



IFR4NPO Project

Advice and Requests
Technical Advisory Group meeting

18 May 2023

TAGED12





Session outline

- Section 13 *Inventories*
- ED2 update - Section 23 *Revenue*
- ED2 update – Section 24 Part 1 *Expenses on grants and donations*
- ED 2 update – Section 30 *Foreign currency translation*
- ED2 update – Non-prioritized topics
- Section 24 Part II *Classification of expenses* – analysis of consultation paper responses
- Section 24 Part III *Fundraising costs* – analysis of consultation paper responses



Agenda item 1 –Section 13 *Inventories*

1.1 Advice

- a) Seek feedback to understand preparers' and users' perspectives on the proposed exclusions.
- b) Should think further whether reliable measurement is the basis for an exception to recognition and it should not be over emphasised. The expectation is that this is pretty rare and could in its current form provide an unintended loophole. The proposals need to be appropriate and proportionate.
- c) Need to consider how much relief is really being given in the proposals – are the exceptions proposed enough where people really can't do it.
- d) Ask constituents whether fair value is too hard as a concept, noting Australia use current replacement cost for NPOs and this is defined as an entry price. Australia is looking at options of cost or current replacement cost.



Agenda item 1 –Section 13 *Inventories*

1.1 Advice

- e) There is scope to use the 3 levels in the hierarchy of Section 12 on Fair value. Explaining how these relate to NPOs' circumstances may be sufficient. Need to check what is intended if there is no observable market.
- f) The proposal for first expired, first out (FEFO) may be more representative, but inclined not to include it as costs could exceed benefit. There is already scope to use a different method where justified.
- g) Perishable goods are a feature of other sectors e.g pharmaceuticals and are not NPO specific. The proposal would go beyond current standards for something not NPO specific.
- h) Consider whether FEFO can be used as an example of an alternative method in the Implementation Guidance.

Agenda item 1 –Section 13 *Inventories*

1.2 Requests

- a) Take a rebuttable presumption approach to the recognition of inventory and explain in the basis for conclusions, particularly how this is intended for smaller entities. Include an SMC to capture feedback on the rebuttable presumption.
- b) Explain the approach to fair value in the basis for conclusions.
- c) Explain the consideration of FEFO in the basis for conclusions.



Agenda item 2 – ED 2 update Section 23 *Revenue*

2.1 Advice

- a) Agree with the approach to splitting transactions based on substance, but should consider intangible benefits too, for example reputation.
- b) Prefer to have an approach that looks at whether a transaction is a commercial or non-commercial and deal with what is left, as feedback on domestic standards is that moving between two sets of guidance is not helpful and confusing.
- c) Struggling to draw the line between compliance obligation and performance obligation. An SMC could consider alternative presentation drafting. Could you have a single section on revenue with a subsection on income from grants and donations to streamline drafting.
- d) Concerns still exist on the practical application of assessing whether donated services in-kind are 'mission critical' and it has attracted mixed feedback on usefulness.

Agenda item 2 – ED 2 update Section 23

Revenue

2.1 Advice

- e) The definition of mission critical is important and it would be good if this could be narrowed to scope out those activities that might be unintentionally captured. Is this something that would already be disclosed in narrative reporting?
- f) In New Zealand if a donated service is mission critical NPOs can choose whether to recognise them. Useful to obtain feedback on the proposal.
- g) Measuring donated services may be distasteful in some cultures or jurisdictions. Putting a price on a donated service can be seen as devaluing the service.
- g) The proposals on recognition of services in-kind are not symmetrical with gifts in-kind. Are we clear why we don't have symmetry/ consistency?



Agenda item 2 – ED 2 update Section 23

Revenue

2.1 Advice

- h) Inclusion of services in-kind is important to show the real performance of an NPO and not showing these could affect understanding.
- i) Putting a value on something can help generate debate and demonstrates how donated services are used as part of the delivery model.
- j) Feedback from the Focus Group was that time provided by Board members should be an exception. Tightening of the definition of mission critical can address both the quality and quantity of output.
- k) Use of similar terminology in Part I and Part II argues for a single section.
- l) It is not clear on how the difference between legal and legal equivalent would be interpreted locally. How different are they and what does this mean for the difference between compliance and performance obligations.



Agenda item 2 – ED 2 update Section 23

Revenue

2.1 Advice

- m) There may be enough already in INPAG through provisions etc to deal with an obligation that is not distinct and not a present obligation.
- n) IFRS15 requires that an agreement is enforceable by law but a performance obligation can be implied (ie not written down). Therefore each performance obligation does not need to be enforceable. This may be useful to explore.
- o) It is not clear what is the difference between enacted and substantively enacted in applying IAS 12 and this can create legal issues so be careful on terms used as they may not work legally.
- p) Compliance obligations can involve the use of goods and services internally, which is different to a performance obligation which only involves an external transfer.
- q) Grant agreements can have an imbalance in enforceability as the donor may have legal recourse that is not available to the grantee (eg if the donor says it doesn't have the money). Equivalent means might then involve blacklisting.



Agenda item 2 – ED 2 update Section 23

Revenue

2.1 Advice

- r) Consider whether a restriction is the same as a compliance obligation. If they are not what is the difference? Does it come down to enforceability and a right of return? If there is no right of return is it restricted?
- s) Where revenue is received up front for a number of years, recognising it all at once can overstate performance and we should be careful about that.
- t) The scenarios suggest that time-based requirements are not limitations and needs to link back to definitions.
- u) Where does the concept of a constructive obligation fit in where there is not a compliance obligation, but revenue has to be spent on a particular cause. Could this be a provision for costs rather than a restriction on revenue?
- v) NPOs are commonly asked to report against an agreed budget. It would be useful to include this in example fact patterns to help test the thinking.

Agenda item 2 – ED 2 update Section 23 *Revenue*

2.2 Requests

- a) Consider the ordering of the text in Section 23 to aid usability.
- b) Include an SMC that considers the usability and practicality of the structure of Section 23
- c) Explain the proposal for the recognition of mission critical donated services and use an SMC to obtain feedback. Reflect the differences of view in measuring donated services.



Agenda item 3 – ED2 update Section 24

Part I *Expenses on grants and donations*

3.1 Advice

- a) Support the approach to separate elements of a transaction based on substance of what is a grant and what is procurement of a good or service.
- b) Agree that resources transferred should be at carrying amount noting that any revaluation to fair value would not impact the result for the period and might not be worth the additional effort.
- c) If there is a significant difference between carrying amount and fair value it could be disclosed
- d) Reputational harm should not be permitted as part of the proposed exemption on sensitive information. Tighten the description as it could currently be interpreted as included.



Agenda item 3 - ED2 update Section 24

Part I *Expenses on grants and donations*

3.2 Requests

- a) Review the criteria in IFRS5 to assess whether revaluation to fair value should be required or disclosed for resources transferred.



Agenda item 4 – ED2 update Section 30

Foreign currency translation

4.1 Advice

- a) As cash in a foreign bank account can be co-mingled from a number of sources, need to provide guidance on how exchange gains and losses should be allocated where it includes projects with restrictions.

Agenda item 5 – ED2 update – Non-



prioritised topics

5.1 Advice

- a) Agree that references to share based payments should be deleted.
- b) Equity components of compound financial instruments are not important for NPOs.
- c) References to equity components of compound financial instruments could be deleted if it is clear that the hierarchy of standards can be accessed.
- d) If we are including equity as a concept then maybe it should be retained – what would be gained by removing it.
- e) NPOs that have subsidiaries could have tax and the situation will be jurisdiction specific. Taxation of NPOs happens in a number of jurisdictions
- f) Moving financial instruments to ED3 is fine as there is nothing controversial



Agenda item 5 – ED2 update – Non-prioritised topics

5.2 Requests

- a) Ask an SMC about equity components of compound financial instruments.



Agenda item 6 – Section 24 Part II

Classification of expenses – analysis of consultation responses

6.1 Advice

- a) Separating programme, admin and capital spend would be of value to nearly all organisations. Other functional analysis might be of less value.
- b) The cost/benefit of mandatory reporting needs to be considered.
- c) Support the way forward but would struggle to support proposals that are more onerous than IFRS.
- d) Align with IFRS in the financial statements and put NPO specific requirements, including fundraising costs in the supplementary statement

Acronyms

Acronym	Full name	Description
ED	Exposure Draft	A document published by the INPAG Secretariat to solicit public comment on proposed reporting guidance
FEFO	First expired, first out	A cost formula to measure inventory
IFRS	International Financial Reporting Standards	A set of accounting standards developed by the International Accounting Standards Board (IASB) for use by profit making private sector organisations internationally
INPAG	International Non-profit Accounting Guidance	High quality, trusted, internationally recognised financial reporting guidance for NPOs being developed as part of IFR4NPO.
NPO	Non-profit Organisation	For the purposes of INPAG, these are organisations that have the primary objective of providing a benefit to the public, direct surpluses for benefit of the public, and are not government or public sector entities.
SMC	Specific matter for comment	A question raised in a consultation document, including the Exposure Drafts on which specific feedback is sought