.