INPAG

International Non-Profit Accounting Guidance Part 1

Exposure Draft

INPAG

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INPAG

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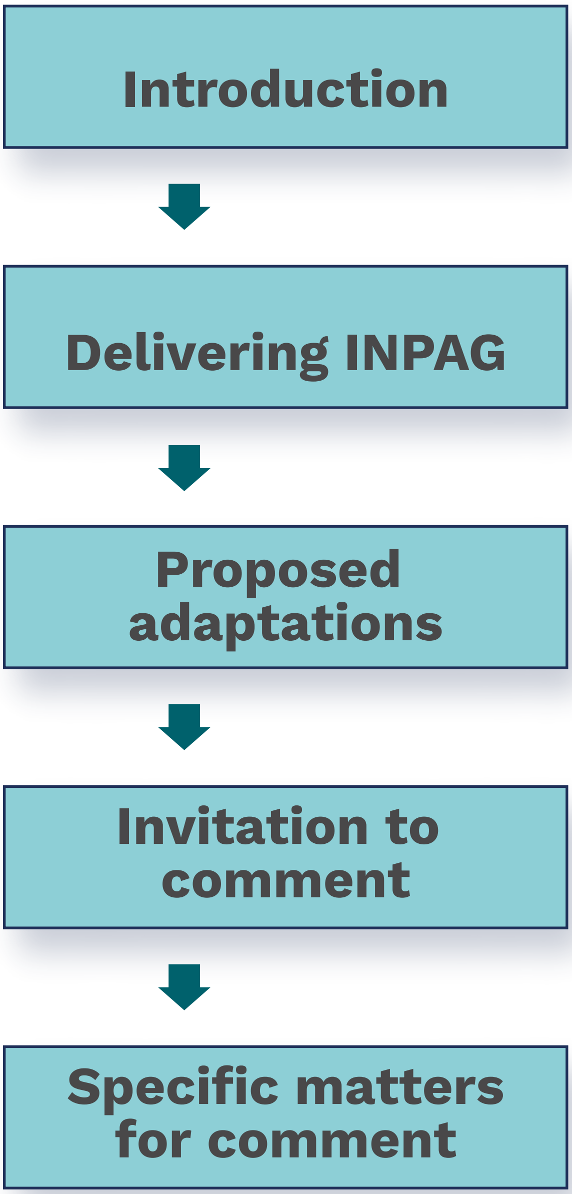
Invitation to comment

Comments to be received by 31 March 2023
Issued 20 November 2022

INPAG ED/2022/1

Summary

Overview



Objective: Develop the first ever international financial reporting guidance for Non-Profit Organisations (NPOs).

Proposal: The IFR4NPO project sought views, via a Consultation Paper issued in January 2021, on the proposal that the *IFRS for SMEs* Accounting Standard be used as the basis for a single set of authoritative guidance for NPOs.

Having taken account of the feedback from the consultation, adaptations to *IFRS for SMEs* are being proposed to create International Non-Profit Accounting Guidance (INPAG) as NPO specific financial reporting guidance.

Next steps: The INPAG Secretariat will consider feedback on this Exposure Draft in the development of the remaining two Exposure Drafts that will collectively comprise INPAG.

Deadline for comments: 31 March 2023

Documents to be reviewed

ED1 – Authoritative Guidance
ED1 – Basis for Conclusions
ED1 – Implementation Guidance

Introduction

Background to INPAG

In many countries, Non-Profit Organisations (NPOs) have no guidance or frameworks to support the preparation of financial statements. These are crucial for transparency, accountability and decision making. Funding organisations have filled this void by developing their own reporting requirements for NPOs. While all have their merits, the variety of different requirements can create a heavy burden on the very organisations they want to support.

Private and public sector entities and their stakeholders have benefited greatly from the development and use of international standards since the 1970s. **In a 2014 international survey**, which had more than 600 responses from 179 countries, the majority of respondents agreed or strongly agreed that an international accounting standard, or guidance specifically for NPOs, would be useful.

A consultation paper was issued in January 2021, setting out proposals to develop high-quality, trusted, internationally-recognised financial reporting guidance for NPOs (now called INPAG). It sought feedback on a number of proposals including priority topics. There was overwhelming support for the development of INPAG and the proposals set out in the document.

Objectives

The credibility of NPOs to stakeholders, and particularly those who contribute funds, is dependent on creating and maintaining trust. To strengthen the governance and financial management of NPOs, INPAG is being developed to meet the following three objectives:

Quality

To improve the quality, transparency and credibility of NPO financial reports.

Trust

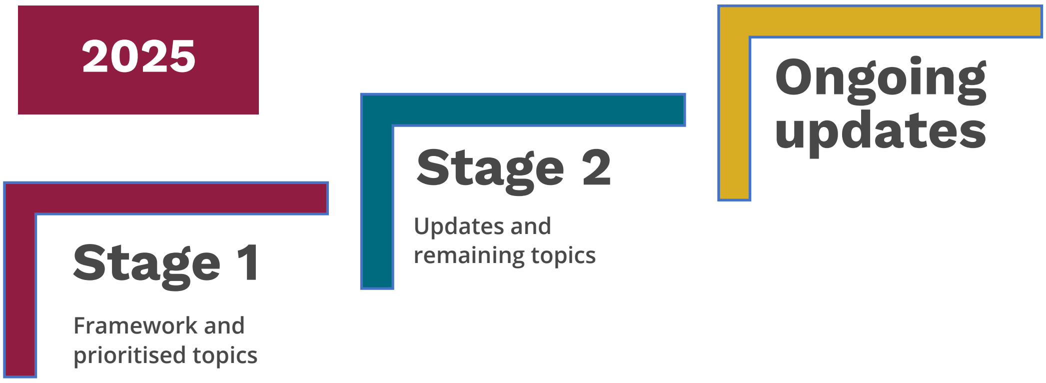
To support the provision of NPO financial information that is useful for decision-making and accountability, balancing the needs of preparers and users.

Comparability

To address specific NPO issues, which will promote the comparability of NPO financial reports.

Approach to INPAG development

INPAG will be developed through a staged approach. The IFR4NPO project is currently in Stage 1. As part of the Consultation Paper issued in January 2021, stakeholders were asked for their views on the priority topics to be included in Stage 1 of INPAG. Prioritisation is needed to publish INPAG in 2025 within the resources available.



Conceptual framework

The concepts and pervasive principles that are used in the Exposure Draft of the Third edition of the *IFRS for SMEs* Accounting Standard (the *IFRS for SMEs* Accounting Standard) have been reviewed to assess whether they are appropriate for NPOs. A number of adaptations have been made to create a framework that is appropriate for NPOs.

A separate conceptual framework developed from scratch for NPOs was considered but the experience of international standard setters is that it can take many years to develop conceptual frameworks. This would have significantly delayed the development of INPAG, and so was not pursued.

Core Premises

INPAG is built on the core premises that it is accrual-based and includes guidance on the production of non-financial information.

Accrual based

Accrual-based accounting is required to provide a comprehensive view of an NPO's financial position and activity. It can improve the quality and transparency of financial reports to enhance accountability and decision-making.

Accrual information is accepted as the basis of high-quality international financial reporting standards.

Non-financial information

Including non-financial information enables the production of general purpose financial reports. These present management commentary and other narrative reporting alongside the financial information contained in the general purpose financial statements.

General purpose financial reports go beyond the information provided in general purpose financial statements. They provide users with information to allow a meaningful understanding of an NPO's nature, objectives, strategy, risks, and performance.

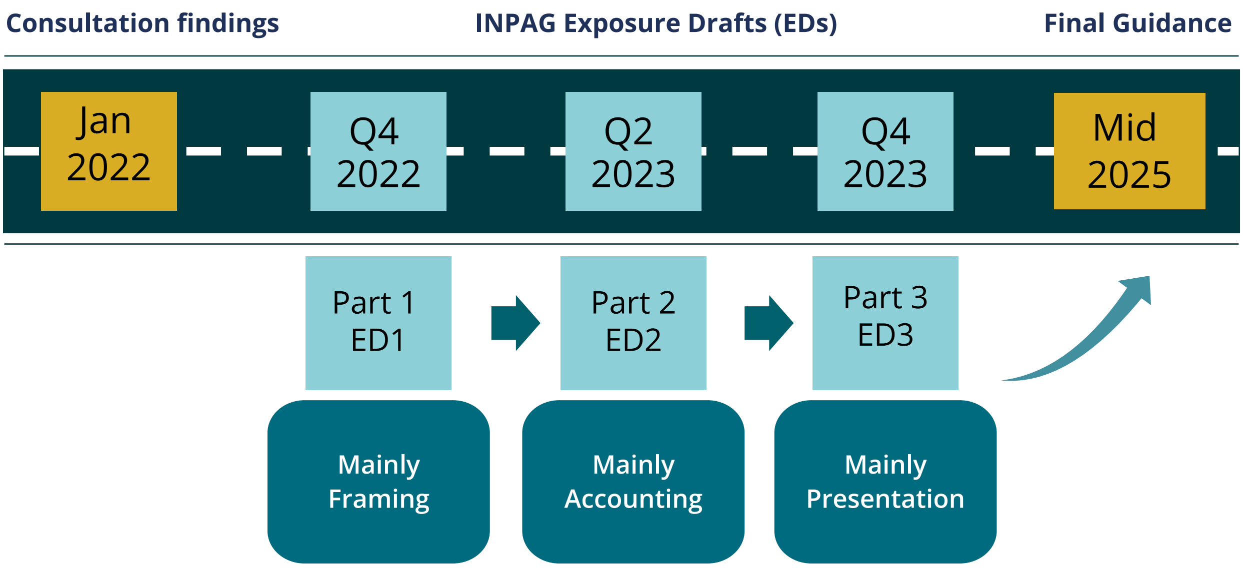
Delivering INPAG

Approach

The draft INPAG is being developed during 2022 and 2023. This Exposure Draft (ED) is the first of three Exposure Drafts that will be published and taken together will comprise the full INPAG.

Publishing the draft guidance through three exposure drafts is intended to make it easier for stakeholders to comment on the proposals, and to influence the development of subsequent EDs.

Some of the proposals in ED1 may be refined in later Exposure Drafts. Any changes made following stakeholder feedback will be made clear in subsequent Exposure Drafts.



INPAG is divided into Sections. These Sections in most cases have the same purpose as the equivalent Section in the *IFRS for SMEs* Accounting Standard.

To make it easier to understand the level of change to each Section from the *IFRS for SMEs* Accounting Standard, a status indicator has been added.

Status	Description
Modified	The Section has been fully reviewed and updated to reflect NPO requirements.
Updated	The Section has been reviewed and updated to align with Sections that have been modified.
Editorial	The Section has been updated for terminology changes but is otherwise unamended.
New	The Section does not exist in the *IFRS for SMEs* Accounting Standard and has been developed specifically for NPOs.

Exposure Draft Part 1 (ED1)

The focus of ED1 is to create the overarching framework for NPO financial reporting. It includes:

Description of NPOs / Reporting Entity
which preparers and users will benefit from INPAG

Framework for INPAG
concepts and pervasive principles that underpin financial reporting

Financial statement presentation
the structure and scope of the financial statements

Narrative reporting
non-financial reporting requirements

ED1 is built on the equivalent Sections from the *IFRS for SMEs* Accounting Standard. The contents are listed at the front of ED1 and cover the Preface to Section 10 plus a new Section (Section 35) on narrative reporting. The remaining Sections will be published in Exposure Draft 2 (ED2) and Exposure Draft 3 (ED3).

Exposure Draft Part 2 (ED2) and Exposure Draft Part 3 (ED3)

ED2 will focus on revenue from grants and donations (non-exchange revenue) as well as the treatment of grant expenses. It will consider the situations where an NPO may be acting as a principal and when it might be acting as an agent. It will also consider presentational issues associated with foreign currency translation. In addition, ED2 will include a number of Sections that are updated for terminology changes only.

ED3 will focus on the classification of expenses, fundraising costs, transition to INPAG and inventory. As with ED2 it will include a number of Sections that are updated for terminology changes but are not updated for other reasons.

Annex B shows the NPO specific content in each Exposure Draft and the expected level of change, together with those Sections that are not expected to be changed other than for terminology changes.

Proposed Adaptations

1. A broad characteristics approach to describing NPOs

The proposal

A descriptive approach rather than a single definition has been chosen to describe NPOs. This is due to the global diversity in both the types of entities that could be categorised as NPOs and the legal and regulatory frameworks that may apply to them.

Section 1 *NPOs* proposes a broad characteristics approach to describing NPOs, with NPOs being entities that display **all** of the following broad characteristics:

- They have the primary objective of providing a benefit to the public
- They direct financial surpluses for the benefit of the public
- They are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards

Using a broad characteristics-based approach requires the application of judgement. For example, INPAG makes clear that the primary objective of the NPO does not have to be to provide benefit for **all** of the public. In applying this characteristic, careful consideration should be given to:

- whether a sufficient section of the public benefits, based on the NPOs purpose; and
- that any private benefits that arise are as a result of the NPO carrying out its purpose are not the primary objective of the NPO.

Indicators have been developed to provide assistance in making these judgements.

Proposal development – what else was considered?

- Reference to jurisdictional-level legal or regulatory status;
- definitions from statistical reporting frameworks;

but, these would potentially exclude many entities that could benefit from INPAG as they were not developed with the needs of users of NPO financial reports in mind.

What should I comment on?

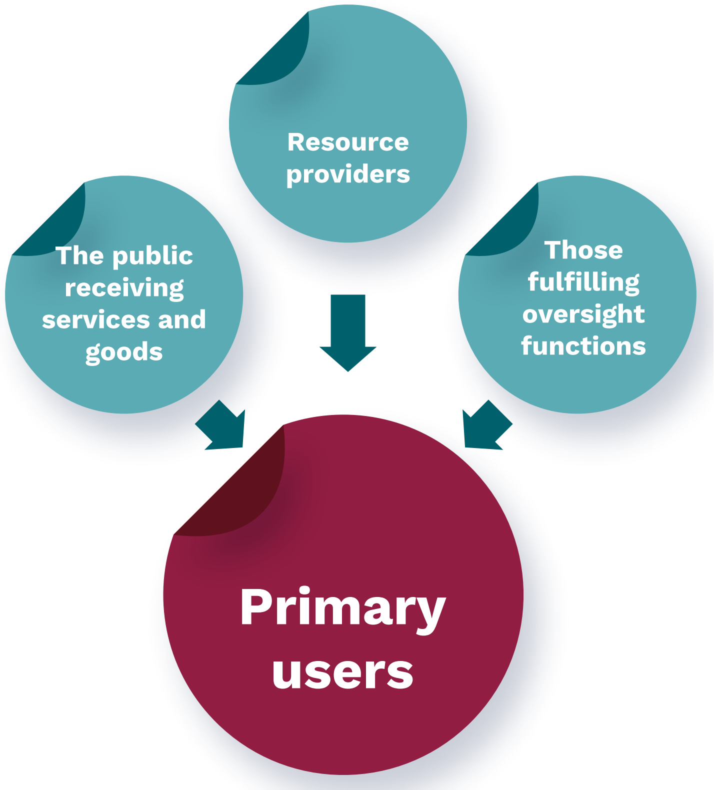
It is important to be clear about which entities are NPOs, so that the financial reporting guidance meets the needs of users of NPO general purpose financial reports.

- Do you agree with the description of the broad characteristics? **(Question 2a)**
- Does the term 'providing a benefit to the public' include all entities that might be NPOs, and if not, what could be changed? **(Question 2a)**

2. Primary users and their needs of NPO general purpose financial reports

The proposal

General purpose financial reports aim to meet the accountability and decision-making needs of users that do not have the authority to require NPOs to disclose information to meet their individual needs. In Section 2 *Concepts and pervasive principles*, it is proposed that the primary users of NPO general purpose financial reports are:



Identifying the primary users is important so that the accountability and decision – making needs of these users are met. Central to the development of INPAG is the core premise that general purpose financial reports that include non-financial information are required to meet the broader needs and expectations of users. The needs of the primary users are being reflected in the development of all INPAG Sections.

A user who has the authority to require an NPO to disclose information is not considered a primary user as they can require an NPO to produce a special purpose financial report. General purpose financial reports are not produced to meet the specific information needs of any individual user.

Proposal development – what else was considered?

Internal stakeholders (like those charged with an NPO's governance, staff, and members) will have an interest in an NPO's general purpose financial reports. However, internal stakeholders who have authority to request the information they need are, by definition, not primary users.

The position of donors has also been an important consideration. When they are acting like any other resource provider that does not have the authority to require the preparation of tailored financial reports (for example, when they are carrying out due diligence in advance of forming a financial relationship with an NPO), they can be primary users. However, when they are exercising authority to require an NPO to provide tailored information to their own individual needs, donors are not a primary user.

What should I comment on?

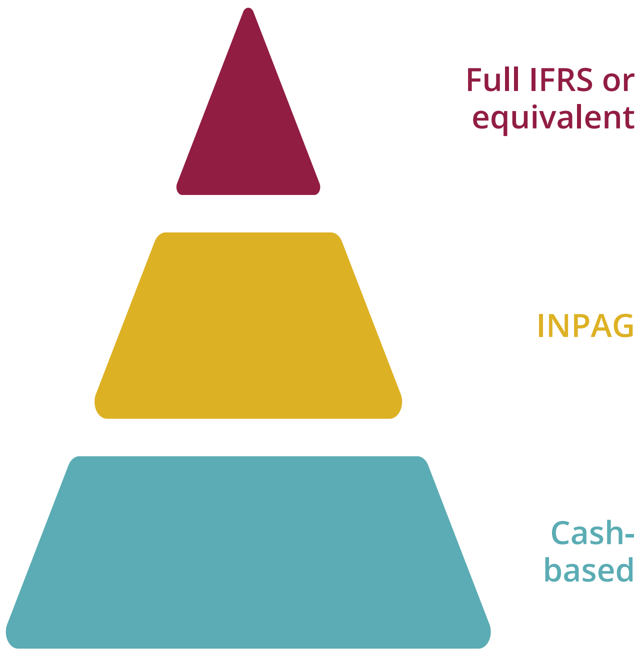
While donors, regulators and other stakeholders with authority will continue to require the reporting of tailored information to them, INPAG can support a reduction in the reporting burden on NPOs through greater consistency in reporting requirements.

- Do you agree with the primary users proposed and the description of their needs? **(Question 3a)**

3. Which NPOs are expected to use INPAG?

The Proposal

INPAG is intended to be used primarily by those that need to prepare financial information on an accrual basis because they and their users need information on assets and liabilities, and detail on income and expenses, that can only be provided by accrual accounting.



For some NPOs, mostly very small ones, cash-based information will be sufficient. INPAG contains useful guidance and principles for these NPOs, but the additional costs of application may exceed benefits to users.

INPAG will also provide useful guidance on NPO specific transactions for NPOs that have public accountability as defined in full IFRS Accounting Standards. These NPOs will need to follow full IFRS Accounting Standards or the equivalent national Generally Accepted Accounting Practice (GAAP) if they are to meet the accountability and decision-making needs of their users.

Proposal development – what else was considered?

The *IFRS for SMEs* Accounting Standard was chosen as the foundational framework for INPAG because it is applicable to the widest range of entities. Which NPOs should use INPAG has been described in a way that is necessarily broad as conditions will vary between jurisdictions. What is small in one jurisdiction might not be considered small in another and it would therefore not be practical to set guidelines based on size indicators.

The possibility of tiered guidance to meet the needs of a wider range of NPOs, including cash-based guidance for the smallest NPOs, was considered.

However, this is not deliverable within the timeframe to deliver the first set of guidance.

What should I comment on?

Adopting and applying INPAG can provide benefits for all NPOs, the users of their general purpose financial reports, and other stakeholders. INPAG is intended to be inclusive, with its application at jurisdictional level based on local needs. This is regardless of the size of the NPO or the jurisdiction in which it operates.

- Do you think it is clear which NPOs are intended to benefit from the use of INPAG? **(Question 2b)**

4. The reporting NPO and its boundary

The proposal

NPOs sometimes have complex operational structures to help achieve their purposes, which can include the use of branches. The proposals require an NPO to prepare general purpose financial reports as a single economic entity or other complete set of activities that are related to its purposes.

A principles-based approach is proposed for making decisions about what a reporting entity comprises for the purposes of INPAG. The definition of the reporting NPO (Section 2 *Concepts and pervasive principles)* is based on the economic substance of its activities rather than its legal form in line with the international financial reporting frameworks used in the private and public sectors. This is supported by additional guidance on branches.

A principles-based approach is also relevant for situations where an NPO is deemed to control another entity. In these circumstances the NPO may need to produce consolidated financial statements. INPAG describes control as:

Having power over another entity (whether or not that power is used), and ...

↓

exposure or rights to variable returns (financial or non-financial) from its involvement with that entity, and ...

↓

the ability to use the power it has to affect the returns it gets from its involvement with the entity

Guidance is provided (Section 9 *Consolidated and separate financial statements)* on the application of the control principles. It includes a rebuttable presumption that control exists where the majority of the voting rights of another entity are owned or in other situations, such as having the power to govern financial and operating policies, or having the power to appoint or remove the majority of the members of a governing body. In this Section, terminology has also been made more appropriate for NPOs.

Proposal development – what else was considered?

'Rules based' approaches were considered but not progressed because it would not be possible to anticipate all organisation structures that might arise.

Allowing the boundary of the reporting NPO to be based on the information needs of primary users was also examined. This has been partially retained as part of the principles-based approach where it is not otherwise possible to determine the boundary of reporting NPO. This is only permitted if it results in the production of general-purpose financial reports.

Consolidation requirements have not been reviewed as they were not prioritised for inclusion in Stage 1. The conceptual basis for consolidated financial statements for NPOs will be subsequently examined.

What should I comment on?

INPAG provides Application Guidance to assist in making judgements about the reporting entity and control, as well as Implementation examples.

- Is the description of a reporting entity clear? **(Question 3i)**
- Do you agree that a rebuttable presumption relating to control is useful? **(Question 10b)**
- Is the Application Guidance sufficient to apply the control principles and the fundamental characteristics of faithful representation and relevance? **(Question 10a and 10c)**
- Do you agree with the use of the terms 'controlling NPO', 'controlled entity' and 'beneficial interest' instead of 'parent', 'subsidiary' and 'investment'? **(Question 10d)**

5. Key concepts and principles

The proposal

Concepts and principles are fundamental to the development and application of INPAG. The INPAG concepts and principles have been adapted from the *IFRS for SMEs* Accounting Standard and take account of the conceptual frameworks used in the development of IFRS Accounting Standards and IPSASB standards.

Elements are a key concept that create the basis for all financial statements and the relationships between them. Section 2 sets out the INPAG elements:

- **Assets**
- **Liabilities**
- **Equity**
- **Income**
- **Expenses**

The definition of assets, liabilities, income and expenses is consistent with those used in the other international financial reporting frameworks. Equity is not expected to be common for NPOs because they are unlikely to have external parties that have a material financial interest in their net assets (particularly given the characteristics of an NPO). However, for completeness, INPAG describes equity in the NPO context, with the Application Guidance providing additional detail on its use.

Net assets are a combination of any equity provided by external parties, where it exists, and accumulated surpluses and deficits from the past recognition of income and expenses that are held in funds and are to be directed to the NPOs purpose. These are called funds with restrictions and funds without restrictions (see Adaptation 7. Fund accounting) in INPAG. Exceptionally, NPO's may also have non-controlling interests in other entities.

There is no entitlement to the accumulated surpluses by those that benefit from the NPO's activities, except to the extent that the NPO has made a commitment that would fall within the definition of a liability. Rather accumulated surpluses are held to be directed to the NPOs purpose.

Proposal development – what else was considered?

In developing its Conceptual Framework for public sector financial reporting, the IPSASB decided not to define equity as an element. It developed the concept of contributed capital and defined ownership contributions and ownership distributions as elements.

A similar approach was considered for INPAG, but the retention of the element of equity was deemed preferable to the definition of a new element that ultimately reflected the same underlying concept.

Consideration was given to defining net assets as an element, but it would not reflect the residual interest due to those with a financial interest in an NPO.

What should I comment on?

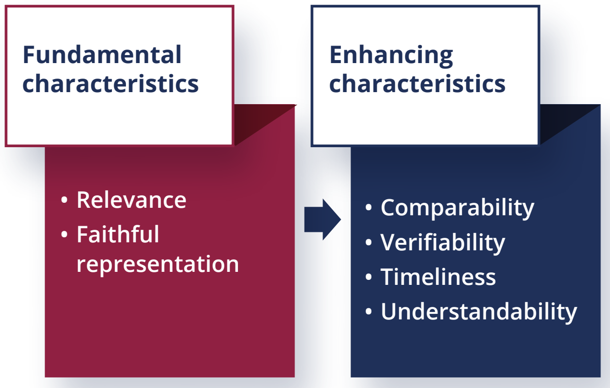
The INPAG elements are essentially the same as the *IFRS for SMEs* Accounting Standard, with a description of equity in the NPO context.

- Do you agree with the components of net assets? **(Question 3c)**
- Do you agree with the inclusion of equity as an element? What type of equity might an NPO have? **(Question 3d)**

6. Basis of information in GPFRs – characteristics

The proposal

The qualitative characteristics of financial and non-financial information (Section 2 *Concepts and pervasive principles)* are those characteristics that are likely to be most useful to users for making decisions about NPOs on the basis of information in their general purpose financial reports.



All international financial reporting frameworks state that if financial and non-financial information is to be useful, it must be relevant and faithfully represent what it is purporting to represent. These have been included as fundamental qualitative characteristics of financial and non-financial information in INPAG. Additional characteristics of comparability, verifiability, timeliness and understandability have been included as the enhancing qualitative characteristics of financial information.

The same qualitative characteristics are also proposed to be applied when selecting and presenting non-financial information as part of narrative reporting requirements.

These characteristics provide a coherent framework for determining:

- the decision-usefulness of financial reporting information,
- guidance on what to do when qualitative characteristics may be in conflict, and
- overall cost-benefit constraints on reporting.

Proposal development – what else was considered?

The qualitative characteristics from the *IFRS for SMEs* Accounting Standard, (which is consistent with the conceptual basis of full IFRS Accounting Standards and IPSAS), are considered to be an appropriate basis for NPO financial reporting. This is because they are likely to be the qualitative characteristics most useful to users for making decisions and accountability purposes.

These qualitative characteristics were also considered for non-financial reporting alongside the proposals in the Exposure Draft on Management Commentary issued by the International Accounting Standards Board (IASB). Using the same qualitative characteristics for financial and non – financial reporting simplify requirements and have been proposed on that basis.

What should I comment on?

The international financial reporting frameworks are consistent in their description and use of qualitative characteristics of information.

- Do you agree with the qualitative characteristics of useful information proposed? **(Question 3b)**

7. Fund accounting

The proposal

Providers of resources to NPOs can restrict the use of these resources to specific purposes or activities. INPAG makes a distinction between these resources and other financial resources.

Identifying funds with restrictions is a basic form of fund accounting. INPAG requires NPOs to separate income and related expenses between funds with restrictions and funds without restrictions. It limits presentation to key aggregates, without requiring all balances to be separated. Many NPOs already record this type of information to meet the reporting requirements of those that provided the resources.

Section 4 *Statement of Financial Position*, Section 5 *Statement of Income and Expenses* and Section 6 *Statement of Changes in Net Assets* set out the requirements. NPOs must present in aggregate each of the following:

Statement of Income and Expenses
Separate columns for income with restrictions and income without restrictions and related expenses

Statement of Financial Position
Balances of the funds with restrictions and funds without restrictions

Statement of Changes in Net Assets
In year movements on restricted and unrestricted funds

Disclosure of material funds
Statement of Financial Position and the Statement of Changes in Net Assets

Showing the balances on the funds with restrictions and funds without restrictions separately will show the level of funds that can be used to further the NPO's ongoing operations. Providing a reconciliation between the opening and closing balances on the funds through the Statement of Changes in Net Assets will allow users to see the extent to which restrictions are released.

Proposal developed – what else was considered?

Stakeholders overwhelmingly agree that transparency over funds with restrictions is important. Funds that can be deployed for any purpose (funds without restrictions), may enable an NPO to respond to unforeseen events and so provides information about an NPO's financial resilience.

Presenting information about funds with and without restrictions on the face of the primary financial statements, particularly with comparatives, could increase their length and complexity. The proposal is intended to strike a balance between users' information needs, the need to avoid making the financial statements overly complex, and the costs to the NPO of presenting information about each fund.

What should I comment on?

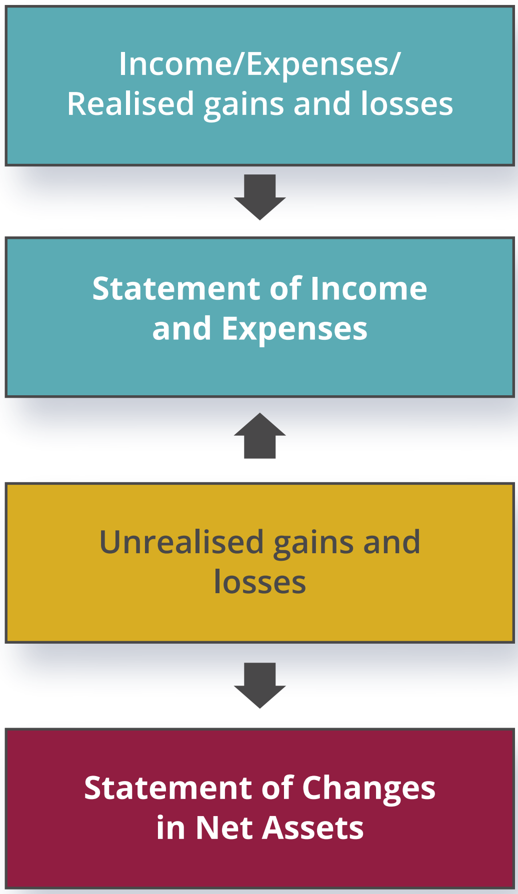
Not all jurisdictions will be familiar with fund accounting, and for those that are, the way in which restrictions are considered may vary. Different NPO governance structures may also complicate what is meant by an externally imposed arrangement.

- Do you agree with separating funds with and without restrictions? **(Question 3e)**
- Is the separation of the aggregates of transactions and balances with and without restrictions on the Statement of Financial Position, Statement of Income and Expenses and Statement of Changes in Net Assets sufficient? **(Questions 5b, 6c and 7b)**

8. Financial statement names and scope

The proposal

INPAG proposes a Statement of Income and Expenses that sums to a surplus or deficit in Section 5 *Statement of Income and Expenses*. This proposed title for the statement reflects feedback that 'Statement of Income and Expenses' is more intuitive for the users of NPO financial statements. This was preferred by respondents to the Consultation Paper over 'Statement of Financial Activities' or 'Statement of Financial Performance'.



The Statement of Income and Expenses will include all transactions relating to an NPO's operating activities, including its realised gains and losses. This is to allow the focus of the statement to be on the excess or deficit of income over expense, rather than on unrealised gains and losses that come from revaluations. For now, the statement will include unrealised gains and losses that are required to be presented as part of the surplus or deficit by Sections of INPAG that have yet to be reviewed.

In Section 6, the Statement of Changes in Net Assets will show the movement on equity, funds with and without restrictions and exceptionally any non-controlling interests.

Unrealised gains and losses not required to be shown as part of the surplus or deficit will be included in a Statement of Changes in Net Assets.

Proposal development – what else was considered?

The INPAG proposals differ from the financial statements prescribed by the *IFRS for SMEs* Accounting Standard. The adaptations have been made following feedback that the most important figures describing an NPO's financial activities in any reporting period are its income, expenses and surplus, or deficit. Feedback from stakeholders also expressed the desire for simplicity in the presentation of information, with details about unrealised gains and losses seen as less important.

Items that the *IFRS for SMEs* Accounting Standard requires to be presented in other comprehensive income are proposed to be presented in the Statement of Changes in Net Assets. This will ensure that other comprehensive income is clearly identifiable for those users who would find such information useful.

What should I comment on?

The INPAG proposals are more closely aligned with IPSAS. INPAG allows alternative statement titles to be used as long as they are not misleading to the users of the financial statements. However, a naming convention that is commonly understood across the sector would be preferable.

- Do you agree with the title of the income and expenses statement? **(Question 6a)**
- Do you agree with the scope of the Statement of Changes in Net Assets? **(Question 7a)**

9. Narrative reporting

The proposal

The nature of NPOs means that the needs and expectations of users can only be met through the inclusion of narrative reporting as part of general purpose financial reports. Section 35 *Narrative Reporting* proposes a principles-based approach to narrative reporting that includes a set of minimum mandatory core requirements to be applied by all NPOs.

This is to ensure a base level of consistency and comparability. NPOs are to present integrated information that provides:

The same qualitative characteristics of information that apply to financial information are to be applied when selecting and presenting narrative reporting information. Narrative reports must cover the same reporting NPO and reporting period as the financial statements. They must also provide an objective view by being fair and balanced.

In rare cases, mandatory narrative reporting disclosures could lead to a risk of harm to NPO staff or volunteers, or to the public. INPAG permits non-disclosure of aspects of performance information and financial statement commentary where an NPO engages in such 'sensitive' activities. Narrative disclosures can therefore be omitted where they would compromise the activities of the NPO, for example specific human rights programs.

NPOs would need to disclose that the narrative report has been prepared in accordance with this exemption but are not required to provide details of the sensitive activities.

Proposal development – what else was considered?

The minimum mandatory content, based on existing international financial reporting frameworks, has been limited in order to lower the barriers for adoption.

Additional mandatory areas for inclusion, such as climate and broader sustainability reporting, were considered but were not progressed to keep the core requirement small. Instead, NPOs can opt to extend their narrative reports to cover additional areas provided that the mandatory topics and elements that are important to users of all NPO general purpose financial reports have been met.

NPOs can use other frameworks as long as the minimum mandatory core content is provided.

What should I comment on?

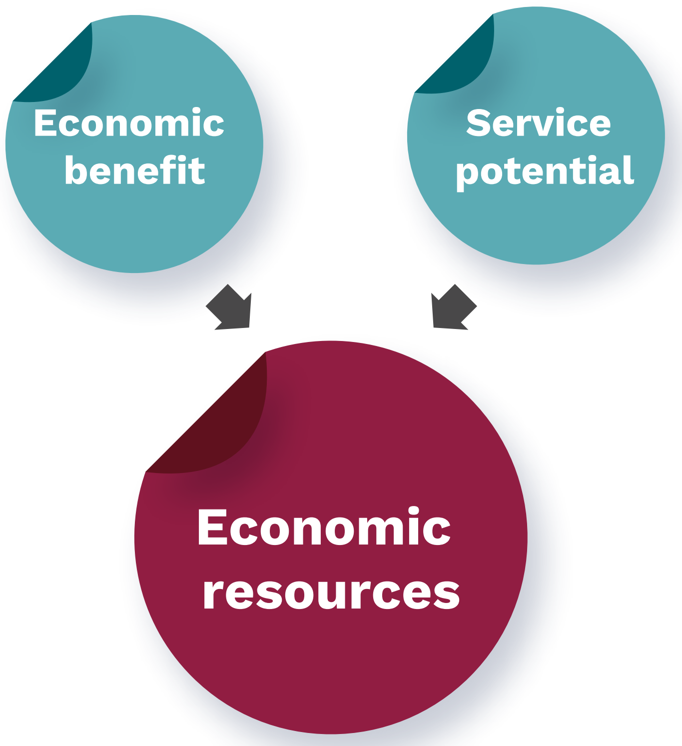
Existing international financial reporting frameworks include recommended guidelines rather than mandatory requirements. Only a few jurisdictions mandate narrative information.

- Do you agree with the principles proposed to underpin narrative reporting? **(Question 12a)**
- Do you agree with the scope of the minimum mandatory requirement? **(Question 12b)**
- Do you agree with the proposed exemption for sensitive information? **(Question 12c)**
- Would a two-year transition period assist in overcoming any challenges? **(Question 12d)**

10. Service potential

The proposal

NPOs often hold assets in order to provide services and goods in accordance with their objectives rather than to generate and maximise cash flows. In this way, NPOs hold assets for their service potential rather than to generate financial returns.



INPAG proposes to include the concept of service potential to recognise that NPOs operate for the benefit of the public rather than to make profit. The concept of service potential has been included within the paragraphs on measurement in Section 2 to emphasise the rationale for NPOs activities, which are to provide a benefit to the public.

Service potential has also been separated from the concept of 'economic benefit'. This creates a distinction between economic resources that are managed to provide an economic benefit, generally through cash generation, and those that are managed for their service potential, which may not result in cash generation.

Proposal development – what else was considered?

The concept of service potential is not explicitly recognised in the IASB Conceptual Framework as that is focused on profit-oriented entities. It is included in the IPSASB's Public Sector Conceptual Framework. It is also recognised in some jurisdictional-level frameworks.

There are some who argue that service potential should be seen as part of economic benefits and not a separate concept. IPSAS includes service potential as a separate concept and uses it separately to economic benefits in a number of IPSAS Standards. INPAG will draw upon these IPSAS Standards to address NPO specific issues. As a consequence, it is important to include this concept in INPAG. The separate definition of service potential has also been identified is an important concept for NPOs by stakeholders.

What should I comment on?

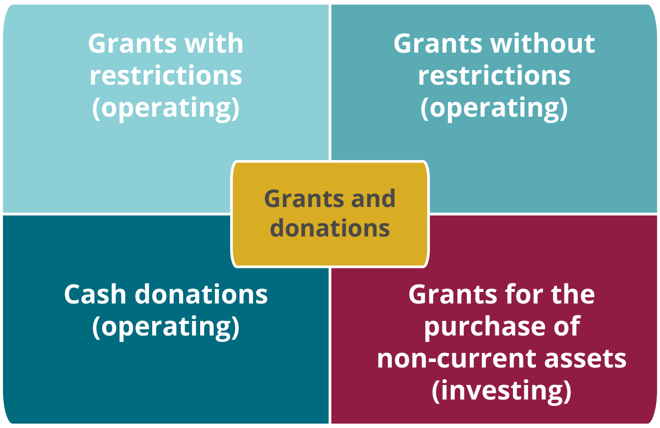
Service potential may not be a concept that is familiar to many NPOs and the users of their general purpose financial reports. There are also practical considerations about how to measure service potential that will need to be developed in future editions of INPAG.

- Do you agree that 'service potential' should be introduced into INPAG? **(Question 3g)**

11. Additional information

The proposal

Cash flows – Donations and grants are a key feature of an NPO's financial activities. It is important that users of the financial statements have the information needed to understand the donations and grants received by an NPO in the reporting period. Section 7 *Statement of Cash Flows* requires that the Statement of Cash Flows and the related notes include additional information relating to donations and grants as set out below.



While INPAG retains the choice of using either the direct or indirect method of preparing a cash flow statement, it requires additional information. Where the indirect method is being used, the separate disclosure of donations of assets is also required.

As this information is likely to be necessary to satisfy reporting to the providers of those funds, it is considered that the cost will not outweigh the benefit to users. A new optional statement to show fund/programme spend based on the Statement of Cash Flows is being explored, with the potential for inclusion as part of ED3.

Comparatives – Financial statements generally include comparative information for all items presented in the primary statements, and for most of the items disclosed in the notes to the financial statements. INPAG has retained the requirements for comparative reporting that exist in the *IFRS for SMEs* Accounting Standard.

Proposal development – what else was considered?

The Statement of Cash Flows potentially has greater significance for NPOs given that the reporting requirements of funders are frequently centred on cash-based information. Grants to purchase non-current assets (eg plant and equipment) are frequently cited as a challenge for NPOs, as the providers of these grants require reporting that shows how the grant received has been spent. The disclosure of grant information on the face of the Statement of Cash Flows and in the notes to the accounts (where relevant) may go some way to addressing the needs of these stakeholders.

Comparative information can make the financial statements appear more complex, but it provides information that is useful to the users of the financial statements.

What should I comment on?

The requirements for grant and donation information on the Statement of Cash Flows will increase disclosure requirements. As sections of INPAG dealing with NPO-specific transactions are developed, the need for comparative information will be reviewed.

- Do you agree with the separate presentation of cash donations and grants? **(Question 8a)**
- Do you agree that donations or grants received for the purchase or creation of property, plant and equipment should be treated as investing activities? **(Question 8b)**
- Do you agree that comparatives should be shown for on the face of the primary statements? **(Question 4b)**

12. Compliance with INPAG

The proposal

An NPO must make an explicit and unreserved statement of compliance with INPAG in the notes to the financial statements, if it fully complies with INPAG.

An NPO will be able to assert compliance where specific adoption timeframes permit. Where an NPO is transitioning to INPAG over time it will not be able to state compliance with INPAG. Instead, an NPO will comply with the disclosure requirements in Section 36 – *Transition to the Guidance* that will be included in ED3.

Proposal development – what else was considered?

Users of the financial statements need to understand the basis on which an NPO's financial statements have been prepared. This assists with comparability.

Some NPOs may choose to apply aspects of INPAG but not the full requirements. This might be part of a plan to fully adopt INPAG, but outside of the permitted transition arrangements – transparency is helpful.

Alternatively, NPOs that are required to follow an accounting framework other than INPAG may use aspects of INPAG. It would be beneficial for these entities to explain why they are selectively using INPAG. In both cases, compliance with INPAG cannot be asserted.

What should I comment on?

An unreserved statement of compliance provides certainty about which standards have been used in the NPO's financial statements. Jurisdictions may wish to adopt INPAG in stages, which may mean compliance can't be asserted, even though transition is under way.

- Do the proposals for expressing compliance with INPAG create unintended consequences? **(Question 4c)**

Invitation to comment

CIPFA, as the technical lead for the IFR4NPO project, invites comments on Exposure Draft *International Non-Profit Accounting Guidance (INPAG) – Part 1 (ED1)*.

This Exposure Draft covers the intended audience of the Guidance, its concepts and pervasive principles, the financial statements and narrative reporting. Each Section includes authoritative Core Guidance supported, where appropriate, by authoritative Application Guidance. This Exposure Draft also includes non-authoritative Implementation Guidance, which incorporates illustrative primary financial statements and illustrative examples. The Basis for Conclusions explains the approach taken to each Section and how responses to the Consultation Paper were considered.

Specific matters for comment are included at the end of each Section and summarised in this invitation to comment. Feedback to these questions would be helpful, as well as any general comments on the proposals.

Comments are most helpful if they:

a) Address the question asked;
b) Contain a clear explanation to support the response provided, whether this is agreeing or otherwise with any proposals made;
c) Propose alternatives for consideration, where responses are not in agreement with the proposal made;
d) Specify the paragraphs to which any comments relate; and
e) Identify any wording in the proposals that might not be clear because of how they translate.

Respondents do not need to comment on all of the questions in this Invitation to Comment.

Responses may be provided by comment letter or through the completion of the template which can be found at **www.ifr4npo.org/have-your-say** and must be received by **31 March 2023**.

Responses can be submitted to **ifr4npo@cipfa.org** or through the website at **www.ifr4npo.org/have-your-say**

Specific matters for comment

Question 1: General comments	References
a) Is the structure of INPAG helpful? If not, how could it be improved?	GP22-GP24
b) Do you have any other comments (including regulatory, assurance or cost/benefit) relating to this INPAG Exposure Draft? If so, explain the rationale for any points you wish to make.	

Question 2: Description of NPOs and users of INPAG	References
a) Do you agree with the description of the broad characteristics of NPOs? Does the term 'providing a benefit to the public' include all entities that might be NPOs? If not, what would you propose and why?	G1.2-G1.5
b) Does Section 1, together with the Preface, provide clear guidance on which NPOs are intended to benefit from the use of INPAG? If not, what would be more useful?	

Question 3: Concepts and pervasive principles	References
a) Do you agree with the range of primary users and the description of their needs? If not, what would you propose and why?	G2.3-G2.12
b) Do you agree with the qualitative characteristics of useful information? If not, what would you change and why?	G2.13-G2.32, AG2.1-AG2.3
c) Do you agree with the components of net assets? If not, why not?	G2.73, Figure 2.2
d) Do you agree with the inclusion of equity as an element? If not, what would you propose and why? What type of equity might an NPO have?	G2.141, AG2.6-AG2.9
e) Do you agree with the categorisation of funds between those with restrictions and those without restrictions in presenting accumulated surpluses and deficits? If not, what would you propose and why?	G2.74-G2.75, AG2.4-AG2.5
f) Do you agree that funds set aside from accumulated surpluses for the holders of equity claims can be part of funds with restrictions and funds without restrictions and that they should be transferred to equity prior to distribution? If not, what would you propose and why?	G2.142, AG2.8-AG2.9
g) Do you agree that 'service potential' should be introduced into Section 2? If not, why not?	G2.51, G2.54, G2.58, G2.67-G2.68, G2.103, G2.108-G2.110, G2.115-G2.117, G2.122
h) Do you agree that the provisions for 'undue cost and effort' used in the *IFRS for SMEs* Accounting Standard should be retained? If not, why not?	G2.33-G2.36
i) Is the NPO as a reporting entity clear? Does the process for identifying branches in the Application Guidance support the principles? If not, what would be more useful?	G2.43-G2.49, AG2.10-AG2.24.

Question 4: Principles to enable comparability of financial statements	References
a) Do you agree with the proposed changes to terminology from the *IFRS for SMEs* Accounting Standard? If not, what would you propose and why?	Sections 3-10
b) Do you agree that comparatives should be shown on the face of the primary statements? In particular, do you agree with the proposed comparatives for the Statement of Income and Expenses? If not, what do you propose and why?	G3.14, G3.19, AG3.9-AG3.11, BC5.11
c) Do the proposals for expressing compliance with INPAG create unintended consequences? If so, what are your key concerns?	G3.3-G3.7, AG3.3-AG3.5

Question 5: Scope and presentation of the Statement of Financial Position	References
a) Do you agree that all asset and liability balances should be split between current and non-current amounts (except where a liquidity-based presentation has been adopted)? If not, why not?	G4.5-G4.9, AG4.4
b) Do you agree with the proposal that not all categories of asset and liability balances should be split between those with and those without restrictions? If not, which categories of asset and/or liability should be split?	G4.13-G4.14, AG4.5-AG4.7

Question 6: Scope and presentation of the Statement of Income and Expenses	References
a) Do you agree with the name of the primary statement being 'Statement of Income and Expenses'? If not, why not?	BC5.1-BC5.5
b) Do you agree that the terms surplus and deficit should be used instead of profit or loss? If not, why not?	G5.5, BC5.6
c) Do you agree that amounts on each line of revenue and expenses should be split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why?	G5.3, AG5.4-AG5.6, BC5.9-BC5.12
d) Do you agree that NPOs should be able to choose whether to present either income items or expense items first to get to a surplus or deficit? If not, what alternative approach would you propose and why?	Implementation guidance

Question 7: Scope and presentation of the Statement of Changes in Net Assets	References
a) Do you agree with the proposal that there is no Other Comprehensive Income (OCI), and that an expanded Statement of Changes in Net Assets would allow an equivalent to the OCI being produced. If not, why not?	G6.2, BC5.13-BC5.16, BC6.1-BC6.5
b) Do you agree that funds are split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why?	G6.4

Question 8: Scope and presentation of the Statement of Cash Flows	References
a) Do you agree with the separate presentation of cash donations and grants on the face of the statement? If not, what alternative approach would you propose and why?	G7.4 a)
b) Do you agree that donations or grants received for the purchase or creation of property, plant and equipment should be treated as investing activities? If not, what alternative would you propose and why?	G7.5 b)
c) Do you agree that both the direct method and indirect methods for the cash flow statement should be permitted? If not, why not?	G7.7-G7.9

Question 9: Principles underpinning the notes to the financial statements	
a) Do you agree that there are no NPO specific considerations for this Section? If not, what changes would you propose and why?	

Question 10: Approach to consolidated and separate financial statements	References
a) Is the Application Guidance to apply the control principles sufficient? If not, what changes or additions would you propose and why?	AG9.1-AG9.14
b) Do you agree that a rebuttable presumption relating to control should be retained? Is the current drafting sufficient? If not, what would you propose and why?	G9.17
c) Is the Application Guidance sufficient to apply the fundamental characteristics of faithful representation and relevance to consolidation? If not, what additions would you propose and why?	G9.21-G9.22, AG9.17-AG9.19
d) Do you agree with the use of the terms 'controlling NPO', 'controlled entity' and 'beneficial interest' instead of 'parent', 'subsidiary' and 'investment'? If not, what would you propose and why?	G9.7, G9.24

Question 11: Approach to accounting policies, construction of estimates and accounting for errors	
a) Do you agree with the updates to Section 10 and that there are no additional NPO specific considerations that need to be addressed in this Section? If not, what changes or additions would you propose and why?	

Question 12: Scope and content of narrative reporting	References
a) Do you agree with the principles proposed to underpin narrative reporting? If not, what would you propose to change and why?	G35.3-G35.7
b) Do you agree with the scope of the minimum mandatory requirement, with additional information, such as sustainability reporting to be optional? If not, what changes should be made and why?	G35.8-G35.19, G35.30, AG35.2-AG35.13
c) Do you agree with the proposals that sensitive information can be excluded from narrative reports? If not, what alternative would you propose and why?	G35.7
d) Should a two-year transition period for narrative reporting be permitted to assist in overcoming any implementation challenges? If not, what alternative would you propose and why?	

Information for respondents to the consultation

Who should respond?

ED1 is relevant to a range of NPO stakeholders. Responses would be particularly welcomed from:

- Regulators
- Standard setters
- NPOs
- Auditors
- Professional accounting bodies
- Public interest groups
- Finance ministries
- Tax authorities
- Academics
- Funders/donors

Submit your comments

Please submit your comments electronically by **31 March 2023**:

- Online: **www.ifr4npo.org/have-your-say**
- By email: **ifr4npo@cipfa.org**

Stay informed: To stay up-to-date with the latest developments and to sign up for email alerts, please visit **www.ifr4npo.org**

Get in touch: If you would like to discuss the information in this Summary, please contact **info@ifr4npo.org**

Exposure Draft documents

The Exposure Draft includes:

- **Authoritative Guidance** for the Sections in INPAG that will create the underpinning framework for the development of all other Sections
- The **Basis for Conclusions** on the Exposure Draft, which includes:
  - considerations in developing the proposals
  - the potential effects of the proposals
- **Implementation Guidance** with illustrative examples, together with example financial statement formats.

Annex A – ED1 at a glance

Section	Summary of content	Change from the *IFRS for SMEs* Accounting Standard	Comment Questions
Preface	The Guidance is split into Sections that mirror the structure of the *IFRS for SMEs* Accounting Standard. Additional information is provided so that those familiar with the *IFRS for SMEs* Accounting Standard can understand the key changes.	Modified – Major change to reflect the source of the guidance	Question 1
Section 1 – NPOs	This Section sets out a broad characteristics approach to identifying those entities to whom INPAG might apply. This descriptive approach is used rather than a single definition, given the diversity of NPOs. Although an entity might be described as an NPO for the purposes of INPAG based on these characteristics, INPAG is not intending to apply to very small NPOs, where cash based financial information might be sufficient, or those NPOs that meet the definition of public accountability in IFRS based standards.	Modified – Major changes to reflect NPO context	Question 2
Section 2 – Concepts and pervasive principles	This Section sets out the concepts and principles that underpin Guidance and the accounting requirements for NPO transactions and events. It is most likely to be read by standard setters, auditors, technical accounting advisors and financial accountants. The Section describes the primary users of financial statements and reports, their information needs and the characteristics of useful information. It also describes the elements of financial statements and how net assets are derived. It discusses in the Basis for Conclusions NPO specific issues, particularly in relation to the interest of those with equity claims to some of the net assets of an NPO. It introduces the categorisation of accumulated funds into funds with restrictions and funds without restrictions. The Section also describes the measurement bases that can be used and introduces the concept of service potential. It recognises that NPOs can hold assets for their potential to provide services and goods in accordance with an NPO's objectives rather than for cash/financial returns. This Section retains provisions for 'undue cost or effort' that are available in *IFRS for SMEs*, but it recognises that concerns have been raised about the application of these provisions in practice. This Section also describes what a reporting entity is for the purposes of INPAG and provides additional guidance in recognition of the sometimes complex structures used by NPOs to achieve their objectives.	Modified – Major as new content for NPO specific issues, and new terminology	Question 3

Section	Summary of content	Change from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 3 – Financial statements	This Section provides the principles behind the development of financial statements, including consideration of whether an entity is a going concern. It addresses changes in terminology that are being made in INPAG that differ from *the IFRS for SMEs* Accounting Standard. It also looks at the ability to compare financial statements and sets out the principles of comparability and consistency. Comparatives are identified as being necessary for financial statements and narrative reports. This Section also looks at the ability to express compliance with INPAG and the need to make an unconditional statement.	Updated – Minor changes to key presentational requirement and introduces the changes to statements	Question 4
Section 4 – Statement of Financial Position	This statement is in substance unchanged for the *IFRS for SMEs* Accounting Standard including to the classification of assets and liabilities, but there are changes to terminology. Whilst there are proposals to split transactions between those with restrictions and those without restrictions on the Statement of Income and Expenses, there are no equivalent proposals for the Statement of Financial Position. Only the aggregate of the fund balances need to be disclosed.	Modified – Major changes to reflect NPO context	Question 5
Section 5 – Statement of Income and Expenses	This Section is retitled from the equivalent Section in the *IFRS for SMEs* Accounting Standard. This is to make the name of the statement more relevant for NPOs. It also reflects changes to the scope of the statement where some transactions are now proposed to be part of the Statement of Changes in Net Assets. Alongside the change to the name of the statement, references to 'profit and loss' are replaced with 'surplus and deficit' also to be more relevant to an NPO's activities. A key element of the presentation of this statement is that revenue and related expenses are split between those that have been received with restrictions and those that haven't.	Modified – Major changes to reflect a single statement without most aspects of other comprehensive income	Question 6
Section 6 – Statement of Changes in Net Assets	This statement is derived from the Statement of Changes in Equity included in the *IFRS for SMEs* Accounting Standard. In addition to a new name to reflect that equity is not the main focus of NPOs, it includes a number of transactions that under the *IFRS for SMEs* Accounting Standard would be part of Other Comprehensive income.	Modified – Major changes to reflect NPO context	Question 7

Section	Summary of content	Change from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 7 – Statement of Cash Flows	This Section has been updated to reflect changes that have been made to other Sections. It proposes a small number of additional disclosures to highlight NPO specific transactions, such as revenue to fund the purchase of property, plant and equipment. There are no changes to the fundamentals of the cash flow from the *IFRS for SMEs* Accounting Standard, with both the direct and indirect methods of producing a Statement of cash flows permitted.	Updated – Minor changes to align with changes to other statements and to include NPO appropriate terminology	Question 8
Section 8 – Note to the financial statements	This Section sets out the general requirements for disclosures and the notes to the primary financial statements. There are no known NPO specific issues for this Section and modifications made to align with other Sections.	Updated – Editorial changes to align to new terminology and financial statements	Question 9
Section 9 – Consolidated and separate financial statements	This Section sets out the principles to the identification of control and provides additional guidance about how control applies to NPOs. It also includes a simplification through a rebuttable presumption that control exists in a number of defined circumstances. It also provides guidance on less common situations when consolidation might not be appropriate. The Section replaces terminology used in the *IFRS for SMEs* Accounting Standard, to be more appropriate for NPOs.	Updated – Minor changes to include NPO appropriate terminology and the extension of the rebuttable presumption	Question 10
Section 10 – Accounting policies, estimates and errors	This Section sets out the requirements for disclosure and approach to accounting policies, estimates and errors. There are no known NPO specific issues for this Section with modifications made to align with other Sections.	Updated – Editorial changes to align to new terminology and financial statements	Question 11
Section 35 – Narrative reporting	This is a new Section that has been written specifically for NPOs. It covers the narrative reporting requirements that are required alongside the financial statements. It sets out the principles for narrative reporting, including the qualitative characteristics of the information to be included in the reports. This Section mandates the requirement for financial analysis and performance information to be included in general purpose financial reports. It leaves as optional any additional information that an NPO may wish to report on, such as sustainability reporting. It includes a disclosure exception to the mandatory reporting requirements, where information might be sensitive, with such sensitivities being prejudicial to the operation of the NPO and the safety of its staff and volunteers.	New Section specifically for NPOs	Question 12

Annex B – Content of Exposure Drafts

ED1			ED2			ED3		
Section	**Title**	**Change made**	**Section**	**Title**	**Expected change**	**Section**	**Title**	**Expected change**
	Preface	Modified (Major)	**11**	Financial instruments	Editorial	**12**	Fair value	Editorial
1	NPOs	Modified (Major)	**21**	Provisions and contingencies	Editorial	**13**	Inventories	Updated
2	Concepts and pervasive principles	Modified (Major)	**22**	Liabilities and equity	Editorial	**14**	Investment in associates	Editorial
3	Financial statement presentation	Updated (Minor)	**23a**	Non-exchange revenue (to be confirmed)	New	**15**	Joint arrangements	Editorial
4	Statement of Financial Position	Modified (Minor)	**23b**	Exchange revenue (to be confirmed)	Updated	**16**	Investment property	Editorial
5	Statement of Income and Expenses	Modified (Major)	**24a**	Grant expenses	New	**17**	Property, plant and equipment	Editorial
6	Statement of Changes in Net Assets	Modified (Major)	**25**	Borrowing costs	Editorial	**18**	Intangible assets other than goodwill	Editorial
7	Statement of Cash Flows	Updated (Minor)	**26**	Share based payments	Editorial	**19**	Business combinations and goodwill	Editorial
8	Notes to the financial statements	Updated (Editorial)	**28**	Employee benefits	Editorial	**20**	Leases	Editorial
9	Consolidated and separate financial statements	Updated (Minor)	**29**	Income tax	Editorial	**24b**	Classification of expenses	New
10	Accounting policies, estimates and errors	Updated (Editorial)	**30**	Foreign currency translation	Updated	**24c**	Fundraising costs	New
35	Narrative reporting	New	**31**	Hyperinflation	Editorial	**27**	Impairment of assets	Editorial
			32	Events after the reporting period	Editorial	**33**	Related party disclosures	Editorial
						34	Specialised advice	Editorial
						36	Transition to the Guidance	Modified

Annex C – Acronyms

Acronym	Full text	Description
ED	Exposure Draft	A document published by the INPAG Secretariat to solicit public comment on proposed reporting guidance.
IASB	International Accounting Standards Board	An independent group of experts with responsibility for the development and publication of IFRS Accounting Standards, including the *IFRS for SMEs* Accounting Standards.
GPFR	General Purpose Financial Reports	Financial reports that present narrative reports alongside the financial information contained in the general purpose financial statements that is useful to users for accountability and decision-making purposes.
IFR4NPO	International Financial Reporting for Non-Profit Organisations	A project that aims to develop the first ever international financial reporting guidance for Non-Profit Organisations (NPOs).
IFRS Accounting Standards	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.
IFRS for SMEs Accounting Standard	International Financial Reporting Standards for Small and Medium-sized Entities	A standalone standard developed by the International Accounting Standards Board (IASB) based on the principles in full IFRS Standards but tailored for entities that do not trade on a public market (eg a stock exchange).
INPAG	International Non-Profit Accounting Guidance	High quality, trusted, internationally recognised financial reporting guidance for NPOs being developed as part of IFR4NPO.
IPSAS	International Public Sector Accounting Standards	A set of accounting standards developed by the International Public Sector Accounting Standards Board (IPSASB) for use by government and public sector organisations internationally.
IPSASB	International Public Sector Accounting Standards Board	The International Public Sector Accounting Standards Board develops accounting standards and guidance for use by public sector entities.
NPOs	Non-profit organisations	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.

International Non-Profit Accounting Guidance Part 1

Authoritative Guidance

INPAG

Comments to be received by 31 March 2023
Issued 20 November 2022

INPAG ED/2022/1

Contents

Note: all references to the *IFRS for SMEs* Accounting Standard in the Authoritative Guidance are to the Third edition of the *IFRS for SMEs* Accounting Standard exposed in September 2022 unless otherwise stated.

The International Non-Profit Accounting Guidance (INPAG) is set out in the Preface and Sections 1–36. INPAG includes a glossary in Annex A. Terms defined in the glossary are in bold type the first time they appear in each Section unless defined within the Section. INPAG is accompanied by a Basis for Conclusions and Implementation Guidance which includes illustrative examples and illustrative financial statements.

[1] Status refers to the whether the *IFRS for SMEs* Accounting Standard has been updated to reflect NPO specific requirements. Further explanation can be found in the Invitation to comment.

Preface to INPAG

The International Non-Profit Accounting Guidance (INPAG) – project history, governance and objectives

GP1 The preparation of **financial statements** is crucial for accountability and decision making and for trust and confidence in non-profit organisations (NPOs). The INPAG has been developed specifically for NPOs and addresses the unique characteristics of NPOs and the types of transactions they undertake.

GP2 INPAG has been developed as the primary output of the International Financial Reporting for Non-Profit Organisations (IFR4NPO) project. IFR4NPO was founded in 2019 to improve the transparency, consistency, comparability, credibility and reliability of NPO financial statements by developing internationally applicable financial reporting guidance for NPOs.

GP3 INPAG has been developed to meet the following three objectives:

a) To improve the quality, transparency and credibility of NPO financial reports.
b) To support the provision of NPO financial information that is useful for decision making and accountability, balancing the needs of preparers and users.
c) To address specific NPO issues, which will promote the comparability of NPO financial reports.

GP4 In fulfilling these objectives, INPAG aims to take account of, as appropriate, the needs of a wide range of NPOs operating in diverse settings and with different levels of financial reporting complexity. This supports the adoption, use and application of INPAG, with an initial focus on those NPOs where accrual-based financial reporting is required to account for assets and liabilities and a range of transactions and activities.

GP5 INPAG and related documents such as Exposure Drafts and other discussion documents are reviewed by the IFR4NPO Technical Advisory Group (TAG)[2]. Their approval is the responsibility of CIPFA, which operates the INPAG secretariat.

International standards

GP6 INPAG meets the three objectives noted in GP3 by making use of guidance that has been developed for existing international standards that promote the use of **general purpose financial statements** and other financial reporting, with appropriate changes made for the NPO context.

GP7 Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make decisions.

GP8 The three international financial reporting frameworks that have been used in developing INPAG are **full IFRS Accounting Standards**, the *IFRS for SMEs* Accounting Standard, and **International Public Sector Accounting Standards** (IPSAS).

GP9 Full IFRS Accounting Standards are developed and maintained by the International Accounting Standards Board (IASB) and set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. They are intended for use primarily by publicly accountable companies, defined by the IASB as those listed on a stock exchange and financial institutions such as banks that hold financial assets in a fiduciary capacity.

GP10 The *IFRS for SMEs* Accounting Standard is a separate standard developed and maintained by the IASB. The *IFRS for SMEs* Accounting Standard is intended to apply to the general purpose financial statements and other financial reporting of those entities that jurisdictions often refer to as **small and medium-**

[2] Membership of the TAG can be found at **ifr4npo.org**. Members of the TAG provide advice in an individual capacity and are not representing the views of their respective organisations.

sized entities (SMEs), private entities or non-publicly accountable entities. The *IFRS for SMEs* Accounting Standard is based on IFRS Accounting Standards, with modifications to reflect the needs of users of SMEs' financial statements and to reflect cost benefit considerations relevant to SMEs and the user of their financial statements.

GP11 IPSAS are set by the International Public Sector Accounting Standards Board (IPSASB). IPSASB's objective is to serve the public interest by developing high-quality accounting standards and other material for use by public sector entities around the world in the preparation of general purpose financial reports. IPSAS addresses financial reporting issues relevant to NPOs that are not covered by IFRS or the *IFRS for SMEs* Accounting Standard, such as non-exchange transactions.

General purpose financial reports

GP12 General purpose financial reports present management commentary and other narrative reporting alongside the financial information contained in the general purpose financial statements. They are likely to comprise multiple reports, each responding to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting.

GP13 The objective of general purpose financial statements is to provide financial information about the reporting entity that is useful to a wide range of users who are not in a position to demand reports tailored to meet their particular information needs. In the NPO context, this will include those to whom an NPO provides goods and services, providers of resources, those providing oversight functions and the public at large. General purpose financial statements include those that are presented separately or within another public document, including general purpose financial reports.

The basis of INPAG

GP14 INPAG has been developed to apply to the general purpose financial reports and the general purpose financial statements of NPOs whose broad characteristics are described in Section 1 *Non-profit organisations*. These are entities that have the primary objective of providing a benefit to the public, that direct surpluses for the benefit of the public, and that are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards.

GP15 NPOs may produce financial reports for some users, including donors, tax authorities or other government authorities, who have the authority to require the preparation of reports tailored to meet their specific needs. Financial reports produced solely for these purposes are unlikely to be general purpose financial statements.

GP16 Furthermore, tax laws are specific to each jurisdiction, and the objectives of general purpose financial reports differ from the objectives of reporting for taxation purposes. Thus, financial statements prepared in conformity with INPAG are unlikely to comply fully with all the measurements required by a jurisdiction's tax laws and regulations. A similar issue may arise with reporting to donors. 'Dual reporting burdens' of this kind may be reduced by compiling tax or donor reports as reconciliations from those produced in accordance with INPAG and by other means.

GP17 INPAG is a standalone and complete set of financial reporting guidance that can be applied in preparing the general purpose financial reports of NPOs without access to or knowledge of other financial reporting frameworks. NPO-specific financial reporting issues are being addressed by the IFR4NPO project in stages. Not all NPO-specific financial reporting issues have yet been addressed; the initial focus has been to address those issues identified as priorities following the Consultation Paper.

GP18 The foundational framework of INPAG is the *IFRS for SMEs* Accounting Standard. This has been incorporated into INPAG without amendment where an NPO-specific reporting solution to an accounting issue is not required, has not been developed, or the financial reporting solution provided by the *IFRS for SMEs* Accounting Standard is comprehensive and provides appropriate guidance for NPOs.

GP19 Where the *IFRS for SMEs* Accounting Standard does not meet the needs of NPOs, INPAG draws on its own concepts and pervasive principles, full IFRS Accounting Standards, IPSAS and their broader conceptual frameworks to provide sector-specific reporting solutions through changes to the *IFRS for SMEs* Accounting Standard. Jurisdictional-level standards that have been developed for NPO-specific reporting issues may also be drawn upon, particularly where these jurisdictional-level standards have been developed in a manner that is sufficiently consistent with the conceptual frameworks of IFRS Accounting Standards and/or IPSAS.

GP20 The formal process for determining whether the NPO-specific issue warrants a change to the text of the *IFRS for SMEs* Accounting Standard can be found in **Process for developing the International Non-Profit Accounting Guidance through changes to the IFRS for SMEs Accounting Standard**.

Authority of INPAG

GP21 The INPAG secretariat has no authority to determine whether INPAG, either in whole or part, should or may apply to any entity. Decisions on which entities are required or permitted to use INPAG rest with legislative and regulatory authorities and standard setters in individual jurisdictions. However, a clear description of the class of entity for which INPAG is intended – as set out in Section 1 of the Guidance – is essential so that the legislative and regulatory authorities, standard setters and NPOs and their auditors will be informed of the intended scope of applicability of INPAG.

Organisation of INPAG

GP22 INPAG is organised by topic, with each topic presented in a separate numbered Section. Cross-references to paragraphs are identified by Section number, followed by paragraph number. Paragraph numbers are in the form Gxx.yy, where Gxx is the Section number and yy is the sequential paragraph number within that Section. In examples that include monetary amounts, the measuring unit is Currency Units (abbreviated as CU).

GP23 All the paragraphs in INPAG have equal authority (except as specified in paragraph G2.2). As INPAG is being developed in stages, not all Sections of INPAG have been updated to take account of NPO-specific issues. Where this is the case, the *IFRS for SMEs* Accounting Standard has been incorporated into INPAG without amendment, except for changes to terminology. The table of contents and marking show Sections that have not been updated other than for changes to terminology.

GP24 Additional support for preparers applying INPAG and users of general purpose financial reports is provided in the Application Guidance that is part of INPAG. The Application Guidance is authoritative and has the same authority as the core text. Support is also provided in the Implementation Guidance (including implementation examples) and Basis for Conclusions that accompany INPAG. They provide further detail on the technical and practical considerations that have been taken into consideration during the development of INPAG. INPAG provides authoritative guidance for NPOs, whereas the Implementation Guidance and implementation examples and Basis for Conclusions are non-authoritative.

Maintenance of INPAG

GP25 Amendments to INPAG will be proposed by publishing Exposure Drafts periodically, but not more frequently than approximately once every three years, to provide a stable and familiar framework for preparers and users. In developing these Exposure Drafts, the INPAG secretariat will consider amendments to the *IFRS for SMEs* Accounting Standard, as well as new and amended IFRS Accounting Standards, IPSAS and jurisdictional-level standards.

GP26 Until INPAG is amended, any changes made to the *IFRS for SMEs* Accounting Standard, full IFRS Accounting Standards, IPSAS and jurisdictional-level standards will not apply to INPAG. NPOs shall not anticipate or apply changes in the *IFRS for SMEs* Accounting Standard, IFRS Accounting Standards, IPSAS and jurisdictional-level standards before these are incorporated into INPAG. If there is an absence of specific guidance in INPAG, NPOs may use guidance and principles from IFRS Accounting Standards, IPSAS, their conceptual frameworks and jurisdictional-level standards intended to be applied by NPOs, provided those principles do not conflict with the requirements in the hierarchy in paragraphs G10.4-G10.5.

Comparison of the Preface with the *IFRS for SMEs* Accounting Standard

The Preface has been largely re-written to allow for the context for the development of INPAG to be described. The main differences between the Preface to the *IFRS for SMEs* Accounting Standard and the Preface to INPAG are as follows:

- INPAG's Preface provides a description of the history of the IFR4NPO project, the objectives of INPAG and a summary of the governance arrangements associated with its approval.
- INPAG's Preface describes general purpose financial reports as well as the objectives of general purpose financial statements in an NPO-specific context.
- INPAG's Preface notes that it has been developed to apply to the general purpose financial reports and general purpose financial statements of NPOs whose broad characteristics are described in Section 1 rather than small and medium-sized entities as defined in the *IFRS for SMEs* Accounting Standard.
- INPAG's Preface explains the use of the *IFRS for SMEs* Accounting Standard as its foundational framework. It also explains how IFRS Accounting Standards, IPSAS, their broader conceptual frameworks and jurisdictional-level standards are drawn upon for INPAG where the *IFRS for SMEs* Accounting Standard does not meet the needs of NPOs.
- INPAG's Preface also explains that NPO-specific financial reporting issues are being addressed by the IFR4NPO project in stages and not all NPO-specific issues have yet been addressed.

Specific matter for comment	
Question 1: General comments	**References**
a) Is the structure of INPAG helpful? If not, how could it be improved? b) Do you have any other comments (including regulatory, assurance or cost/benefit) relating to this INPAG Exposure Draft? If so, explain the rationale for any points you wish to make.	GP22–GP24

Section 1 – Non-profit organisations

Intended scope of INPAG

G1.1 INPAG is intended for use by NPOs. As there is no common international financial reporting definition of an NPO in law or regulation, a broad characteristics approach has been used to identify the entities that are intended to be within the scope of INPAG. This Section describes the broad characteristics of NPOs, but ultimately the decision on which entities are required or permitted to use INPAG rests with the judgement of relevant authorities in individual jurisdictions.

Description of non-profit organisations

G1.2 For the purposes of INPAG, NPOs are entities that publish **general purpose financial reports** for external users and have all of the following broad characteristics:

- They have the primary objective of providing a benefit to the public;
- They direct surpluses for the benefit of the public; and
- They are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards.

Primary objective of providing a benefit to the public

G1.3 NPOs will have the primary objective of providing a benefit to the public. Through the services and goods delivered in pursuit of its purpose, the public will benefit from an NPO's activities. This primary objective of providing a benefit to the public may be broad, involving the provision of services and/or goods to the general public, a community or for wider societal benefit. Conversely, it may be narrower and relate only to providing services and/or goods to a specific group or members of the NPO. This permits a wide range of entities to potentially be described as NPOs, including those that may be defined by different jurisdictions as charities, social advocacy groups, cooperatives, mutual benefit organisations, professional associations and foundations among other organisational forms. Where an NPO does provide private benefits, as may be the case where it has members or holders of equity or similar ownership claims, these should be incidental to the NPO's primary objective of providing a benefit to the public.

Direct surpluses for the benefit of the public

G1.4 NPOs will direct surpluses for the benefit of the public. NPOs may generate a financial surplus from their activities, particularly where they receive income from the sale of services and/or goods, receive donations that are not subject to restrictions, or have significant **financial assets** earning financial returns. Such financial surpluses will be directed to furthering the NPO's primary objective of providing a benefit to the public and not distributed for private benefit. Organisations that do have a primary objective of distributing surpluses for private benefit to groups and individuals, such as investors and holders of **equity claims**, are likely to be for-profit private sector organisations. These should apply private sector financial reporting standards to meet the needs of the users of their general purpose financial reports.

Not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards

G1.5 Like NPOs, the primary objectives of most government and public sector entities are to deliver services and/or goods that provide a benefit to the public and not to make profits that generate a financial return for investors. However, government and public sector entities have different characteristics, such as the importance of funding through taxation, budgets that are approved and overseen by a legislative body or equivalent, and the existence of redistributive and regulatory powers that can only be exercised with government authority. The needs of users of government and public sector general purpose financial reports will be met by using public sector financial reporting standards.

Use of INPAG by entities that have public accountability

G1.6 An entity is defined in **full IFRS Accounting Standards** as having **public accountability** if:

a) its debt or equity instruments are traded in a public market, or it is in the process of issuing such instruments for trading in a public market (for example, a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).

G1.7 An entity with the following characteristics would usually have public accountability:

a) there is both a high degree of outside interest in the entity and a broad group of users of the entity's **financial statements** (existing and potential investors, lenders and other creditors) outside the entity (other than owner managers) who have a direct financial interest in or substantial claim against the entity.
b) the users in a) depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves.

G1.8 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, **customers** or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary **business** (as for example may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit, and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.

G1.9 Some entities that have public accountability may find INPAG useful. However, it is unlikely that all the needs of users of the general purpose financial reports or **general purpose financial statements** of entities that have public accountability will be met if they are prepared in accordance with INPAG.

G1.10 If a publicly accountable entity as defined in IFRS Accounting Standards applies this Guidance, its financial statements should disclose this as part of the disclosures required by G3.3–G3.7. The entity should include an explanation as to why the use of INPAG meets the needs of users of its financial statements, even if law or regulation in that entity's jurisdiction permits or requires this Guidance to be used by publicly accountable entities.

G1.11 An NPO whose **parent** uses **full IFRS Accounting Standards**, or that is part of a consolidated **group** that uses full IFRS Accounting Standards, may use INPAG in its own financial statements if that NPO by itself does not have public accountability without the need to include the explanation required by G1.10.

G1.12 A parent entity (including the ultimate parent or any intermediate parent) assesses its eligibility to use INPAG in its **separate financial statements** on the basis of its own status without considering whether other group entities have, or the group as a whole has, public accountability. If a parent entity by itself does not have public accountability, it may present its separate financial statements in accordance with INPAG without the explanation required in G1.10 (see Section 9 *Consolidated and separate financial statements*), even if it presents its **consolidated financial statements** in accordance with full IFRS Accounting Standards or another set of generally accepted accounting principles (GAAP) such as its national accounting standards. Any financial statements prepared in accordance with INPAG shall be clearly distinguished from financial statements prepared in accordance with other requirements.

Application Guidance: Section 1 – NPOs (New)

Indicators that an entity might be an NPO

AG1.1 It may not always be clear if an entity fully displays the broad characteristics of an NPO included in G1.2–G1.5. For example, cooperatives, mutual benefit organisations and other similar organisations exist primarily for the benefit of their members, and those members may be in receipt of private benefits in the form of discounted goods and services that could be deemed as more than incidental.

AG1.2 In many cases, whether the broad characteristics have been met – particularly with respect to the primary objectives of providing a benefit to the public and directing surpluses for the benefit of the public – is likely to require the exercise of judgement. Where this is the case, the following are indicators that should be applied to assist in determining the existence of these characteristics and applying the requirements of G1.2–G1.5:

- An absence of individuals with rights to financial returns from surpluses;
- A requirement that the NPO transfer residual net assets upon dissolution to an entity with a similar purpose;
- Receiving or providing voluntary funding; and
- Holding and using assets for the benefit of the public.

Absence of individuals with rights to financial returns from surpluses

AG1.3 If an entity is an NPO, it will generally not have obligations to individuals who have rights to financial returns from any surpluses that it generates. Such rights would ordinarily arise from individuals holding share capital, which is expected to be uncommon if an entity is an NPO. Such rights could imply that financial surpluses are not being directed for the benefit of the public and there are more than incidental private benefits being provided.

A requirement that the NPO transfer residual net assets upon dissolution to an entity with a similar purpose

AG1.4 If an entity is an NPO, it may have a requirement that upon its dissolution, any residual net assets must be transferred to an entity with a similar primary purpose of providing a benefit to the public, which would usually be an NPO itself. If an entity is not an NPO, it would be more typical that there is a requirement for residual net assets to be distributed to those that have ownership rights to the net assets of the entity. This would generally be indicative of the existence of private benefits that are more than incidental.

Receiving or providing voluntary funding

AG1.5 It is regularly the case that NPOs provide, or are in receipt of, voluntary funding through donations, grants or volunteering of services, which may be significant. However, such resources and any restrictions on their use should not generally entitle the provider to financial or other economic returns, as this would indicate that the NPO was distributing financial surpluses for private benefit rather than fulfilling a primary objective of providing a benefit to the public.

Holding and using assets for the benefit of the public

AG1.6 NPOs will regularly hold and use assets primarily to assist in delivering services and/or goods for the benefit of the public and not to generate financial returns to providers of resources. NPOs may control or have access to assets such as buildings or equipment that are used as a part of their operations. NPOs can also have a responsibility for the preservation and enhancement of assets such as artistic works, heritage assets and natural assets. Financial assets such as endowments may also be held by NPOs, which will provide resources to fund the delivery of services and goods.

Comparison of Section 1 with the *IFRS for SMEs* Accounting Standard

Section 1 of INPAG has the same aim as Section 1 of the *IFRS for SMEs* Accounting Standard, but it has been significantly re-written to describe the nature of non-profit organisations as potential users of this guidance. The main differences between Section 1 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 1 of INPAG are as follows:

- INPAG Section 1 explains that it is intended for use by NPOs and that a broad characteristics approach has been used to identify the entities that are intended to be within the scope of INPAG.
- INPAG Section 1 notes that the decision on which entities are required or permitted to use INPAG rests with the judgement of relevant authorities in individual jurisdictions.
- INPAG Section 1 notes that for the purposes of INPAG, NPOs are entities that publish general purpose financial reports for external users and have three broad characteristics.
- INPAG Section 1 explains that entities that have public accountability as defined in IFRS Accounting Standards may find INPAG useful, but it is unlikely to meet the needs of users of their general purpose financial reports. If such entities use INPAG, they are required to disclose this and explain why INPAG meets the needs of users.

Specific matter for comment	
Question 2: Description of NPOs and users of INPAG	**References**
a) Do you agree with the description of the broad characteristics of NPOs? Does the term ‘providing a benefit to the public’ include all entities that might be NPOs? If not, what would you propose and why? b) Does Section 1 together with the Preface provide clear guidance on which NPOs are intended to benefit from the use of INPAG? If not, what would be more useful?	G1.2–G1.5

Section 2 – Concepts and pervasive principles

Scope of this Section

G2.1 This Section describes the objective of general purpose financial reports of non-profit organisations (NPOs). It also sets out the concepts and basic principles underlying the general purpose financial reports of NPOs.

G2.2 In some circumstances, there may be inconsistencies between the concepts and principles in this Section and the requirements of another Section of the Guidance. In these circumstances, the requirements in the other Section take precedence over this Section.

The objective of non-profit organisations' general purpose financial reports

Objective, usefulness and limitations of general purpose financial reports

G2.3 The objective of general purpose financial reports of an NPO is to provide information about the NPO that is useful for accountability and decision making by users of the financial reports.

Users of general purpose financial reports

G2.4 NPOs are responsible for the stewardship of the resources entrusted to them. NPOs are accountable for the management and use of these resources. They are accountable to resource providers and to the public that depend on the goods and services provided by NPOs. The interests of resource providers and the public may be served by those fulfilling oversight functions on their behalf.

G2.5 General purpose financial reports are not developed specifically to respond to any individual information needs.

G2.6 Users that have rights to demand information tailored to meet their particular information needs, for example, some donors as part of funding arrangements, are not considered to be **primary users** of general purpose financial reports. Similarly, information tailored to a user's individual needs would typically not be included in general purpose financial reports.

Information needs of users for accountability and decision making

G2.7 The discharge of accountability obligations requires the provision of information about the NPO's management of its resources in meeting its purposes, its capacity to continue to operate in future periods, and its compliance with any regulations that govern its operations.

G2.8 Information provided in general purpose financial reports for accountability purposes will also contribute to and inform economic and other decision making.

Information provided by general purpose financial reports to meet the needs of users

G2.9 Core financial information that is presented in the **financial statements** will need to be supported by financial and non-financial information in general purpose financial reports. This supporting information enhances, complements and supplements the core financial information presented in the financial statements to fully describe an NPO's performance.

G2.10 General purpose financial reports include financial statements that provide information about the financial position of a reporting NPO, which is information about the NPO's **economic resources** and the claims against the NPO. They also provide information about the effects of transactions and other events that change a reporting NPO's economic resources and claims. They allow users to make decisions and develop expectations based on their assessment of the amount, timing and uncertainty of future net cash inflows to the NPO.

G2.11 Non-financial information should include those items covered in Section 35 *Narrative reporting*.

G2.12 General purpose financial reports do not and cannot provide all the information that users need. Those users need to consider pertinent information from other sources – for example, general economic conditions and expectations, political events and political climate, and sector and individual NPO-focused outlooks.

Qualitative characteristics of information in general purpose financial reports

G2.13 The qualitative characteristics of useful financial and non-financial information described in paragraphs G2.14–G2.29 identify the types of information that are likely to be the most useful to users in making decisions about the NPO on the basis of information in its financial reports.

Qualitative characteristics of useful financial and non-financial information

G2.14 If financial and non-financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial and non-financial information is enhanced if it is comparable, verifiable, timely and understandable.

Fundamental qualitative characteristics

G2.15 The fundamental qualitative characteristics are relevance and faithful representation.

Relevance

G2.16 Relevant financial and non-financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources.

G2.17 Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.

Materiality

G2.18 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those financial reports, which provide financial and non-financial information about a specific reporting NPO. In other words, materiality is an NPO entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual NPO's financial reports. Consequently, it is not possible to specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

Faithful representation

G2.19 Financial reports represent economic or other phenomena in words and numbers. To be useful, financial and non-financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic or other phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic or other phenomenon.

G2.20 To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The objective is to maximise those qualities to the extent possible.

G2.21 A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.

G2.22 A neutral depiction is without bias in the selection or presentation of financial and non-financial information. Neutrality is supported by the exercise of **prudence**. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses. Such misstatements can lead to the overstatement or understatement of income or expenses in future periods. The exercise of prudence does not imply a need for asymmetry, although particular Sections may contain asymmetric requirements if these are a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.

G2.23 Faithful representation does not mean accurate in all respects. Free from error means there are no **errors** or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects.

Applying the fundamental qualitative characteristics

G2.24 The most efficient and effective process for applying the fundamental qualitative characteristics would usually be as follows (subject to the effects of enhancing characteristics and the cost constraint, which are not considered in this example). First, identify an economic or other phenomenon, information about which is capable of being useful to users of the reporting NPO's financial information. Second, identify the type of information about that phenomenon that would be most relevant. Third, determine whether that information is available and whether it can provide a faithful representation of the economic or other phenomenon. If so, the process of satisfying the fundamental qualitative characteristics ends at that point. If not, the process is repeated with the next most relevant type of information. In some cases, a trade-off between the fundamental qualitative characteristics may need to be made to meet the objective of general purpose financial reports (see paragraph G2.37).

Enhancing qualitative characteristics

G2.25 Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that both is relevant and provides a faithful representation of what it purports to represent. The enhancing qualitative characteristics may also help determine which of two ways should be used to depict a phenomenon if both are considered to provide equally relevant information and an equally faithful representation of that phenomenon.

Comparability

G2.26 Information about a reporting NPO is more useful if it can be compared with similar information about other NPOs and with similar information about the same NPO for another period or another date. Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. It is diminished where alternative accounting methods are permitted for the same economic phenomenon.

Verifiability

G2.27 Verifiability helps assure users that information faithfully represents the economic or other phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single-point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

Timeliness

G2.28 Timeliness means having information available to users in time to be capable of influencing their decisions. Generally, the older the information, the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

Understandability

G2.29 Classifying, characterising and presenting information clearly and concisely makes it understandable. However, excluding information from financial reports about phenomena that are inherently complex and cannot be made easy to understand would make these reports incomplete and therefore possibly misleading.

The cost constraint on useful financial reporting

G2.30 Cost is a pervasive constraint on the information that can be provided by financial reporting and non-financial reporting. Reporting financial and non-financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information.

G2.31 Providers of financial and non-financial information expend most of the effort involved in collecting, processing, verifying and disseminating financial and non-financial information. Users of financial and non-financial information also incur costs of analysing and interpreting the information provided. If needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it.

G2.32 Reporting financial and non-financial information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence. However, it is not possible for general purpose financial reports to provide all the information that every user finds relevant.

Undue cost or effort

G2.33 An undue cost or effort exemption is specified for some requirements in INPAG. This exemption shall not be used for other requirements in this Guidance.

G2.34 Considering whether obtaining or determining the information necessary to comply with a requirement would involve undue cost or effort depends on the NPO's specific circumstances and on management's judgement of the costs and benefits from applying that requirement. This judgement requires consideration of how the economic and other decisions of those that are expected to use the financial reports could be affected by not having that information. Applying a requirement would involve undue cost or effort by an NPO if the incremental cost (for example, valuers' fees) or additional effort (for example, endeavours by employees) substantially exceeds the benefits that those that are expected to use the NPO's financial report would receive from having the information.

G2.35 Assessing whether a requirement would involve undue cost or effort on initial recognition in the financial reports – for example, at the date of the transaction – should be based on information about the costs and benefits of the requirement at the time of initial recognition. If the undue cost or effort exemption also applies subsequent to initial recognition – for example, to a subsequent measurement of an item – a new assessment of undue cost or effort should be made at that subsequent date based on information available at that date.

G2.36 Except for the undue cost or effort exemption in paragraph 19.10G, which is covered by the disclosure requirements in paragraph 19.25, whenever an undue cost or effort exemption is used by an NPO, the NPO shall disclose that fact and the reasons why applying the requirement would involve undue cost or effort.

General purpose financial reports and the reporting NPO

Objective and scope of general purpose financial reports

G2.37 The objective of general purpose financial reports is to provide financial information about the reporting NPO's assets, liabilities, equity, income and expenses, as well as non-financial information that is useful to users for accountability and decision-making purposes, including assessing management's stewardship of the NPO's resources (see paragraph G2.3–2.12).

Reporting period

G2.38 Financial reports are prepared for a specified period of time (reporting period) and provide financial information about:

a) assets and liabilities, including unrecognised assets and liabilities, equity, and funds with restrictions and funds without restrictions within net assets that existed at the end of the reporting period or during the reporting period
b) income and expenses for the reporting period.

G2.39 To help users of financial reports identify and assess changes and trends, financial reports also provide comparative information for at least one preceding reporting period, except when this Guidance permits or requires otherwise.

G2.40 Information about possible future transactions and other possible future events is included in financial reports if it:

a) relates to the NPO's assets or liabilities, including unrecognised assets or liabilities, equity and funds within net assets that existed at the end of the reporting period or during the reporting period, or to income or expenses for the reporting period; and
b) is useful to users of financial reports.

Perspective adopted in financial reports

G2.41 Financial reports provide information about transactions and other events viewed from the perspective of the reporting entity as a whole, not from the perspective of any particular group of the NPO's users.

Going concern assumption

G2.42 Financial reports are normally prepared on the assumption that the reporting NPO is a going concern and will continue in operation for the foreseeable future. Hence it is assumed that the NPO has neither the intention nor the need to enter liquidation or cease operating. If such an intention or need exists, the financial statements may have to be prepared on a different basis. If so, the financial reports must describe the basis used (see paragraphs G3.8–G3.9).

The reporting NPO

G2.43 A reporting NPO is an NPO that is required or chooses to prepare general purpose financial reports. A reporting NPO can be a single NPO or a portion of an NPO or can comprise more than one NPO. It may operate through trusts or other entities, and some of these may have a separate legal identity, autonomy to operate or otherwise support the provision of goods and services. A reporting NPO is not necessarily a legal entity.

G2.44 A reporting NPO will prepare general purpose financial reports as if it were one economic entity or other complete set of activities related to its purposes.

G2.45 An NPO may have an interest in another entity and be characterised as a **controlling NPO** (**parent**), while another entity (that may or may not be an NPO) is characterised as a **controlled entity**. Control is the power of an NPO to direct the activities of or use the funds of another entity (see paragraphs G9.8–G9.19).

G2.46 If a reporting NPO comprises both the controlling NPO and its controlled entities, the reporting NPO's financial statements are referred to as **consolidated financial statements**. If the controlling NPO produces financial statements alone, these are referred to as **separate financial statements**. If the reporting NPO comprises two or more entities that are not linked by a controlling NPO-controlled entity relationship, the reporting NPO's financial statements are referred to as **combined financial statements**.

G2.47 Determining what a reporting NPO can be complex where the potential reporting NPO is not a legal entity or where it does not include legal entities that are governed by controlling NPO-controlled entity relationships.

G2.48 Where a reporting NPO is not clearly defined (for example, a reporting entity will be clear when it is a legal entity or is controlled by a controlling NPO-controlled entity relationship), determining the boundary of the reporting NPO is driven by the information needs of the users of the reporting NPO's financial statements. Those users need relevant information that faithfully represents what it purports to represent. Faithful representation requires that:

a) the boundary of the reporting NPO does not contain an arbitrary or incomplete set of economic activities;
b) including that set of economic activities within the boundary of the reporting NPO results in neutral information; and
c) a description is provided of how the boundary of the reporting NPO was determined and of what constitutes the reporting NPO.

G2.49 Where a reporting NPO is not clearly defined, it is required to disclose the basis for the reporting NPO boundary, any significant judgements in determining it and its relationship with other entities in the notes to the financial statements.

The elements of financial statements

Introduction

G2.50 The elements of financial statements defined in this Section are as follows:

a) Assets and liabilities, which relate to a reporting NPO's Statement of Financial Position.
b) Income and expenses, which relate to a reporting NPO's Statement of Income and Expenses if they contribute to surplus and deficit, and to the Statement of Changes in Net Assets if they do not contribute to surplus and deficit.

G2.51 Those elements are linked to the economic resources (see G2.54), claims and changes in economic resources and claims discussed in paragraphs G2.7–G2.12.

G2.52 In addition to these elements, further important aspects of NPO financial statements are discussed in this Section. These include:

a) net assets;
b) equity; and
c) funds with restrictions and funds without restrictions.

Definition of an asset

G2.53 An asset is a present economic resource controlled by the NPO as a result of past events.

G2.54 An economic resource is a right that has the **potential to produce economic benefits** or to provide services and goods in accordance with the NPO's objectives. Economic benefits relate to cash inflows or a reduction in cash outflows. The capacity to provide services and goods that contribute to achieving the NPO's objectives is **service potential**. Service potential enables an NPO to achieve its objectives without necessarily generating net cash inflows.

G2.55 Rights that have the potential to produce economic benefits or service potential take many forms, including;

a) rights that correspond to an obligation of another party, for example:

   i) rights to receive cash
   ii) rights to receive services or goods or assign services or goods to third parties
   iii) rights to exchange economic resources with another party on favourable terms. Such rights include, for example, a forward **contract** to buy an economic resource on terms that are currently favourable or an option to buy an economic resource
   iv) rights to benefit from an obligation of another party to transfer an economic resource if a specified uncertain future event occurs

b) rights that do not correspond to an obligation of another party, for example:

   i) rights over physical objects, such as property, plant and equipment or **inventories**. Examples of such rights are a right to use, or allow others to use, a physical object for the achievement of an NPO's objectives without a corresponding cash inflow or a reduction in cash outflows, or a right to benefit from the residual value of a leased object
   ii) rights to use intellectual property

G2.56 Many rights are established by contract, legislation or similar means. For example, an NPO might obtain rights from owning or leasing a physical object, from owning a debt instrument or an equity instrument, or from owning a registered patent. However, an NPO might also obtain rights in other ways, for example:

a) by acquiring or creating know-how that is not in the public domain; or
b) through an obligation of another party that arises because that other party has no practical ability to act in a manner inconsistent with its customary practices, published policies or specific statements.

G2.57 An economic resource is a right that has the potential to produce economic benefits or service potential. It does not need to be certain, or even likely, that the right will produce economic benefits or service potential. It is only necessary that the right already exists.

G2.58 Control links an economic resource to an NPO. Assessing whether control exists helps to identify the economic resource for which the NPO accounts. An NPO controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits or service potential that may flow from it. An NPO has the present ability to direct the use of an economic resource if it has the right to deploy that economic resource in its activities, or to allow another party to deploy the economic resource in that other party's activities.

Definition of a liability

G2.59 A liability is a present obligation of the NPO to transfer an economic resource as a result of past events.

G2.60 For a liability to exist, three criteria must all be satisfied:

a) the NPO has an obligation;
b) the obligation is to transfer an economic resource; and

c) the obligation is a present obligation that exists as a result of past events.

G2.61 An obligation is a duty or responsibility that an NPO has no practical ability to avoid. An obligation is always owed to another party (or parties). Many obligations are established by contract, legislation or similar means and are legally enforceable by the party (or parties) to whom they are owed. However, obligations can also arise from an NPO's customary practices, published policies or specific statements if the NPO has no practical ability to act in a manner inconsistent with those practices, policies or statements. The obligation that arises in such situations is sometimes referred to as a **constructive obligation**.

G2.62 The second criterion for a liability is that the obligation is to transfer an economic resource.

G2.63 To satisfy this criterion, the obligation must have the potential to require the NPO to transfer an economic resource to another party (or parties). For that potential to exist, it does not need to be certain, or even likely, that the NPO will be required to transfer an economic resource. The transfer may, for example, be required only if a specified uncertain future event occurs. It is only necessary that the obligation already exists and that, in at least one circumstance, it would require the NPO to transfer an economic resource.

G2.64 Obligations to transfer an economic resource include, for example:

a) obligations to pay cash
b) obligations to provide services or deliver goods
c) obligations to exchange economic resources with another party on unfavourable terms
d) obligations to transfer an economic resource if a specified uncertain future event occurs
e) obligations to issue a financial instrument if that **financial instrument** will oblige the entity to transfer an economic resource.

G2.65 Instead of fulfilling an obligation to transfer an economic resource to the party that has a right to receive that resource, NPOs sometimes decide to, for example:

a) settle the obligation by negotiating a release from the obligation;
b) transfer the obligation to a third party; or
c) replace that obligation to transfer an economic resource with another obligation by entering into a new transaction.

G2.66 The third criterion for a liability is that the obligation is a present obligation that exists as a result of past events.

G2.67 A present obligation exists as a result of past events only if:

a) the NPO has already obtained economic benefits or service potential or taken an action; and
b) as a consequence, the NPO will or may have to transfer an economic resource that it would not otherwise have had to transfer.

G2.68 The economic benefits or service potential obtained could include, for example, goods or services. The action taken could include, for example, undertaking a particular activity for the benefit of the public or operating in a particular geographical area. If economic benefits or service potential are obtained or an action is taken, over time, the resulting present obligation may accumulate over that time.

Assets and liabilities

Unit of account

G2.69 The unit of account is the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations to which recognition criteria and measurement concepts are applied.

G2.70 A unit of account is selected for an asset or liability when considering how recognition criteria and measurement concepts will apply to that asset or liability and to the related income and expenses. In some circumstances, it may be appropriate to select one unit of account for recognition and a different unit of account for measurement. For example, contracts may sometimes be recognised individually but measured as part of a portfolio of contracts. For presentation and disclosure, assets, liabilities, income and expenses may need to be aggregated or separated into components.

Executory contracts

G2.71 An executory contract is a contract, or a portion of a contract, that is equally unperformed. Neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent.

G2.72 An executory contract establishes a combined right and obligation to exchange economic resources. The right and obligation constitute a single asset or liability. The NPO has an asset if the terms of the exchange are currently favourable; it has a liability if the terms of the exchange are currently unfavourable. Whether such an asset or liability is included in the financial statements depends on both the recognition criteria and the measurement basis selected for the asset or liability, including, if applicable, any test for whether the contract is onerous.

Net assets

G2.73 Net assets are not a defined financial statements element but rather are the residual of recognised assets minus recognised liabilities. An NPO may recognise the element of equity within net assets where the holders of **equity claims** have established a financial interest in or entitlement to some of the net assets of the NPO (see paragraphs AG2.6–AG2.9). Net assets may exceptionally also include non-controlling interests. Net assets may be managed by an NPO in separate funds, which may be funds with restrictions and funds without restrictions. These are the funds within net assets.

Funds with restrictions

G2.74 Funds with restrictions are to be used by an NPO when there are externally imposed funding or other legal arrangements placed on the NPO by a resource provider that restrict the financial resources provided to be expended, invested or retained by the NPO for a specific purpose or activity. A breach of these funding or other legal requirements may require the NPO to return the financial resources to the party that originally provided them and/or result in the NPO facing censure from regulators for the misuse of these resources.

Funds without restrictions

G2.75 Funds without restrictions are those that are freely available to be used by an NPO for any of its purposes or activities. An NPO is free to internally designate funds for a specific purpose or activity, but the absence of any externally imposed funding or other legal arrangement means that they are not required to be used for this purpose or activity. Internal designations include those that are made by boards of directors or equivalent bodies that are charged with governance of the NPO.

Definitions of income and expenses

G2.76 Income and expenses are defined as follows:

a) income is increases in assets or decreases in liabilities that result in increases in net assets other than those relating to **contributions from holders of equity claims**; and
b) expenses are decreases in assets or increases in liabilities that result in decreases in net assets other than those relating to **distributions to holders of equity claims**.

From these definitions of income and expenses, it follows that contributions from holders of equity claims are not income and distributions to holders of equity claims are not expenses.

G2.77 Income and expenses are the elements of financial statements that relate to an NPO's financial activity in a reporting period. Users of financial statements need information about both an NPO's financial position and its financial activity in a reporting period. Hence, although income and expenses are defined in terms of changes in assets and liabilities, information about income and expenses is just as important as information about assets and liabilities.

G2.78 Different transactions and other events generate income and expenses with different characteristics. Providing information separately about income and expenses with different characteristics can help users of financial statements understand the NPO's financial activity in the reporting period.

Recognition and derecognition

The recognition process

G2.79 Recognition is the process of capturing for inclusion in the Statement of Financial Position, the Statement of Income and Expenses or the Statement of Changes in Net Assets an item that meets the definition of one of the elements of financial statements – an asset, a liability, equity, income or expenses. Recognition involves depicting the item in one of those statements – either alone or in **aggregation** with other items – in words and by a monetary amount, and including that amount in one or more totals in that statement. The amount at which an asset, a liability or equity is recognised in the Statement of Financial Position is referred to as its **carrying amount**.

G2.80 Recognition links the elements, the Statement of Financial Position, the Statement of Income and Expenses and the Statement of Changes in Net Assets as follows (see Figure 2.1 and Figure 2.2):

a) in the Statement of Financial Position, at the beginning and end of the reporting period, total assets minus total liabilities is equal to net assets; and

b) recognised changes in net assets during the reporting period comprise:

   i) income minus expenses that contribute to surplus and deficit and that are recognised in the Statement of Income and Expenses; plus

   ii) income minus expenses that do not contribute to surplus and deficit and that are recognised directly in the Statement of Changes in Net Assets; plus

   iii) contributions from holders of equity claims minus distributions to holders of equity claims.

Figure 2.1: How recognition links the elements of financial statements

Statement of Financial Position at the beginning of the reporting period
Assets minus liabilities equals net assets

+

Statement of Income and Expenses
Income minus expenses that contribute to surplus and deficit

+

Statement of Changes in Net Assets
Income minus expenses that do not contribute to surplus and deficit

+

Contributions from holders of equity claims minus distributions to holders of equity claims

=

Statement of Financial Position at the end of the reporting period
Assets minus liabilities equals net assets

Figure 2.2: How recognition impacts components of net assets

Net assets at the beginning of the reporting period	**In reporting period recognition**			**Net assets at the end of the reporting period**
Funds without restrictions	Plus income without restrictions	Minus expenses without restrictions	Plus/minus reclassifications between funds without restrictions and funds with restrictions	Funds without restrictions
Funds with restrictions	Plus income with restrictions	Minus expenses with restrictions	Plus/minus reclassifications between funds without restrictions and funds with restrictions	Funds with restrictions
Equity (where it exists)	Plus contributions from holders of equity claims	Minus distributions to holders of equity claims		Equity

Recognition criteria

G2.81 Only items that meet the definition of an asset, a liability or equity are recognised in the Statement of Financial Position. Items that meet the definition of income or expenses are recognised in the Statement of Income and Expenses or in the Statement of Changes in Net Assets, depending on whether they contribute to surplus and deficit or not. However, not all items that meet the definition of one of those elements are recognised.

G2.82 The failure to recognise an item that satisfies those criteria is not rectified by disclosure of the **accounting policies** used or by notes or explanatory material.

Relevance

G2.83 Information about assets, liabilities, equity, income and expenses is relevant to users of financial statements. However, recognition of a particular asset or liability and any resulting income, expenses or changes in net assets may not always provide relevant information. That may be the case if, for example, it is uncertain whether an asset or liability exists, or an asset or liability exists but the probability of an inflow or outflow of economic benefits is low. The presence of one or both factors does not automatically lead to a conclusion that the information provided by recognition lacks relevance, as other factors may need to be taken into account.

Existence uncertainty

G2.84 In some cases, it may be unclear whether an asset or liability exists. That uncertainty, possibly combined with a low probability of inflows or outflows of economic benefits and an exceptionally wide range of possible outcomes, may mean that the recognition of an asset or liability, necessarily measured at a single amount, would not provide relevant information. Whether or not the asset or liability has been recognised, explanatory information about the associated uncertainties may need to be provided in the financial statements.

Faithful representation

G2.85 Recognition of a particular asset or liability is appropriate if it provides not only relevant information but also a faithful representation of that asset or liability and of any resulting income, expenses or changes in net assets. Whether a faithful representation can be provided may be affected by the level of measurement uncertainty associated with the asset or liability or by other factors.

Measurement uncertainty

G2.86 For an asset or liability to be recognised, it must be measured. In many cases, such measures must be estimated and are therefore subject to measurement uncertainty. The use of reasonable estimates is an essential part of the preparation of financial information and does not undermine the usefulness of the information if the estimates are clearly and accurately described and explained.

G2.87 An item that fails to meet the recognition criteria may qualify for recognition at a later date as a result of subsequent circumstances or events.

G2.88 Whether or not an asset or liability is recognised, a faithful representation of the asset or liability may need to include explanatory information about the uncertainties associated with the asset or liability's existence or measurement, or with its outcome – the amount or timing of any inflow or outflow of economic benefits that will ultimately result from it.

Derecognition

G2.89 Derecognition is the removal of all or part of a recognised asset or liability from an NPO's Statement of Financial Position. Derecognition normally occurs when that item no longer meets the definition of an asset or liability:

a) for an asset, derecognition normally occurs when the NPO loses control of all or part of the recognised asset; and
b) for a liability, derecognition normally occurs when the NPO no longer has a present obligation for all or part of the recognised liability.

G2.90 Accounting requirements for derecognition aim to faithfully represent both any asset and liabilities retained after the transaction or other event that led to derecognition and the change in assets or liabilities as a result of that transaction or other event.

G2.91 The aim of paragraph G2.90 is normally achieved by:

a) derecognising any assets or liabilities that have expired or have been consumed, collected, fulfilled or transferred, and recognising any resulting income and expenses; and
b) continuing to recognise any retained assets or liabilities.

G2.92 One or more of the following procedures may be applied to achieve the aims of paragraph G2.90:

a) present the retained component separately in the Statement of Financial Position;
b) present separately in the Statement of Income and Expenses any income and expenses that contribute to surplus and deficit recognised as a result of the derecognition of the transferred component;
c) present separately in the Statement of Changes in Net Assets any income and expenses that do not contribute to surplus and deficit recognised as a result of the derecognition of the transferred component; or
d) provide explanatory information.

Measurement

G2.93 Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis.

G2.94 A measurement basis is an identified feature – for example, historical cost, fair value or fulfilment value – of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.

G2.95 Different measurement bases may be appropriate for different assets, liabilities, income and expenses.

Measurement bases

Historical cost

G2.96 Historical cost measures provide monetary information about the assets, liabilities and related income and expenses using information derived, at least in part, from the price of the transaction or other event that gave rise to them.

G2.97 The historical cost of an asset when it is acquired or created is the value of the costs incurred in acquiring or creating the asset, comprising the consideration paid to acquire or create the asset plus **transaction costs**. The historical cost of a liability when it is incurred or taken on is the value of the consideration received to incur or take on the liability minus transaction costs.

G2.98 The historical cost of an asset is updated over time to depict, if applicable:

a) the consumption of part or all of the economic resource that constitutes the asset (**depreciation** or **amortisation**);
b) payments received that extinguish part or all of the asset;
c) the effect of events that cause part or all of the historical cost of the asset to be no longer recoverable (impairment); and

d) accrual of interest to reflect any financing component of the asset.

G2.99 The historical cost of a liability is updated over time to depict, if applicable:

a) fulfilment of part or all of the liability – for example, by making payments that extinguish part or all of the liability or by satisfying an obligation to deliver goods.
b) the effect of events that increase the value of the obligation to transfer the economic resources needed to fulfil the liability to such an extent that the liability becomes onerous. A liability is onerous if the historical cost is no longer sufficient to depict the obligation to fulfil the liability.
c) accrual of interest to reflect any financing component of the liability.

G2.100 One way to apply a historical cost measurement basis to **financial assets** and **financial liabilities** is to measure them at amortised cost. The **amortised cost of a financial asset or financial liability** reflects estimates of future cash flows, discounted at a rate determined at initial recognition. For variable-rate instruments, the discount rate is updated to reflect changes in the variable rate. The amortised cost of a financial asset or financial liability is updated over time to depict subsequent changes, such as the accrual of interest, the impairment of a financial asset and receipts or payments.

Current value

G2.101 Current value measures provide monetary information about assets, liabilities and related income and expenses using information updated to reflect conditions at the measurement date. Current value measurement bases include:

a) fair value;
b) value in use for assets and fulfilment value for liabilities; and
c) current cost.

G2.102 **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between **market participants** at the measurement date. Because fair value is not derived, even in part, from the price of the transaction or other event that gave rise to the asset or the liability, fair value is not increased by transaction costs incurred when acquiring the asset and is not decreased by the transaction costs incurred when the liability is incurred or taken on.

G2.103 **Value in use** is the **present value** of the cash flows, other economic benefits or service potential that an entity expects to derive from the use of an asset and from its ultimate disposal. **Fulfilment value** is the present value of the cash or other economic resources that an entity expects to be obliged to transfer as it fulfils a liability. As value in use and fulfilment value are usually based on future cash flows, they do not include transaction costs incurred on acquiring an asset or taking on a liability.

G2.104 **The current cost** of an asset is the cost of an equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date plus the transaction costs that would be incurred at that date. The current cost of a liability is the consideration that would be received for an equivalent liability at the measurement date minus the transaction costs that would be incurred at that date.

Information provided by particular measurement bases

G2.105 When selecting a measurement basis, it is important to consider the nature of the information that the measurement basis will produce in the Statement of Financial Position, the Statement of Income and Expenses or the Statement of Changes in Net Assets.

Historical cost

G2.106 Information provided by measuring an asset or liability at historical cost may be relevant to users of financial statements because historical cost uses information derived, at least in part, from the price of the transaction or other event that gave rise to the asset or liability. As historical cost is reduced to reflect consumption of an asset and its impairment, the amount expected to be recovered from an asset measured at historical cost is at least as great as its carrying amount. Similarly, because the historical cost of a liability is increased when it becomes onerous, the value of the obligation to transfer the economic resources needed to fulfil the liability is no more than the carrying amount of the liability.

Current value

G2.107 Information provided by measuring an asset or liability at fair value may have predictive value because fair value reflects market participants' current expectations about the amount, timing and uncertainty of future cash flows.

G2.108 Value in use provides information about the present value of the estimated cash flows or service potential from the use of an asset and from its ultimate disposal. This information may have predictive value because it can be used in assessing the prospects for future net cash inflows or service potential generated by an asset.

G2.109 Fulfilment value provides information about the present value of the estimated cash flows needed to fulfil a liability. Hence fulfilment value may have predictive value, particularly if the liability will be fulfilled rather than transferred or settled by negotiation.

G2.110 Updated estimates of value in use or fulfilment value, combined with information about estimates of the amount, timing and uncertainty of future cash flows or service potential, may also have confirmatory value because they provide feedback about previous estimates of value in use or fulfilment value.

G2.111 Information about assets and liabilities measured at current cost may be relevant because current cost reflects the cost at which an equivalent asset could be acquired or created at the measurement date or the consideration that would be received from incurring or taking on an equivalent liability.

Factors to consider when selecting a measurement basis

G2.112 In selecting a measurement basis for an asset or liability, and for the related income and expenses, it is necessary to consider the nature of the information that the measurement basis will produce in the Statement of Financial Position, the Statement of Income and Expenses or the Statement of Changes in Net Assets.

G2.113 In most cases, no single factor will determine which measurement basis should be selected. The relative importance of each factor will depend on facts and circumstances.

G2.114 The information provided by a measurement basis must be useful to users of financial reports. To achieve this, the information must be relevant, and it must faithfully represent what it purports to represent. In addition, the information provided should, as far as possible, be comparable, verifiable, timely and understandable.

Relevance

G2.115 The relevance of information provided by a measurement basis for an asset or liability and for the related income and expenses is affected by:

a) the characteristics of the asset or liability, in particular whether they are held for their service potential rather than to generate cash flows, the variability of cash flows, and whether the value of the asset or liability is sensitive to market factors or other risks; and
b) how that asset or liability contributes to future cash flows.

G2.116 If the value of an asset or liability is sensitive to market factors or other risks, or if the asset is held for its service potential, its historical cost might differ significantly from its current value. Consequently, historical cost may not provide relevant information if information about changes in value is important to users of financial statements. For example, amortised cost cannot provide relevant information about a financial asset or financial liability that is a derivative.

G2.117 For assets and liabilities that produce cash flows directly, such as assets that can be sold independently and without a significant economic penalty (for example, without a significant disruption to an NPO's activities), the measurement basis that provides the most relevant information is likely to be a current value that incorporates current estimates of the amount, timing and uncertainty of the future cash flows. For assets and liabilities that do not produce cash flows directly, such as assets held for their service potential, the principles of relevance and faithful representation should be considered to the extent that they apply to the facts and circumstances.

G2.118 When an NPO's activity involves managing financial assets and financial liabilities with the objective of collecting contractual cash flows, amortised cost may provide relevant information that can be used to derive the margin between the interest earned on the assets and the interest incurred on the liabilities.

Faithful representation

G2.119 In some circumstances, avoiding an accounting mismatch by using the same measurement basis for related assets and liabilities may provide users of financial reports with information that is more useful than the information that would result from using different measurement bases. This may be particularly likely when the cash flows from one asset or liability are directly linked to the cash flows from another asset or liability.

G2.120 As noted in paragraph G2.23, although a perfectly faithful representation is free from error, this does not mean that measures must be perfectly accurate in all respects.

G2.121 When a measure cannot be determined directly by observing prices in an **active market** and must instead be estimated, measurement uncertainty arises. The level of measurement uncertainty associated with a particular measurement basis may affect whether information provided by that measurement basis provides a faithful representation of an NPO's financial position and income and expenses. A high level of measurement uncertainty does not necessarily prevent the use of a measurement basis that provides relevant information. However, in some cases, the level of measurement uncertainty is so high that information provided by a measurement basis might not provide a sufficiently faithful representation. In such cases, it is appropriate to consider selecting a different measurement basis that would also result in relevant information.

G2.122 Measurement uncertainty is different from both outcome uncertainty and existence uncertainty:

a) outcome uncertainty arises when there is uncertainty about the amount or timing of any inflow or outflow of economic benefits or service potential that will result from an asset or liability.
b) existence uncertainty arises when it is uncertain whether an asset or a liability exists. Paragraphs G2.83–G2.84 discuss how existence uncertainty may affect decisions about whether an NPO entity recognises an asset or liability when it is uncertain whether that asset or liability exists.

Enhancing qualitative characteristics and the cost constraint

G2.123 The enhancing qualitative characteristics of comparability, understandability and verifiability, and the cost constraint have implications for the selection of a measurement basis. The enhancing qualitative characteristic of timeliness has no specific implications for measurement.

G2.124 Consistently using the same measurement bases for the same items, either from period to period within a reporting NPO or in a single period across NPOs, can help make financial reports more comparable.

G2.125 A change in measurement basis can make financial reports less understandable. However, a change may be justified if other factors outweigh the reduction in understandability – for example, if the change results in more relevant information. If a change is made, users of financial reports may need explanatory information to enable them to understand the effect of that change.

G2.126 Understandability depends partly on how many different measurement bases are used and on whether they change over time. In general, if more measurement bases are used in a set of financial reports, the resulting information becomes more complex and hence less understandable, and the totals or subtotals in the Statement of Financial Position, the Statement of Income and Expenses or the Statement of Changes in Net Assets become less informative. However, it could be appropriate to use more measurement bases if that is necessary to provide useful information.

G2.127 Verifiability is enhanced by using measurement bases that result in measures that can be independently corroborated, either directly – for example, by observing prices – or indirectly – for example, by checking inputs to a model. If a measure cannot be verified, users of financial reports may need explanatory information to enable them to understand how the measure was determined. In such cases, it may be necessary to specify the use of a different measurement basis.

Measurement of net assets and equity

G2.128 Net assets equal the total of the carrying amounts of all recognised assets less the total of the carrying amounts of all recognised liabilities.

G2.129 In the rare circumstances where an NPO has equity, it may be appropriate to directly measure the carrying amount of some individual classes and/or components of equity.

Presentation and disclosure

Presentation and disclosure as communication tools

G2.130 A reporting NPO communicates information about its assets, liabilities, equity and funds with and without restrictions in net assets, income and expenses by presenting and disclosing information in its financial reports.

G2.131 Effective communication of information in financial reports makes that information more relevant and contributes to a faithful representation of an entity's assets, liabilities, equity and funds with and without restrictions in net assets, income and expenses. It also enhances the understandability and comparability of information in financial reports.

G2.132 Decisions on selection, location and organisation of information are made in response to the information needs of users. User information needs should underpin:

a) information selection for the financial reports, in particular information about the financial position, income and expenses and cash flows of an NPO;
b) the location of information in the financial reports, which may affect the way that users interpret information; and
c) organisation of information, including decisions on the use of cross-referencing, tables, graphs, headings, numbering and the arrangement of items within a particular component of a report, including decisions on item order.

G2.133 Just as cost constrains other financial reporting decisions, it also constrains decisions about presentation and disclosure. Hence, in making decisions about presentation and disclosure, it is important to consider whether the benefits provided to users of financial reports by presenting or disclosing particular information are likely to justify the costs of providing and using that information.

Classification

G2.134 Classification is the sorting of assets, liabilities, equity, funds with restrictions and funds without restrictions within net assets, income or expenses on the basis of shared characteristics for presentation and disclosure purposes. Such characteristics include but are not limited to the nature of the item, its role (or function) within the activities conducted by the NPO and how it is measured.

G2.135 Classifying dissimilar assets, liabilities, equity, funds with restrictions and funds without restrictions within net assets, income or expenses together can obscure relevant information, reduce understandability and comparability, and may not provide a faithful representation of what it purports to represent.

G2.136 Classification is applied to the unit of account selected for an asset or liability. However, it may sometimes be appropriate to separate an asset or liability into components that have different characteristics, and to classify those components separately when this would enhance the usefulness of the resulting financial information.

G2.137 Income and expenses are classified and included in either:

a) the Statement of Income and Expenses if they contribute to surplus and deficit; or
b) the Statement of Changes in Net Assets if they do not contribute to surplus and deficit.

G2.138 The Statement of Income and Expenses is the primary source of information about an NPO's financial activity for the reporting period. All income and expenses are, in principle, included in that statement if they contribute to surplus and deficit. Income or expenses are to be included in the Statement of Changes in Net Assets if they do not contribute to surplus and deficit when explicitly permitted or required by this Guidance. This results in the Statement of Income and Expenses providing more relevant information or providing a more faithful representation of the NPO's financial activity for that period.

G2.139 Individual Sections of this Guidance may describe situations where income and expenses resulting from the changes in the current value of assets and liabilities are included in the Statement of Income and Expenses or the Statement of Changes in Net Assets.

Offsetting

G2.140 Offsetting occurs when an NPO recognises and measures both an asset and liability as separate units of account but groups them into a single net amount in the Statement of Financial Position. Offsetting classifies dissimilar items together and therefore is generally not appropriate unless required or permitted by a specific Section of this Guidance.

Classification of components of equity and funds in net assets

G2.141 To provide useful information, it may be necessary, where relevant to an NPO, to classify components of equity separately if those components of equity have different characteristics or are subject to particular legal, regulatory or other requirements.

G2.142 Similarly, to provide useful information, where an NPO manages net assets in separate funds, classifying net assets between funds with restrictions and funds without restrictions and providing an explanation of the nature and purpose of the funds and any restrictions will provide useful information.

Aggregation

G2.143 **Aggregation** is the adding together of assets, liabilities, equity, funds with restrictions and funds without restrictions within net assets, income or expenses that have shared characteristics and are included in the same classification.

G2.144 Aggregation makes information more useful by summarising a large volume of detail. However, aggregation conceals some of that detail. Hence, a balance needs to be found so that relevant information is not obscured either by a large amount of insignificant detail or by excessive aggregation.

Application Guidance: Section 2 – Concepts and pervasive principles (New)

Qualitative characteristics of financial and non-financial information

AG2.1 Applying the qualitative characteristics of financial and non-financial information may appear difficult for the many NPOs that have access to limited technical accounting resources. However, it will not be necessary for NPOs to have to consciously consider each of them when accounting for many transactions and economic events and reporting on them in their general purpose financial reports. Rather the guidance in the most appropriate Section will be used to determine the accounting treatment and how the transaction or economic event is recognised, measured, presented and disclosed.

AG2.2 Ensuring accounting systems and processes are in place that are well designed and operating effectively will assist in enabling NPOs to gather and process the financial and non-financial information needed to apply the qualitative characteristics to transactions and economic events and comply with the relevant requirements of INPAG.

AG2.3 From a reporting perspective, the needs of users should guide how NPOs present and disclose financial and non-financial information. Materiality and whether the information is required by users for accountability and decision-making purposes is a key consideration. NPOs also need to ensure that where information is material and is to be reported, users' abilities to understand the information provided is also considered. Some transactions and economic events necessarily require complex accounting treatments. For users to understand these, it may be necessary to provide additional explanatory disclosures. Additional disclosures may also be required to enable users to understand material unrecognised assets and liabilities or longer-term trends.

Restrictions

AG2.4 Externally imposed restrictions on financial resources provided to NPOs may take many forms. The key decision is whether the economic substance of the funding or other legal arrangement means that the resources are in practice freely available to the NPO for use in any of its purposes or activities.

AG2.5 Where there are specific conditions attached to resources provided with restrictions, these may be sufficient to not only require that resources are recognised within funds with restrictions but also the recognition of a liability rather than revenue. Further guidance is provided in Section 23 *Revenue* (to be provided in Exposure Draft 2).

Equity in the NPO context

AG2.6 Equity in the NPO context is not expected to be common, and where it does exist, it is unlikely to be material by magnitude but may be material by nature. It is future economic benefits or service potential that have been contributed to the NPO by external parties other than those that result in liabilities of the NPO and that establish a financial interest in the net assets of the NPO, which:

a) conveys entitlement to both:

   i) distributions of future economic benefits or service potential by the NPO during its life, such distributions being at the discretion of the NPO, and to

   ii) distributions of any excess of assets over liabilities in the event of the NPO being wound up; and/or

b) can be sold, exchanged, transferred or redeemed.

Movements in equity are comprised of contributions from holders of equity claims and distributions to holders of equity claims.

AG2.7 Contributions from holders of equity claims are an inflow of resources to the NPO contributed by external parties that establish or increase a financial interest in the net assets of the NPO. Examples would include the purchase by external parties of share capital issued by the NPO or funds contributed by members that entitle them to a share of net assets. The provision of funding by an external party that provides governance rights but does not establish a financial interest in the net assets of the NPO is not a contribution from holders of equity claims and does not lead to the recognition of equity.

AG2.8 Distributions to holders of equity claims are outflows of resources from the NPO distributed to external parties that return or reduce a financial interest in the net assets of the NPO. Examples would include the repurchase from external parties of shares issued by the NPO or paying funds back to members, so that they no longer have a further entitlement to a share of net assets.

AG2.9 Inflows of resources from contributions from holders of equity claims and outflows of resources from distributions to holders of equity claims are related to transactions with holders of equity claims in their capacity as holders of equity claims. Such transactions are different to transactions that give rise to income and expenses (see paragraphs G2.76–G2.78).

Identification of the reporting NPO

AG2.10 There may be circumstances where a reporting NPO is not easily identified. This might be where:

- the organisational structures are complex or hard to define; or
- the potential reporting entity might be a part of a legal entity; or
- the potential reporting entity may be a combination of two or more legal entities.

Complexities may also come from the existence of branches, which are considered further below.

AG2.11 Paragraphs G2.43–G2.46 set out the requirements relating to the identification of a reporting NPO, including the need to prepare general purpose financial reports as if it were one economic entity or other complete set of activities.

AG2.12 An economic entity or other complete set of activities is likely to exist where there is an identifiable and integrated set of activities and assets that is capable of being operated to raise or manage funds and resources for the NPO. These collective resources are used by the NPO to provide services and goods for the benefit of the public.

AG2.13 If difficulties remain in identifying the reporting NPO, NPOs will also need to apply paragraph G2.48, which requires the determination of the boundary of the reporting NPO by examining the existence of users and their information needs. These users of the reporting NPO's general purpose financial reports will include:

- the public, to whom the NPO provides services and goods;
- providers of resources to the NPO; and
- those fulfilling oversight functions on behalf of the public, to whom the NPO provides services and goods, and resource providers.

AG2.14 Users of the general purpose financial reports are expected to be able to take economic or other decisions based on the information provided in these reports. The reports should also provide transparency over how an NPO has demonstrated accountability in relation to a range of obligations. In many cases, the range of users who are dependent on the general purpose financial reports for accountability purposes, making decisions or allocating resources will be obvious. However, to determine who the users might be and their need for financial reporting, it may be necessary to consider such factors as:

- whether management is acting on behalf of others providing resources;
- impacts of the entity's activity on the welfare of external parties; and
- the financial characteristics of the entity, including its size.

AG2.15 In considering size, account should be taken of all relevant information, including the level of any indebtedness, the number of transactions, the amount of financial and other resources it receives, and the number of members of the public who benefit from the services and goods provided by the NPO. The larger the size of the NPO, the more likely that users will exist who use the financial or other reported information for decision-making and accountability purposes.

AG2.16 When assessing the boundary of a reporting NPO based on the existence and information needs of users, it is essential that it:

- does not contain an arbitrary set of economic activities (or other set of activities related to its purposes) that is incomplete (ie if the financial information provided would be incomplete and lack neutrality, this would not meet the requirements for faithful representation of transactions); and
- results in information for the users of the general purpose financial reports that is neutral, in accordance with the requirements for faithful representation (this means that information provided is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated).

Branches as a reporting entity

Introduction

AG2.17 NPOs may operate through a system of branches, which are administrative arrangements whereby the operating structure of the NPO is arranged according to function, location or other factor to facilitate its administration. These branches may include supporters' groups, members' groups or offices in different locations, and they may operate nationally or internationally. Where the branch is a part of a reporting NPO (for example, an internal subdivision of a reporting entity), the activities of the branch should be included in the general purpose financial reports of the reporting NPO. For the purposes of this Guidance, such internal subdivisions are described as internal branches.

AG2.18 A branch may produce a separate general purpose financial report as a result of legal or other regulatory requirements. However, INPAG requires that the NPO still considers its relationship, if any, with that branch or other reporting NPO entity for financial reporting purposes.

Identification of internal branches

AG2.19 The following are examples of indicators that an operational structure is an internal branch of an NPO and not a separate reporting entity. This list is not exhaustive. The operational structure:

- is not a separate legal structure;
- is not required to provide separate general purpose financial reports;
- uses the name of the reporting NPO in its title, its letterheads, on its website or as a part of its publicity;
- raises funds solely for the reporting NPO;
- presents itself to the public as a local or other form of representative of the reporting NPO; and/or
- receives financial and administrative support, instruction and advice from the reporting NPO.

AG2.20 Consideration of these indicators will require judgement. Displaying just one of the indicators may not mean that an organisation meets the definition of a branch, but in combination with another might lead the reporting NPO to decide that it is an internal branch.

Recognition of assets/liabilities, net assets and income and expenses of branches

AG2.21 There might be occasions when an internal branch produces separate regulatory general purpose financial reports but may still be an internal branch, and therefore where all the income, expenses, assets and liabilities need to be recognised in the reporting NPO's financial statements. This is unlikely to be regularly the case but might happen where, for example, an international NPO has internal branches in separate jurisdictions and where one or more of those jurisdictions requires that the organisation (which would otherwise be deemed to be an internal branch of the international NPO) produce separate general purpose financial reports.

AG2.22 All transactions of an internal branch shall be accounted for as gross within its general purpose financial reports and not netted off against other transactions within its own separate general purpose financial report unless such netting off is allowed within another Section in this Guidance. Where a reporting NPO consists of multiple branches any intra-branch transactions should be netted off within the financial statements of the reporting NPO.

AG2.23 Some branches may hold separate bank accounts and/or produce financial statements for their own purposes. However, the transactions of an internal branch or branches including its assets, liabilities, equity and funds with and without restriction in net assets and income and expenses shall be included in the general purpose financial reports of the reporting NPO.

AG2.24 For example, all funds raised by internal branches shall be recognised as income where they meet revenue recognition criteria in the reporting NPO's financial statements.

Comparison of Section 2 with the *IFRS for SMEs* Accounting Standard

Section 2 of INPAG has been drawn from Section 2 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 2 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 2 of INPAG are as follows:

- INPAG Section 2 provides a description of the primary users of NPO general purpose financial reports, their information needs for accountability and decision-making purposes, and how the information provided by general purpose financial reports meets the needs of users.
- INPAG Section 2 describes the reporting NPO and provides additional guidance on how to determine the reporting NPO and its reporting boundary.
- INPAG Section 2 introduces the concept of service potential in the definition of elements, where service potential relates to the capacity to provide services that contribute to achieving the NPO's objectives without necessarily generating net cash inflows.
- INPAG Section 2 provides guidance for applying the element of equity in the NPO context.
- INPAG Section 2 provides a description of net assets and how separate funds with restrictions and funds without restrictions are the funds within net assets. Funds with restrictions and funds without restrictions are also described, including the importance of externally imposed restrictions.
- INPAG Section 2 amends the *IFRS for SMEs* Accounting Standard's recognition process for income and expenses to reflect that some income and expenses contribute to surplus and deficit, and some are instead recognised in the Statement of Changes in Net Assets.
- INPAG Section 2 includes some presentation principles from IPSAS in relation to decisions on the selection, location and organisation of information in response to users' information needs.

Specific matters for comment	
Question 3: Concepts and pervasive principles	**References**
a) Do you agree with the range of primary users and the description of their needs? If not, what would you propose and why?	G2.3–G2.12
b) Do you agree with the qualitative characteristics of useful information? If not, what would you change and why?	G2.13–G2.32, AG2.1–AG2.3
c) Do you agree with the proposed components of net assets? If not, why not?	G2.73, Figure 2.2
d) Do you agree with the inclusion of equity as an element? If not, what would you propose and why? What type of equity might an NPO have?	G2.141, AG2.6–AG2.9
e) Do you agree with the categorisation of funds between those with restrictions and those without restrictions in presenting accumulated surpluses and deficits? If not, what would you propose and why?	G2.74–G2.75, AG2.4–AG2.5
f) Do you agree that funds set aside from accumulated surpluses for the holders of equity claims can be part of funds with restrictions and funds without restrictions, and that they should be transferred to equity prior to distribution? If not, what would you propose and why?	G2.142, AG2.8–AG2.9
g) Do you agree that 'service potential' should be introduced into Section 2? If not, why not?	G2.51, G2.54, G2.58, G2.67–G2.68, G2.103, G2.108–G2.110, G2.115–G2.117, G2.122
h) Do you agree that the provisions for 'undue cost and effort' used in the *IFRS for SMEs* Accounting Standard should be retained? If not, why not?	G2.33–G2.36
i) Is the NPO as a reporting entity clear? Does the process for identifying branches in the Application Guidance support the principles? If not, what would be more useful?	G2.43–G2.49, AG2.10–AG2.24

Section 3 – Financial statement presentation

Scope of this Section

G3.1 The objective of Section 3 is to prescribe the manner in which **general purpose financial statements** are to be presented to ensure comparability both with an NPO's **financial statements** from previous periods and with the financial statements of other NPOs. This Section explains **fair presentation** of financial statements, what compliance with the INPAG requires and what a complete set of financial statements is.

Fair presentation

G3.2 Financial statements shall present fairly the **financial position**, **income** and **expenses**, other changes in net assets and **cash flows** of an NPO. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and **recognition** criteria for **assets**, **liabilities**, income and expenses set out in Section 2 *Concepts and pervasive principles*:

a) the application of INPAG, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, income and expenses, other changes in net assets and cash flows of NPOs.
b) the application of this Guidance by an NPO with **public accountability** is unlikely to result in a fair presentation in accordance with this Guidance (see paragraph G1.9).

The additional disclosures referred to in a) are necessary when compliance with the specific requirements in this Guidance is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the NPO's financial position and income and expenses.

Compliance with INPAG

G3.3 An NPO whose financial statements comply with INPAG shall make an explicit and unreserved statement of such compliance in the **notes**. Financial statements shall not be described as complying with INPAG unless they comply with all the requirements of this Guidance. Where an NPO is transitioning to INPAG, it shall comply with the disclosure requirements in Section 36 *Transition to the Guidance.*

G3.4 In the extremely rare circumstances when management concludes that compliance with this Guidance would be so misleading that it would conflict with the **objective of financial statements** of NPOs set out in Section 2, the NPO shall depart from that requirement in the manner set out in paragraph G3.5, unless the relevant regulatory framework prohibits such a departure.

G3.5 When an NPO departs from a requirement of this Guidance in accordance with paragraph G3.4, it shall disclose the following:

a) that management has concluded that the financial statements present fairly the NPO's financial position, income and expenses, other changes in net assets and cash flows;
b) that it has complied with INPAG, except that it has departed from a particular requirement to achieve a fair presentation; and
c) The nature of the departure, including the treatment that INPAG would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in Section 2, and the treatment adopted.

G3.6 When an NPO has departed from a requirement of INPAG in a prior period and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph G3.5 c).

G3.7 In the extremely rare circumstances when management concludes that compliance with a requirement in INPAG would be so misleading that it would conflict with the objective of financial statements of NPOs set out in Section 2, but the relevant regulatory framework prohibits departure from the requirement, the NPO shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing the following:

a) the nature of the requirement in INPAG and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in Section 2; and
b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.

Going concern

G3.8 When preparing financial statements, the management of an NPO using INPAG shall assess the NPO's ability to continue as a **going concern**. An NPO is a going concern unless management either intends to liquidate it or to cease activities, or it has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least but is not limited to twelve months from the **reporting date**.

G3.9 When management is aware in making its assessment of **material** uncertainties related to events or conditions that cast significant doubt upon the NPO's ability to continue as a going concern, the NPO shall disclose those uncertainties. When an NPO does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the NPO is not regarded as a going concern.

Frequency of reporting

G3.10 An NPO shall present a complete set of financial statements (including comparative information – see paragraph G3.14) at least annually. When the end of an NPO's **reporting period** changes and the financial statements are presented for a period longer or shorter than one year, the NPO shall disclose the following:

a) that fact;
b) the reason for using a longer or shorter period;
c) the fact that comparative amounts presented in the financial statements (including the related notes) are not entirely comparable.

Consistency of presentation

G3.11 An NPO shall retain the presentation and **classification** of items in the financial statements from one period to the next unless:

a) it is apparent, following a significant change in the nature of the NPO's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in Section 10 Accounting policies, estimates and errors; or
b) this Guidance requires a change in presentation.

G3.12 When the presentation or classification of items in the financial statements is changed, an NPO shall reclassify comparative amounts unless the reclassification is **impracticable**. When comparative amounts are reclassified, an NPO shall disclose the following:

a) the nature of the reclassification;
b) the amount of each item or class of items that is reclassified; and

c) the reason for the reclassification.

G3.13 If it is impracticable to reclassify comparative amounts, an NPO shall disclose why reclassification was not practicable.

Comparative information

G3.14 Except when this Guidance permits or requires otherwise, an NPO shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements. An NPO shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

Materiality and aggregation

G3.15 An NPO shall present separately each material class of similar items. An NPO shall present separately items of a dissimilar nature or function unless they are immaterial.

G3.16 When applying this Guidance, an NPO shall decide, after taking into consideration all the relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. The NPO shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

G3.17 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the **primary users** of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting NPO. Materiality depends on the nature or magnitude of information, or both. An NPO assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Complete set of financial statements

G3.18 A complete set of financial statements of an NPO shall include all the following:

a) a **Statement of Financial Position** as at the reporting date;
b) a **Statement of Income and Expenses** for the reporting period, displaying those items of income and expense recognised during the period in determining **surplus or deficit**;
c) a **Statement of Changes in Net Assets** for the reporting period;
d) a **Statement of Cash Flows** for the reporting period; and
e) notes comprising material accounting policy information and other explanatory information.

G3.19 Because paragraph G3.14 requires comparative amounts in respect of the previous period for all amounts presented in the financial statements, a complete set of financial statements means that an NPO shall present, as a minimum, two of each of the required financial statements and related notes.

G3.20 In a complete set of financial statements, an NPO shall present each financial statement with equal prominence.

G3.21 An NPO may use titles for the financial statements other than those used in this Standard, as long as they are not misleading.

Identification of the financial statements

G3.22 An NPO shall clearly identify each of the financial statements and the notes and distinguish them from other information in the same document. In addition, an NPO shall display the following information prominently and repeat it when necessary for an understanding of the information presented:

a) the name of the reporting NPO and any change in its name since the end of the preceding reporting period;
b) whether the financial statements cover the individual entity or a **group** of entities;
c) the date of the end of the reporting period and the period covered by the financial statements;
d) the **presentation currency** as defined in Section 30 *Foreign currency translation*; and
e) the level of rounding, if any, used in presenting amounts in the financial statements.

G3.23 An NPO shall disclose the following in the notes:

a) the domicile and legal form of the NPO, its country of incorporation or registration (if applicable) and the address of the office registered with the jurisdictional regulator (or principal place of **business** if different from the registered office or there is no registered office).
b) a description of the nature of the NPO's operations and its principal activities.

Presentation of information not required by this Standard

G3.24 This Guidance does not address presentation of segment information, earnings per share (if applicable) or **interim financial reports** by NPOs. An NPO making such disclosures shall describe the basis for preparing and presenting the information.

Application Guidance: Section 3 – Financial statement presentation (New)

Objective of financial statements

AG3.1 The objectives of general purpose financial statements are to provide information about the financial position, income and expenses (financial performance) and cash flows of an entity that is useful to a wide range of users. Specifically, the objectives of general purpose financial reporting for NPOs are to provide information useful for decision making and to demonstrate accountability for the resources entrusted to it. General purpose financial statements can also provide information useful for predicting the level of resources required for continued operations, the resources that may be generated by continued operations and the associated risks and uncertainties.

Fair presentation

AG3.2 Any NPO that has public accountability as defined in the IFRS Standards (see G1.6–G1.7) can use this Guidance to assist in preparing its financial statements. However, the simplifications and presentational differences in this Guidance mean that an NPO with public accountability is unlikely to be able to assert (per G3.2) a fair presentation in accordance with this Guidance, as it may be required to adopt financial reporting standards that differ from the requirements of this Guidance.

Compliance with INPAG

AG3.3 Where all requirements of INPAG have been complied with, the NPO shall make a statement in the notes to the financial statements that it has complied with the requirements. Except where an NPO discloses (in accordance with paragraph G3.5) that a departure from this Guidance is necessary to achieve fair presentation, this statement cannot include any exceptions or caveats to the level of compliance with the Guidance. If exceptions or caveats (other than as prescribed in paragraph G3.5) are needed, then compliance with INPAG cannot be stated.

AG3.4 Paragraph G3.3 sets out the disclosure requirements when adopting INPAG for the first time per [Section 36 *Transition to the Guidance* (to be provided in ED3)]. Jurisdictions may permit INPAG to be adopted over a period of time, or an NPO may adopt a transition path for full adoption of the Guidance such that not all requirements of the Guidance are met immediately. This timeline may differ to that permitted in INPAG.

AG3.5 In such circumstances, the disclosure requirements in Section 36 may not be appropriate, and an NPO should consider what disclosures will be necessary to enable users to understand the financial statements, in addition to any disclosures that are required by the relevant regulator.

Going concern

AG3.6 Financial statements are normally prepared on the assumption that the NPO is a going concern per paragraphs G3.8–G3.9 and will continue in operation and meet its obligations for the foreseeable future.

AG3.7 Before it is appropriate to conclude that the going concern assumption is appropriate, those responsible for the preparation of financial statements shall consider a wide range of factors, including material uncertainties in the operating environment of the NPO. Factors include:

a) current and future demand for services and goods;
b) potential and announced restructurings of organisational units, including decisions to cease any operations;
c) political, legal or regulatory changes;
d) estimates of revenue or the likelihood of continued funding; and
e) potential sources of replacement financing.

AG3.8 Such considerations will depend on the facts in each case. Assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the NPO is nonetheless a going concern. For example, there may be multi-year funding agreements or other arrangements in place that will ensure the continued operation of the NPO.

Consistency and comparability

AG3.9 Paragraphs G3.11–G3.14 set out requirements related to consistency and comparability. Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information but rather a quality of the relationship between two or more items of information.

AG3.10 Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an NPO or in a single period across more than one NPO. Comparability is the goal, and consistency helps in achieving that goal. In some cases, the accounting principles or policies adopted by an NPO may be revised to better represent a particular transaction or event in **general purpose financial reports**. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.

AG3.11 Information about an NPO's financial position, income and expenses, cash flows, achievement of objectives or operational performance, compliance with relevant legislation or other regulations governing the raising and use of resources, and its future plans is necessary for accountability purposes and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:

a) prospective financial and non-financial information previously presented for that reporting period or reporting date;
b) similar information about the same entity for some other period or some other point in time; and
c) similar information about other entities (for example, NPOs providing similar services in different jurisdictions) for the same reporting period.

Materiality and aggregation

AG3.12 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of **aggregation** and classification is the presentation of condensed and classified data, which form line items on the face of the Statement of Financial Position, Statement of Income and Expenses, Statement of Changes in Net Assets, and Statement of Cash Flows or in the notes.

AG3.13 Paragraphs G3.15–G3.17 require that in classifying items in the financial statements, that similar material items should be separated, and that dissimilar, immaterial items may be aggregated. The presentation of information in the financial statements must take account of materiality. If a line item is not individually material, it can be aggregated with other items, either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.

AG3.14 The judgement about how to classify items in the financial statements should focus on whether disclosure of information is important to the user's understanding of the financial statements. Items that are material by nature or by amount should be separately disclosed.

AG3.15 Aggregating material items in any individual financial statement is not permitted, as it could mislead users of the financial information. Separation is required to help provide an appropriate understanding of the financial position, activities and cashflows of the NPO. Guidance on revenue (Section 23) and the classification of expenses (Section 24) [to be provided in Exposure Draft 2 and Exposure Draft 3 respectively] will provide additional guidance on the classification of revenues and expenses.

Complete set of financial statements

AG3.16 The financial statements listed in G3.18 can be referred to by a variety of names both within and across jurisdictions. The Statement of Financial Position may also be referred to as a balance sheet. The Statement of Income and Expenses may also be referred to as a statement of financial performance, an operating statement, or a statement of financial activities. The notes may include items referred to as schedules. Alternative names to those listed in G3.18 can be used as long as in doing so it would not mislead the users of the financial statements.

Comparison of Section 3 with the *IFRS for SMEs* Accounting Standard

Section 3 of INPAG has been drawn from Section 3 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 3 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 3 of INPAG are as follows:

- INPAG Section 3 uses different terminology, referring specifically to NPOs rather than entities more generally.
- INPAG Section 3 refers to income and expenses rather than financial performance to better represent the nature of NPOs. While financial performance is important to all organisations, the purposes/mission of NPOs may prioritise other factors in assessing overall performance.
- INPAG Section 3 requires an NPO to produce a Statement of Income and Expenses that results in a surplus or deficit rather than allowing the choice available in Section 3 of the draft Third edition of the *IFRS for SMEs* Accounting Standard of either a single statement of comprehensive income or a separate income statement and statement of comprehensive income. Surplus and deficit replaces profit and loss.
- INPAG Section 3 replaces the statement of changes in equity with a Statement of Changes in Net Assets.
- The additional guidance in Section 3 of the draft Third edition of the *IFRS for SMEs* Accounting Standard that relates to when the statements are required has been removed to reflect the changes to the statements.
- INPAG Section 3 includes additional commentary in relation to the transitional guidance to be contained in Section 36 of INPAG. This Section will be updated in Exposure Draft 3 of the of INPAG.
- INPAG Section 3 amends the information required about the reporting entity, including registration information, so that it addresses the more varied arrangements for NPOs. The requirements are intended to provide equivalent information.

Specific matter for comment	
Question 4: Principles to enable comparability of financial statements	**References**
a) Do you agree with the proposed changes to terminology from the *IFRS for SMEs* Accounting Standard? If not, what would you propose and why?	Sections 3–10
b) Do you agree that comparatives should be shown on the face of the primary statements? In particular, do you agree with the proposed comparatives for the Statement of Income and Expenses? If not, what do you propose?	G3.14, G3.19, AG3.9–AG3.11, BC5.11
c) Do the proposals for expressing compliance with INPAG create unintended consequences? If so, what are your key concerns?	G3.3–G3.7, AG3.3–AG3.5

Section 4 – Statement of Financial Position

Scope of this Section

G4.1 This Section sets out the information that is to be presented in a **Statement of Financial Position** and how to present it. The Statement of Financial Position (sometimes called the balance sheet) presents an NPO's **assets**, **liabilities** and net assets (comprising **funds with restrictions**, **funds without restrictions**, any **equity**, and exceptionally **non-controlling interests**) as of a specific date – the end of the **reporting period**.

Information to be presented in the Statement of Financial Position

G4.2 The Statement of Financial Position shall include line items that present the following amounts:

a) **cash** and **cash equivalents**;
b) operating and other receivables;
c) **financial assets** (excluding amounts shown under a), b), k) and l));
d) **inventories**;
e) **property, plant and equipment** (including **bearer plants** in the scope of Section 17 *Property, plant and equipment*);
f) **investment property** carried at cost less accumulated **depreciation** and **impairment**;
g) investment property carried at **fair value** through **surplus or deficit**;
h) **intangible assets**;
i) **biological assets** in the scope of Section 34 *Specialised activities* carried at cost less accumulated depreciation and impairment;
j) biological assets in the scope of Section 34 carried at fair value through surplus or deficit;
k) investments in **associates**;
l) investments in **jointly controlled entities**;
m) operating and other payables;
n) **financial liabilities** (excluding amounts shown under m) and q));
o) liabilities and assets for **current tax**;
p) **deferred tax liabilities** and **deferred tax assets** (these shall always be classified as non-current);
q) **provisions**;
r) **non-controlling interest**, presented within net assets;
s) equity, being the cumulative total at the reporting date of **contributions from holders of equity claims** less **distributions to holders of equity claims**;
t) the aggregate of funds with restrictions; and
u) the aggregate of funds without restrictions.

G4.3 An NPO shall present additional line items (including by disaggregating the line items listed in paragraph G4.2), headings and subtotals in the Statement of Financial Position when such presentation is relevant to an understanding of the NPO's **financial position**.

Current/non-current distinction

G4.4 An NPO shall present current and non-current assets, and current and non-current liabilities, as separate **classifications** in its Statement of Financial Position in accordance with paragraphs G4.5–G4.8, except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented in order of approximate liquidity (ascending or descending).

Current assets

G4.5 An NPO shall classify an asset as current when:

a) it expects to realise the asset, or intends to sell or consume it, in the NPO's normal operating cycle;
b) it holds the asset primarily for the purpose of its **operating activities**;
c) it expects to realise the asset within twelve months after the **reporting date**; or
d) the asset is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

G4.6 An NPO shall classify all other assets as non-current. When the NPO's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

Current liabilities

G4.7 An NPO shall classify a liability as current when:

a) it expects to settle the liability in the NPO's normal operating cycle;
b) it holds the liability primarily for the purpose of its operating activities;
c) the liability is due to be settled within twelve months after the reporting date; or
d) the NPO does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date.

G4.8 An NPO shall classify all other liabilities as non-current.

Normal operating cycle

G4.9 There is a rebuttable presumption that an NPO's operating cycle is twelve months. Where the presumption is rebutted, the operating cycle of an NPO is the time taken to convert inputs or resources into outputs. For instance, an NPO may receive donations or grants and use these resources to deliver services to meet the NPO's objectives.

Sequencing of items and format of items in the Statement of Financial Position

G4.10 This Guidance does not prescribe the sequence or format in which items are to be presented. Paragraph G4.2 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation in the Statement of Financial Position. In addition:

a) line items are included when the size, nature or function of an item or **aggregation** of similar items is such that separate presentation is relevant to an understanding of the NPO's financial position; and
b) the descriptions used and the sequencing of items or aggregation of similar items may be amended, according to the nature of the NPO and its transactions, to provide information that is relevant to an understanding of the NPO's financial position.

G4.11 The judgement on whether additional items are presented separately is based on an assessment of all the following:

a) the amounts, nature and liquidity of assets;
b) the function of assets within the NPO; and
c) the amounts, nature and timing of liabilities.

Information to be presented either in the Statement of Financial Position or in the notes

G4.12 An NPO shall disclose, either in the Statement of Financial Position or in the **notes**, the following subclassifications of the line items presented:

a) property, plant and equipment in classifications appropriate to the NPO.
b) cash and cash equivalents, showing separately cash that may not be available for use by the NPO (comprising cash and cash equivalents that have restrictions due to reasons such as foreign exchange controls, legal restrictions or restrictions imposed by donors – for example, the retention of cash in a specified bank account).
c) operating and other receivables, showing separately amounts due from related parties, amounts due from other parties and receivables arising from accrued income not yet billed.
d) inventories, showing separately amounts of inventories:

    i) held for sale in the ordinary course of operations
    ii) held for distribution in the ordinary course of operations
    iii. in the process of production for such sale
    iv. in the form of materials or supplies to be consumed in the production process or in the rendering of services.

e) operating and other payables, showing separately amounts payable to operating suppliers, payable to related parties, deferred income and accruals.
f) provisions for **employee benefits** and other **provisions**.

G4.13 The use of separate columns to present items in the Statement of Financial Position in respect of funds with restrictions and funds without restrictions is not required, but an NPO may choose to do so if this will provide useful information to users of the **financial statements**.

G4.14 An NPO shall disclose an analysis of net assets, either on the face of the Statement of Financial Position or in the notes, showing separately material individual reserves or funds, including a description of the nature and purpose of each reserve or fund.

G4.15 In addition to the disclosures in G4.12, an NPO with share capital shall disclose the following, either in the Statement of Financial Position or in the notes for each class of share capital:

a) the number of shares authorised;
b) the number of shares issued and fully paid and issued but not fully paid;
c) par value per share or that the shares have no par value;
d) a reconciliation of the number of shares outstanding at the beginning and at the end of the period. This reconciliation need not be presented for prior periods;
e) the rights, preferences and restrictions attaching to that class, including restrictions on the distribution of **dividends** and the repayment of capital;
f) shares in the entity held by the NPO or by its controlled entities or associates; and
g) shares reserved for issue under options and **contracts** for the sale of shares, including the terms and amounts.

G4.16 An NPO with equity other than share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph G4.15, showing changes during the period in each category of equity and the rights, preferences and restrictions attaching to it.

G4.17 If at the reporting date an NPO has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities, the NPO shall disclose the following information:

a) a description of the asset(s) or the group of assets and liabilities;
b) a description of the facts and circumstances of the sale; and
c) the **carrying amount** of the assets or, if the disposal involves a group of assets and liabilities, the carrying amounts of those assets and liabilities.

Application Guidance: Section 4 – Statement of Financial Position (New)

Information to be presented in the Statement of Financial Position

AG4.1 The nature of the net assets of an NPO can be a combination of equity and the aggregate of the entity's accumulated surpluses or deficits and reserves that are the funds with restrictions and funds without restrictions. The provision of information through additional disclosures and sequencing should take account information needs of **service beneficiaries**.

AG4.2 Paragraph G4.2 sets out the minimum information that must be presented on the face of the Statement of Financial Position. This level of information is consistent with that required in other international financial reporting standards. However, it presumes that the majority of NPOs will not have equity in the form of share capital. As a consequence, this information is not required to be shown on the face of statement. An NPO can choose, where it has share capital, to disclose it separately; otherwise, it will be part of equity. G4.15 requires further disclosures if an NPO has share capital.

AG4.3 For private sector entities, it is typical that the balance sheet shows equity split between controlling interests (ie that owned by equity holders) and non-controlling interests. This requirement (to split controlling and non-controlling interests) has been retained in paragraph G4.2, as some NPOs may have non-controlling interests. However, in most cases, an NPO will have no non-controlling interests and will not need to apply the requirement of G4.2 r).

Current/non-current distinction

AG4.4 When an NPO supplies services or goods within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the Statement of Financial Position provides useful information. It distinguishes between those net assets that are continuously circulating as working capital from those used in the entity's long-term operations. There is a rebuttable presumption that an NPO's operating cycle is twelve months. However, where an NPO does not supply services or goods within a clearly identifiable operating cycle, G4.4 allows a presentation of assets and liabilities in ascending or descending order of liquidity that may provide information that is faithfully representative and is more relevant than a current/non-current presentation.

Information to be presented in the Statement of Financial Position or in the notes

AG4.5 Paragraphs G4.14 and G4.15 require an NPO to disclose information about the components of its net assets. Paragraph G4.14 requires that funds with restrictions and funds without restrictions are disaggregated to show material funds or reserves. Within funds with restrictions, this would require that either individual or aggregates of similar related items are disclosed. For example, this could include aggregate of funds related to a particular donor or grantor or aggregate of funds related to a particular programme. Judgements should be made based on the usefulness of the information to users of an NPO's **general purpose financial reports** as outlined in G3.15–G3.17.

AG4.6 Within funds without restrictions, an NPO might disclose any reserves that management has earmarked for particular purposes. Judgements on disclosures should mirror the approach in AG4.5.

AG4.7 Other components of net assets, other than equity and non-controlling interests (for example, reserves relating to the revaluation of assets or liabilities, pension reserves, etc.) should be included within funds with restrictions or funds without restrictions according to their nature.

AG4.8 Many NPOs will not have share capital, having been formed under legislation or regulations that do not require the NPO to be an incorporated structure; for example, an NPO may be a partnership or trust. However, an NPO may have some form of equity such as funds that have been provided to set it up and that provide an interest in the residual net assets of the NPO. Equity may include debt or other instruments that give the owners of that debt or instrument rights to the assets of the NPO other than as ordinary loan collateral. Where this exists, G4.16 requires additional disclosures.

AG4.9 The aforementioned disclosures must include the nature and amount of equity, disaggregated by material category. Relevant disclosures are likely to include:

a) opening and closing balances;
b) the reasons for changes during the period (including distributions to holders of equity claims and any new contributions from holders of equity claims); and
c) any changes to the rights attached to each category of equity.

AG4.10 In those situations where an NPO does have share capital, paragraph G4.15 requires disclosure of information about the amount of shares, the amount received and ownership. For the majority of NPOs, the requirement of this paragraph is unlikely to apply.

AG4.11 In addition to the separation of funds with restrictions and funds without restrictions, G4.12 requires that the level of restricted cash is presented on the face of the Statement of Financial Position or in the notes to the financial statements.

Sequence and format of items in the Statement of Financial Position

AG4.12 Paragraph G4.2 does not prescribe the sequence or format in which items are to be presented. However, in line with the principles for presenting financial statements set out in Section 3, material items should be presented separately. Items are material if omitting, misstating or obscuring them would make a difference to decisions made by users of the financial statements. This may require the inclusion of additional line items in the Statement of Financial Position. NPOs should also consider whether information is being obscured by including insignificant line items that could be aggregated without affecting decisions made by users of the financial statements.

Comparison of Section 4 with the *IFRS for SMEs* Accounting Standard

Section 4 of INPAG has been drawn from Section 4 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 4 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 4 of INPAG are as follows:

- INPAG Section 4 replaces ‘equity’ as defined in the *IFRS for SMEs* Accounting Standard with ‘net assets’ in its description of the Statement of Financial Position. Net assets are comprised of funds with restrictions, funds without restrictions, equity (which is defined in Section 2 for the NPO context) and exceptionally non-controlling interests.
- Consequently, Section 4 of INPAG removes ‘equity attributable to owners of the entity’ and replaces it with equity, funds with restrictions and funds without restrictions. Several core disclosures relating to equity have been removed, with disclosures only where applicable.
- INPAG Section 4 clarifies that there is no requirement to split all items in the Statement of Financial Position between those with and without restrictions.
- INPAG Section 4 requires that funds with and without restrictions are disaggregated into their main components, either on the face of or in the notes to the financial statements.
- INPAG Section 4 replaces the word ‘trade’ in relation to receivables, payables and liabilities used in Section 4 of the draft Third edition of the *IFRS for SMEs* Accounting Standard with ‘operating’ to accommodate the range of activities that NPOs carry out.
- INPAG Section 4 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other Sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.

Specific matter for comment	
Question 5: Scope and presentation of the Statement of Financial Position	**References**
a) Do you agree that all asset and liability balances should be split between current and non-current amounts (except where a liquidity-based presentation has been adopted)? If not, why not?	G4.5–G4.9, AG4.4
b) Do you agree with the proposal that not all categories of asset and liability balances should be split between those with and those without restrictions? If not, which categories of asset and/or liability should be split?	G4.13–G4.14, AG4.5–AG4.7

Section 5 – Statement of Income and Expenses

Scope of this Section

G5.1 This Section requires an NPO to present its **income and expenses** for a period – ie its financial activity for the period. It sets out the information that is to be presented in this statement and how to present it.

Presentation of income and expenses

G5.2 An NPO shall present a **Statement of Income and Expenses** that presents all items of income and expense recognised in the period, except those that are recognised in the **Statement of Changes in Net Assets** as permitted or required by this Guidance.

G5.3 Aggregated income and expenses with restrictions shall be presented in a separate column to aggregated income and expenses without restrictions on the face of the Statement of Income and Expenses.

G5.4 The effects of corrections of **errors** and changes in **accounting policies** are presented as retrospective adjustments of prior periods instead of as part of surplus or deficit in the period in which they arise (see Section 10).

G5.5 The Statement of Income and Expenses shall include all items of income and expense recognised in a period unless this Guidance requires otherwise. An NPO shall present its unrealised gains or losses from **fair value** adjustments as part of the surplus or deficit, except where these gains or losses are recognised in the Statement of Changes in Net Assets (see paragraph G5.6). These should be presented after **surplus or deficit from operating activities** in arriving at the total surplus or deficit of the NPO. Disclosure should be made of unrealised gains and losses from fair value adjustment to:

a) investment properties that are carried at fair value through surplus or deficit
b) **financial instrument**s that are carried at fair value through surplus or deficit
c) defined benefit pensions where actuarial adjustments are recognised through surplus or deficit.

G5.6 Four types of unrealised gains or losses are recognised as part of Statement of Changes in Net Assets outside of surplus or deficit when prescribed by this Guidance:

a) some **gains** and **losses** arising on translating the **financial statements** of a foreign operation (see Section 30 *Foreign currency translation*);
b) some actuarial gains and losses (see Section 28 *Employee benefits*);
c) some changes in **fair values** of **hedging instruments** (see Part II of Section 11 *Other financial instrument issues*); and
d) changes in the revaluation surplus for **property, plant and equipment**, measured in accordance with the revaluation model (see Section 17 *Property, plant and equipment*).

G5.7 An NPO shall include, in the Statement of Income and Expenses, line items that present the following amounts for the period:

a) **revenue**;
b) finance costs;
c) share of the surplus or deficit of investments in **associates** (see Section 14 *Investments in associates*) and **jointly controlled entities** (see Section 15 *Joint arrangements*), accounted for using the equity method;
d) **tax expense**, excluding tax allocated to items e), g) and h) (see paragraph 29.35);

e) a single amount comprising the total of:

   i) the post-tax surplus or deficit of a **discontinued operation**; and
   ii) the post-tax gain or loss attributable to an **impairment**, or reversal of an impairment, of the **assets** in the discontinued operation (see Section 27 *Impairment of assets*), both at the time and subsequent to being classified as a discontinued operation and to the disposal of the net assets constituting the discontinued operation;

f) surplus or deficit from operating activities;
g) each unrealised gain or loss (see paragraph G5.5) classified by nature (excluding amounts in h));
h) share of the gains or losses of associates and jointly controlled entities accounted for using the equity method; and
i) total surplus or deficit.

G5.8 An NPO shall disclose separately in the Statement of Income and Expenses as allocations for the period surplus or loss for the period attributable to:

a) **non-controlling interest**;
b) holders of **equity claims**.

G5.9 An NPO shall present additional line items, headings and subtotals in the Statement of Income and Expenses when such presentation is relevant to an understanding of the NPO's financial performance.

G5.10 An NPO shall not present or describe any items of income and expense as 'extraordinary items' in the Statement of Income and Expenses or in the **notes**.

Analysis of expenses

G5.11 An NPO shall present an analysis of expenses that provides information that is reliable and relevant. This analysis may be presented either in the Statement of Income and Expenses or in the notes. [Section 24 will contain further guidance on the **classification** of expenses that will be published in Exposure Draft 3].

Application Guidance: Section 5 – Statement of Income and Expenses (New)

Information to be presented in the Statement of Income and Expenses

AG5.1 The effects of an NPO's various financial activities, transactions and other events differ in terms of its ability to meet its service delivery obligations. Disclosing the components of income and expenses assists in an understanding of the financial activities delivered and in making projections of future results.

AG5.2 Additional line items are included on the face of the Statement of Income and Expenses, and the descriptions used and ordering of items are amended when this is necessary to explain the elements of activity. Factors to be considered include:

a) materiality;
b) the nature and function of the components of revenue; and
c) the nature and function of the components of expenses.

AG5.3 Paragraph G5.7 does not prescribe the sequence or format in which items are to be presented in the Statement of Income and Expenses. However, in line with the principles for presenting financial statements set out in Section 3, material items should be presented separately. Items are material if omitting, misstating or obscuring them would make a difference to decisions made by users of the financial statements. This may require the inclusion of additional line items in the Statement of

Income and Expenses. NPOs should also consider whether information is being obscured by including insignificant line items that could be aggregated without affecting decisions made by users of the financial statements.

Income and expenses with restrictions

AG5.4 Paragraph G5.3 requires that the face of the Statement of Income and Expenses shows the **aggregation** of income and expenses with restrictions shall be presented in a separate column to the aggregation of income and expenses without restrictions. In determining restrictions, regard should be given to the definition of restricted funds in Section 2, paragraph G2.74 and to the requirements of other parts of this Guidance [Sections 23 and 24, to be updated in Exposure Draft 2].

AG5.5 All income that meets the definition of a restriction in G2.74 shall be shown in the 'with restrictions' column. The expenses that relate to the activities being funded by income with restrictions are to be separately identified and included in the 'with restrictions' column.

AG5.6 An NPO should disaggregate the 'with restrictions' column into the individual funds, or a subgrouping of funds or programmes, in the notes to the accounts, where this provides information that is useful to the users of the financial statements. An NPO may present this analysis on the face of the Statement of Income and Expenses.

Classification of income

AG5.7 Income comprises revenue, interest income and other income (including income from royalties and licences). Paragraph G5.7 requires that revenue as a component of income is analysed on the face of the financial statement. The illustrative financial statements provide examples of the classification of revenue, which if relevant might include an analysis between general grants and donations, grants for and donations of non-current assets, and sales of services and goods.

Classification of expenses

AG5.8 Paragraph G5.11 requires that expenses be subclassified. Expenses are subclassified to highlight the costs and cost recoveries of particular programmes, activities or other relevant segments of an NPO. NPOs are required to present an analysis of expenses on the face of the Statement of Income and Expenses. [Section 24 will contain further guidance on the classification of expenses that will be published in Exposure Draft 3].

Additional disclosures

AG5.9 The Guidance does not permit any items to be described as extraordinary as outlined in G5.10. However, there may be circumstances when disclosing additional line items that will be beneficial to users' understandings of the financial statements. Where material by nature or by amount, the circumstances that would give rise to the separate disclosure of items of income and expense include:

a) write-downs of inventories to net realisable value, or of property, plant, and equipment to **recoverable amount**, as well as reversals of such write-downs;
b) restructurings of the activities of an NPO and reversals of any provisions for the costs of restructuring;
c) disposals of items of property, plant, and equipment;
d) disposals of investments;
e) discontinuing operations;
f) litigation settlements; and
g) other reversals of provisions.

This list is not exhaustive, and other circumstances may occur that would give rise to the separate disclosure of items of income and expenses.

Comparison of Section 5 with the *IFRS for SMEs* Accounting Standard

Section 5 of INPAG has been drawn from Section 5 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 5 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 5 of INPAG are as follows:

- INPAG Section 5 requires an NPO to produce a Statement of Income and Expenses that results in a surplus or deficit rather than allowing the choice available in Section 5 of the draft Third edition of the *IFRS for SMEs* Accounting Standard of either a single statement of comprehensive income or a separate income statement and statement of comprehensive income. References to the choice between these two statements have been removed throughout Section 5.
- The terms surplus and deficit are used in INPAG Section 5 rather than profit and loss.
- INPAG Section 5 requires that unrealised gains and losses arising from fair value adjustments are shown after surplus or deficit from operating activities on the Statement of Income and Expenses unless required to be shown in the Statement of Changes in Net Assets.
- INPAG Section 5 refers to holders of equity claims instead of 'owners of the parent' used in the draft Third edition of the *IFRS for SMEs* Accounting Standard.
- Detailed requirements relating to the classification of expenses are not included in Section 5, as a new Section provides NPO-specific guidance [to be published in Exposure Draft 3].
- INPAG Section 5 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other Sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.

Specific matter for comment	
Question 6: Scope and presentation of the Statement of Income and Expenses	**References**
a) Do you agree with the name of the primary statement being 'Statement of Income and Expenses'? If not, why not?	BC5.1–BC5.5
b) Do you agree that the terms surplus and deficit should be used instead of profit or loss? If not, why not?	G5.5, BC5.6
c) Do you agree that amounts on each line of revenue and expenses should be split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why?	G5.3, AG5.4–AG5.6, BC5.9–BC5.12
d) Do you agree that NPOs should be able to choose whether to present either income items or expense items first to get to a surplus or deficit? If not, what alternative approach would you propose and why?	Implementation Guidance

Section 6 – Statement of Changes in Net Assets

Scope of this Section

G6.1 This Section sets out requirements for presenting the changes in an NPO's net assets for a period.

Presentation

G6.2 The Statement of Changes in Net Assets presents an NPO's **surplus or deficit** for a **reporting period**, **gains or losses** not taken through the Statement of Income and Expenses, movements between funds, the effects of changes in **accounting policies** and corrections of **errors** recognised in the period, and the amounts of contributions by and distributions to holders of **equity claims** during the period.

G6.3 An NPO shall present in the Statement of Changes in Net Assets for, **equity, funds with restrictions**, **funds without restrictions** and **non-controlling interests** that together comprise net assets, a reconciliation between the **carrying amount** at the beginning and the end of the period, separately disclosing:

a) surplus or deficit;
b) the effects of changes in accounting policies and corrections of errors recognised in accordance with Section 10 *Accounting policies, estimates and errors*;
c) changes resulting from gains or losses that are recognised directly in net assets (see paragraph G5.6);
d) total income and expenses to be a subtotal of a) b) and c), showing separately any amount relating to a non-controlling interest;
e) changes resulting from movements between funds with restrictions and funds without restrictions, and any of the other identified components; and
f) changes resulting from movements in equity, including **distributions to holders of equity claims** and **contributions from holders of equity claims**.

G6.4 An NPO shall provide a reconciliation of the **carrying amount** at the beginning and the end of the period, in line with G6.3, of any material subcomponents of net assets (such as funds with restrictions and funds without restrictions) in the notes to the accounts, which aggregate to the components shown on the primary statement.

Comparison of Section 6 with the *IFRS for SMEs* Accounting Standard

Section 6 of INPAG has been drawn from Section 6 of the *IFRS for SMEs* Accounting Standard but has been updated to be specific to the statement requirements for NPOs. The overall purpose of Section 6 is consistent with Section 6 of the draft Third edition of the *IFRS for SMEs* Accounting Standard. The main differences between Section 6 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and the Section 6 of INPAG are as follows:

- INPAG Section 6 replaces the statement of changes in equity with a Statement of Changes in Net Assets and does not include any requirement for a statement of income and retained earnings.
- INPAG Section 6 amends the scope from requiring the presentation of changes in an entity's equity for a period to changes in an NPO's net assets, with the purpose amended to reflect the single statement approach.
- INPAG Section 6 prescribes the items to be presented on the face of the statement to allow the subtotalling of income and expenses consistent with the definition of comprehensive income.
- INPAG Section 6 requires a reconciliation of the opening and closing carrying amounts of any material subcomponent of equity, funds with restrictions, funds without restrictions and non-controlling interests in the notes to the accounts.
- INPAG Section 6 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other Sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.

Specific matter for comment

Question 7: Scope and presentation of the Statement of Changes in Net Assets	**References**
a) Do you agree with the proposal that there is no 'Other Comprehensive Income' (OCI) and that an expanded Statement of Changes in Net Assets would allow an equivalent to the OCI being produced. If not, why not?	G6.2, BC5.13–BC5.16, BC6.1–BC6.5,
b) Do you agree that funds are split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why?	G6.4

Section 7 – Statement of Cash Flows

Scope of this Section

G7.1 This Section sets out the information that is to be presented in a Statement of Cash Flows and how to present it. The Statement of Cash Flows provides information about the changes in **cash** and **cash equivalents** of an NPO for a reporting period, showing separately changes from **operating activities**, **investing activities** and **financing activities**.

Cash equivalents

G7.2 Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. They are held to meet short-term cash commitments instead of for investment or other purposes. Consequently, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an NPO's cash management, bank overdrafts are a component of cash and cash equivalents.

Information to be presented in the Statement of Cash Flows

G7.3 An NPO shall present a Statement of Cash Flows that presents cash flows for a reporting period classified by operating activities, investing activities and financing activities.

Operating activities

G7.4 Operating activities are the principal activities of the NPO. Consequently, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of surplus or deficit. Examples of cash flows from operating activities are:

a) cash receipts from grants and donations (excluding grants and donations whose use is restricted to the acquisition or construction of **property, plant and equipment, intangible assets** and other long-term assets);
b) cash receipts from the rendering of services and the sale of goods;
c) cash receipts from royalties, fees, commissions and other revenue;
d) cash payments to suppliers for goods and services;
e) cash payments to and on behalf of employees;
f) cash payments or refunds of income tax, unless they can be specifically identified with financing and investing activities;
g) cash receipts and payments from investments, loans and other **contracts** held for dealing or trading purposes, which are similar to inventory acquired specifically for resale; and
h) cash receipts and payments from advances and loans made to other parties where such transactions are the NPO's primary objective.

Some transactions, such as the sale of an item of property, plant or equipment, may give rise to a gain or loss that is included in surplus or deficit. However, the cash flows relating to such transactions are cash flows from investing activities.

Investing activities

G7.5 Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Examples of cash flows arising from investing activities are:

a) cash payments to acquire property, plant and equipment (including self-constructed property, plant and equipment), intangible assets and other long-term assets;
b) cash receipts from grants and donations whose use is restricted to the acquisition or construction of property, plant and equipment, intangible assets and other long-term assets;
c) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
d) cash payments to acquire **equity** or debt instruments of other entities and interests in jointly controlled entities (other than payments for those instruments classified as cash equivalents or held for dealing or trading);
e) cash receipts from sales of equity or debt instruments of other entities and interests in jointly controlled entities (other than receipts for those instruments classified as cash equivalents or held for dealing or trading);
f) cash advances and loans made to other parties (except where such transactions are the NPO's primary objective which, consistent with paragraph G7.4(h), which should be treated as operating);
g) cash receipts from the repayment of advances and loans made to other parties (except where such transactions are the NPO's primary objective which, consistent with paragraph G7.4(h), which should be treated as operating);
h) cash payments for futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading, or the payments are classified as financing activities; and
i) cash receipts from futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge (see Part II of Section 11 *Other Financial Instrument Issues*), an NPO shall classify the cash flows of the contract in the same manner as the cash flows of the item being hedged.

Financing activities

G7.6 Financing activities are activities that result in changes in the size and composition of the equity and borrowings of an NPO. Examples of cash flows arising from financing activities are:

a) cash proceeds from **contributions from holders of equity claims** (including the issue of shares, if applicable);
b) cash payments to holders of **equity claims** to acquire or redeem the NPO's equity;
c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;
d) cash repayments of amounts borrowed; and
e) cash payments by a lessee for the reduction of the outstanding liability relating to a **finance lease**.

Reporting cash flows from operating activities

G7.7 An NPO shall present cash flows from operating activities using either:

a) the indirect method, whereby surplus or deficit is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments and items of income or expense associated with investing or financing cash flows; or
b) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

Indirect method

G7.8 Under the indirect method, the net cash flow from operating activities is determined by adjusting surplus or deficit for the effects of:

a) changes during the period in **inventories** and operating receivables and payables;
b) non-cash items such as **depreciation**, **provisions**, **deferred tax**, accrued income (expenses) not yet received (paid) in cash, unrealised foreign currency gains and losses, undistributed profits of **associates** and donations of goods and services; and
c) all other items for which the cash effects relate to investing or financing.

Direct method

G7.9 Under the direct method, net cash flow from operating activities is presented by disclosing information about major classes of gross cash receipts and gross cash payments. Such information may be obtained either:

a) from the accounting records of the NPO, or
b) by adjusting income, expenses and other items in the **Statement of Income and Expenses** for:
   i) changes during the period in inventories and operating receivables and payables;
   ii) other non-cash items; and
   iii) other items for which the cash effects are investing or financing cash flows.

Reporting cash flows from investing and financing activities

G7.10 An NPO shall present separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. The aggregate cash flows arising from acquisitions and from disposals of controlled entities or other **business** units shall be presented separately and classified as investing activities.

Foreign currency cash flows

G7.11 An NPO shall record cash flows arising from transactions in a foreign currency in the NPO's **functional currency** by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow. Paragraph 30.19 explains when an exchange rate that approximates the actual rate can be used.

G7.12 The NPO shall translate cash flows of a foreign **controlled entity** at the exchange rates between the NPO's functional currency and the foreign currency at the dates of the cash flows.

G7.13 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, to reconcile cash and cash equivalents at the beginning and the end of the period, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency must be presented in the Statement of Cash Flows. Consequently, the NPO shall remeasure cash and cash equivalents held during the reporting period (such as amounts of foreign currency held and foreign currency bank accounts) at period-end exchange rates. The NPO shall present the resulting unrealised gain or loss separately from cash flows from operating, investing and financing activities.

Interest and capital distributions

G7.14 An NPO shall present separately cash flows from interest and **distributions to holders of equity claims** (including **dividends**) received and paid. The NPO shall classify cash flows consistently from period to period as operating, investing or financing activities.

G7.15 An NPO may classify interest paid and interest and distributions to holders of equity claims (including dividends) received as operating cash flows because they are included in **surplus or deficit from**

operating activities. Alternatively, the NPO may classify interest paid and interest and distributions to holders of equity claims (including dividends) received as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

G7.16 An NPO may classify distributions to holders of equity claims paid as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, the NPO may classify distributions to holders of equity claims paid as a component of cash flows from operating activities because they are paid out of operating cash flows.

Income tax

G7.17 An NPO shall present separately cash flows arising from income tax and shall classify them as cash flows from operating activities unless they can be specifically identified with financing and investing activities. When tax cash flows are allocated over more than one class of activity, the NPO shall disclose the total amount of taxes paid.

Non-cash transactions

G7.18 An NPO shall exclude from the Statement of Cash Flows investing and financing transactions that do not require the use of cash or cash equivalents. An NPO shall disclose such transactions elsewhere in the **financial statements** in a way that provides all the relevant information about those investing and financing activities.

G7.19 Many investing and financing activities do not have a direct impact on current cash flows even though they affect the capital and asset structure of an NPO. The exclusion of non-cash transactions from the Statement of Cash Flows is consistent with the objective of a Statement of Cash Flows because these items do not involve cash flows in the current period. Examples of non-cash transactions are:

a) the receipt of donated assets;
b) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;
c) the acquisition of an entity by means of an equity issue; and
d) the conversion of debt to equity.

Changes in liabilities arising from financing activities

G7.20 An NPO shall disclose a reconciliation between the opening and closing balances in the Statement of Financial Position for liabilities arising from financing activities. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Statement of Cash Flows as cash flows from financing activities. The reconciliation shall include:

a) changes from financing cash flows;
b) changes arising from obtaining or losing control of subsidiaries or other businesses;
c) the effect of changes in foreign exchange rates;
d) changes in **fair values**; and
e) other changes.

Components of cash and cash equivalents

G7.21 An NPO shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts presented in the Statement of Cash Flows to the equivalent items presented in the Statement of Financial Position. However, the NPO is not required to present this reconciliation if the amount of cash and cash equivalents presented in the Statement of Cash Flows is identical to the amount similarly described in the Statement of Financial Position.

Other disclosures

G7.22 An NPO shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the NPO that are not available for use by the NPO. Cash and cash equivalents held by an NPO may not be available for use by the NPO because of, among other reasons, foreign exchange controls or legal restrictions (including restrictions imposed by donors). For example, exchange controls may mean that an NPO's trading operation in one country is unable to transfer profits to the controlling NPO in another country, or restrictions imposed by a donor may mean that funds have to be retained in a specified bank account until used to fund specific activities.

Application Guidance: Section 7 – Statement of Cash Flows (New)

Reporting cash flows from operating activities

Indirect method

AG7.1 An NPO may receive donations of non-cash items, for example donated inventory. Because these items are not cash items, they should not be included in the statement of cash flow.

The revenue recognition requirements and consequential impacts on cashflow will be developed in ED2.

Comparison of Section 7 with the *IFRS for SMEs* Accounting Standard

Section 7 of INPAG has been drawn from Section 7 to the *IFRS for SMEs* Accounting Standard. The main differences between Section 7 to the draft Third edition of *IFRS for SMEs* Accounting Standard and Section 7 of INPAG are as follows:

- INPAG Section 7 requires the disclosure of information that is more typical of NPOs, including:
  - Cash receipts from grants and donations (excluding grant to purchase or construct assets) as part of operating cashflows
  - Cash receipts from grants and donations to purchase or construct non-current assets as part of investing cashflows
  - Cash and cash equivalents not available for use by the NPO to include restrictions by funders.
- INPAG Section 7 clarifies that loans and the repayment of loans as part of its programmes for service beneficiaries should be treated as operating cashflows.
- INPAG Section 7 replaces references to the two statements that capture all income and expenses with the Statement of Income and Expenses.
- INPAG Section 7 uses different terminology, referring specifically to NPOs, rather than entities more generally and to other Sections of INPAG rather than the IFRS for SMEs Accounting Standard. It also replaces dividends with distributions to holders of equity claims.

Specific matter for comment	
Question 8: Scope and presentation of the Statement of Cash Flows	**References**
a) Do you agree with the separate presentation of cash donations and grants on the face of the statement? If not, what alternative approach would you propose and why?	G7.4 a)
b) Do you agree that donations or grants received for the purchase or creation of property, plant and equipment should be treated as investing activities? If not, what alternative would you propose and why?	G7.5 b)
c) Do you agree that both the direct method and indirect methods for the cash flow statement should be permitted? If not, why not?	G7.7–G7.9

Section 8 – Notes to the financial statements

Scope of this Section

G8.1 This Section sets out the principles underlying information that is to be presented in the **notes** to the **financial statements** and how to present it. Notes contain information in addition to that presented in the **Statement of Financial Position**, the **Statement of Income and Expenses**, the **Statement of Changes in Net Assets** and the **Statement of Cash Flows**. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for **recognition** in those statements. In addition to the requirements of this Section, nearly every other Section of this Guidance requires disclosures that are normally presented in the notes.

Structure of the notes

G8.2 The notes shall:

a) present information about the basis of preparation of the financial statements and the specific **accounting policies** used, in accordance with paragraphs G8.5–G8.7;
b) disclose the information required by this Guidance that is not presented elsewhere in the financial statements; and
c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

G8.3 An NPO shall, as far as practicable, present the notes in a systematic manner. An NPO shall cross-reference each item in the financial statements to any related information in the notes.

G8.4 An NPO normally presents the notes in the following order:

a) a statement that the financial statements have been prepared in compliance with INPAG (see paragraph G3.3);
b) material accounting policy information (see paragraph G8.5);
c) supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and
d) any other disclosures.

Disclosure of accounting policies

G8.5 An NPO shall disclose material accounting policy information. Accounting policy information is material if, when considered together with other information included in the NPO's financial statements, it can reasonably be expected to influence decisions that the **primary users** of **general purpose financial statements** make on the basis of those financial statements.

Information about judgements

G8.6 An NPO shall disclose, along with material accounting policy information or other notes, the judgements, apart from those involving estimations (see paragraph G8.7), that management has made in the process of applying the NPO's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Information about key sources of estimation uncertainty

G8.7 An NPO shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the **reporting date** that have a significant risk of causing a **material** adjustment to the **carrying amounts** of **assets** and **liabilities** within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

a) their nature; and
b) their carrying amount as at the end of the **reporting period**.

Comparison of Section 8 with the *IFRS for SMEs* Accounting Standard

Section 8 of INPAG has been drawn from Section 8 to the *IFRS for SMEs* Accounting Standard, with changes only to terminology and to align with the statements required by INPAG. The main differences between Section 8 to the draft Third edition of *IFRS for SMEs* Accounting Standard and Section 8 of INPAG are as follows:

- Reference to the choice of two statements for financial performance have been replaced with the single Statement of Income and Expenses required by INPAG.
- INPAG Section 8 uses different terminology, referring specifically to NPOs, rather than entities more generally and to other Sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.

Specific matter for comment

Question 9: Principles underpinning the notes to the financial statements

a) Do you agree that there are no additional NPO specific considerations for this Section? If not, what changes would you propose and why?

Section 9 – Consolidated and separate financial statements

Scope of this Section

G9.1 This Section defines the circumstances in which an NPO applying this Guidance presents **consolidated financial statements** and the procedures for preparing those statements in accordance with this Guidance. It also includes guidance on **separate financial statements** and **combined financial statements** if they are prepared in accordance with this Guidance. A **controlling NPO (parent)** entity by itself may present its separate **financial statements** in accordance with this Guidance, even if it presents its consolidated financial statements in accordance with **full IFRS Accounting Standards** or another set of generally accepted accounting principles (GAAP).

Requirement to present consolidated financial statements

G9.2 Except as permitted or required by paragraphs G9.3 and G9.6, a controlling NPO entity shall present consolidated financial statements in which it consolidates its controlled entities. Consolidated financial statements shall include all controlled entities of the controlling NPO.

G9.3 A controlling NPO need not present consolidated financial statements if both of the following conditions are met:

a) the controlling NPO is itself a **controlled entity**; and
b) its ultimate parent (or any intermediate parent) produces consolidated **general purpose financial reports** that comply with an international or national financial reporting framework, or with this Guidance.

G9.4 Subject to paragraph G9.5, a controlled entity is not consolidated if it is acquired and is held with the intention of selling or disposing of it within one year from its acquisition date (see paragraph 19.10 A). Such a controlled entity is accounted for in accordance with the requirements in Section 11 *Financial Instruments* as for investments in paragraph 11.8 d), instead of in accordance with this Section. The controlling NPO shall also provide the disclosure in paragraph G9.40.

G9.5 If a controlled entity previously excluded from consolidation in accordance with paragraph G9.4 is not disposed of within one year from its acquisition date:

a) the controlling NPO shall consolidate the controlled entity from the acquisition date unless it meets the condition in paragraph G9.5 b). Consequently, if the acquisition date was in a prior period, the relevant prior periods shall be restated.
b) if the delay is caused by events or circumstances beyond the controlling NPO's control and there is sufficient evidence at the reporting date that the controlling NPO remains committed to its plan to sell or dispose of the controlled entity, the controlling NPO shall continue to account for the controlled entity in accordance with paragraph G9.4.

G9.6 If a controlling NPO has no controlled entities other than controlled entities that are not consolidated in accordance with paragraphs G9.4–G9.5, it shall not present consolidated financial statements. However, the controlling NPO shall provide the disclosure in paragraph G9.40.

G9.7 A controlled entity is an entity that is controlled by an NPO (the controlling NPO). An NPO, regardless of the nature of its involvement with the other entity, shall determine whether it is a controlling NPO by assessing whether it controls the other entity.

G9.8 An NPO controls an entity when the NPO is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

G9.9 Thus, an NPO controls an entity if, and only if, the NPO has all the following:

a) power over the entity;
b) exposure, or rights, to variable returns from its involvement with the entity; and
c) the ability to use its power over the entity to affect the amount of its returns.

G9.10 An NPO shall consider all the relevant facts and circumstances when assessing whether it controls an entity. The NPO shall reassess whether it controls the entity if those facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph G9.9.

G9.11 An NPO has power over an entity when the NPO has existing rights that give it the current ability to direct the **relevant activities**, that is the activities that significantly affect the entity's returns. Rights which allow the NPO to:

a) direct the policies of the governing body of another entity;
b) significantly amend or veto service or capital budgets relating to the relevant activities of another entity; or
c) direct the transactions of another entity that relate to the relevant activities of that entity may individually, or in combination or together with other factors, give the controlling NPO the ability to direct the relevant activities of another entity.

G9.12 Relevant activities include, but are not limited to:

a) selling and purchasing of goods and services;
b) selecting, acquiring or disposing of assets;
c) providing services in line with the NPO's objectives; and
d) fundraising.

G9.13 An NPO with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the NPO has been directing relevant activities can help determine whether the NPO has power, but is not, in itself, conclusive in determining whether the NPO has power over an entity.

G9.14 If two or more potentially controlling entities (which may or may not both be NPOs) each have existing rights that give them the unilateral ability to direct different relevant activities, the entity that has the current ability to direct the activities that most significantly affect the returns of the controlled entity has power over the controlled entity.

G9.15 An NPO is exposed, or has rights, to variable returns or variable benefits to the public and service beneficiaries from its involvement with the other entity when the NPO's returns from its involvement have the potential to vary as a result of the other entity's performance. The NPO's returns can be only positive, only negative or both positive and negative.

G9.16 For an NPO to control an entity, the NPO must not only have power over the entity and exposure or rights to variable returns from its involvement with the entity, but also the ability to use its power to affect the NPO's returns from its involvement with the other entity.

G9.17 When an NPO with decision-making rights (a decision maker) assesses whether it controls an entity, it shall determine whether it is a principal or an agent. An NPO shall also determine whether another entity with decision-making rights is acting as an agent for the NPO. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the a third entity when it exercises its decision-making authority. Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal. A decision maker is not an agent simply because other parties can benefit from the decisions that it makes.

G9.18 Control is presumed to exist when the NPO owns, directly or indirectly through controlled entities, the majority of the voting rights of an entity. That presumption may be overcome if it can be clearly demonstrated that the NPO does not have one or more of the elements of control listed in paragraph G9.5. Control will exist if voting rights are held, not as a result of ownership, but because of a governance arrangement established to deliver an NPO's objectives or purposes. Control also exists when the NPO holds half or less of the voting power of an entity but it has:

a) power over more than half of the voting rights by virtue of an agreement with other investors;
b) power to govern the financial and operating policies of the entity under a statute, as a consequence of a **contract** or other agreement;
c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body where control of the entity is exercised by that board or body; or
d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

G9.19 When assessing control, an NPO considers its potential voting rights, as well as potential voting rights held by other parties, to determine whether it has power. Potential voting rights are usually currently exercisable rights to obtain voting rights of an entity, such as those arising from convertible instruments or options, including forward contracts. Those potential voting rights are considered only if the holder of the right has the practical ability to exercise that right.

G9.20 If an NPO also has voting or other decision-making rights relating to another entity's relevant activities (such as those identified in G9.11), the NPO assesses whether those rights, in combination with potential voting rights, give the NPO power.

G9.21 A controlled entity is not excluded from consolidation because its **operating activities** are dissimilar to those of the other entities within the consolidation. Relevant information can be provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different operating activities of controlled entities.

G9.22 A controlling NPO shall consider the fundamental characteristics of faithful representation and relevance. If, exceptionally, excluding an entity from consolidation would provide the most relevant information available about a controlling NPO and its controlled entities, then an NPO should not consolidate that entity.

G9.23 Where an NPO does not consolidate a controlled entity it shall disclose;

a) why consolidation would impact faithful representation or relevance;
b) the relationship between the entities including, how the entities work together for the purposes of the controlling NPO's purposes, and the economic relationship between the entities;
c) the governance arrangements in place between the entities; and
d) **related party** information as required by Section 33 *Related Party Disclosure.*

G9.24 A controlled entity is not excluded from consolidation because it operates in a jurisdiction that imposes restrictions on transferring **cash** or other **assets** out of the jurisdiction.

Consolidation procedures

G9.25 The **consolidated financial statements** present financial information about the **group** as a single reporting entity or other complete set of activities related to an NPO's purposes. In preparing consolidated financial statements, an NPO shall:

a) combine the **financial statements** of the controlling NPO and its controlled entities line by line by adding together like items of **assets, liabilities, equity**, **income** and **expenses**.
b) eliminate the **carrying amount** of the controlling NPO's investment or **beneficial interest** in each controlled entity and the controlling NPO's portion of funds or equity of each controlled entity.

G9.26 If any controlled entity has a **non-controlling interest** an NPO shall:

a) measure and present non-controlling interest in the **surplus or deficit** of consolidated controlled entities for the **reporting period** separately from holders of **equity claims** of the controlling NPO.
b) measure and present non-controlling interest in the net assets of consolidated controlled entities separately from the controlling NPO's interest in them. Non-controlling interest in the net assets consists of:
   i) the amount of the non-controlling interest at the date of the original combination calculated in accordance with Section 19 Business Combinations and Goodwill; and
   ii) the non-controlling interest's share of changes in equity since the date of the combination.

G9.27 If a controlling NPO needs to allocate amounts between non-controlling interests and other interests, the proportions of surplus or deficit and changes in equity and funds with and without restriction of the controlling NPO and to the non-controlling interest are determined on the basis of existing controlling interests and do not reflect the possible exercise or conversion of potential voting rights.

Intragroup balances and transactions

G9.28 Intragroup balances and transactions, including income, expenses and **dividends**, are eliminated in full. Surpluses or deficits resulting from intragroup transactions that are recognised in assets, such as **inventory** and **property, plant and equipment**, are eliminated in full. Intragroup deficits may indicate an **impairment** that requires **recognition** in the consolidated financial statements (see Section 27 *Impairment of Assets*). Section 29 *Income Tax* applies to **temporary differences** that arise from the elimination of surpluses or deficits resulting from intragroup transactions.

Uniform reporting date

G9.29 The financial statements of the controlling NPO and its controlled entities used in the preparation of the consolidated financial statements shall be prepared as of the same **reporting date** unless it is **impracticable** to do so. If it is impracticable to prepare the financial statements of a controlled entity as of the same reporting date as the controlling NPO, the controlling NPO shall consolidate the financial information of the controlled entity using the most recent financial statements of the controlled entity, adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

Uniform accounting policies

G9.30 Consolidated financial statements shall be prepared using uniform **accounting policies** for like transactions and other events and conditions in similar circumstances. If a controlled entity uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Acquisition and disposal of controlled entities

G9.31 The income and expenses of a controlled entity are included in the consolidated financial statements from the acquisition date until the date on which the controlling NPO loses control of the controlled entity. When a controlling NPO ceases to control a controlled entity, the difference between the proceeds from the disposal of the controlled entity and its carrying amount at the date that control is lost is recognised in surplus or deficit in the consolidated **Statement of Income and Expenses** as the gain or loss on the disposal of the controlled entity. The cumulative amount of any exchange differences that relate to a foreign controlled entity recognised in the Statement of Income and Expenses in accordance with Section 30 *Foreign Currency Translation* is not reclassified to surplus or deficit on disposal of the controlled entity.

G9.32 If a controlling NPO loses control of a controlled entity, the controlling NPO:

a) derecognises:

   i) the assets (including any **goodwill**) and liabilities at their carrying amounts at the date control is lost in the former controlled entity from the consolidated **Statement of Financial Position**; and

   ii) the carrying amount of any non-controlling interests in the former controlled entity at the date when control is lost;

b) recognises:

   i) the **fair value** of the consideration received, if any, from the transaction or event that resulted in the loss of control; and

   ii) any investment or beneficial interest retained in the former controlled entity at its fair value on the date control is lost; and

c) recognises the surplus or deficit associated with the loss of control attributable to the former controlling interest.

G9.33 If a controlling NPO loses control of a controlled entity, the controlling NPO shall account for all amounts previously recognised in the Statement of Changes in Net Assets for that controlled entity, except for the cumulative amount of any exchange differences that relate to a foreign controlled entity, on the same basis as would be required if the controlling NPO had directly disposed of the related assets or liabilities. The cumulative amount of any exchange differences that relate to a foreign controlled entity recognised in the Statement of Income and Expenses in accordance with Section 30 *Foreign Currency Translation* is not reclassified to surplus or deficit on disposal of the subsidiary.

G9.34 If a controlling NPO loses control of a controlled entity but continues to hold an investment or beneficial interest in the former controlled entity, that investment or beneficial interest shall be accounted for in accordance with other Sections of INPAG. If the retained interest is a **financial asset** Section 11 *Financial Instruments* applies; if it is an **associate** Section 14 *Investments in Associates* applies; if is a **jointly controlled entity** Section 15 *Joint Arrangements* applies. The fair value at the date when control is lost shall be regarded as the fair value on initial recognition of a financial asset or cost on initial recognition of an investment in an associate or jointly controlled entity, if applicable.

Non-controlling interests in controlled entities

G9.35 It is expected to be uncommon for an NPO to have non-controlling interests. Where an NPO has controlling interests, it shall apply paragraphs G9.36–G9.39.

G9.36 An NPO shall present non-controlling interest in the consolidated Statement of Financial Position within net assets, separately from the interests of the holders of equity claims of the controlling NPO, as required by paragraph G4.2 r).

G9.37 An NPO shall treat changes in a controlling NPO’s controlling interest in a controlled entity that do not result in a loss of control as transactions with owners in their capacity as owners. Accordingly, the carrying amount of the non-controlling interest shall be adjusted to reflect the change in the controlling NPOs interest in the controlled entity’s net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, shall be recognised directly in equity and/or funds with or without restriction. An NPO shall not recognise any gain or loss on these changes. Also, an NPO shall not recognise any change in the carrying amounts of assets (including goodwill) or liabilities as a result of such transactions.

G9.38 An NPO shall disclose non-controlling interest in the surplus or deficit of the group separately in the Statement of Income and Expenses, as required by paragraph G5.8.

G9.39 Surplus or deficit shall be attributed to the interests of the holders of equity claims and to the non-controlling interest, even if this results in the non-controlling interest having a deficit balance.

Disclosures in consolidated financial statements

G9.40 The following disclosures shall be made in consolidated financial statements:

a) the fact that the financial statements are consolidated financial statements;
b) the basis for concluding that control exists when the controlling NPO does not hold, directly or indirectly through controlled entities, a majority of the voting rights over the other entity;
c) any difference in the **reporting date** of the financial statements of the controlling NPO and its controlled entities used in the preparation of the consolidated financial statements; and
d) the nature and extent of any significant restrictions (for example resulting from borrowing arrangements or regulatory requirements) on the ability of controlled entities to transfer funds to the controlling NPO in the form of cash dividends or to repay loans.

G9.41 If applicable, in addition to the disclosure requirements in Section 11 *Financial Instruments*, a controlling NPO shall disclose the carrying amount of its investment or beneficial interest in controlled entities that are not consolidated (see paragraphs G9.3–G9.5) at the reporting date, in total, either in the Statement of Financial Position or in the **notes.**

G9.42 If applicable, an NPO shall disclose the gain or loss, if any, calculated in accordance with paragraphs G9.31–G9.32, and:

a) the portion of that gain or loss attributable to measuring any investment retained in the former controlled entity at its fair value at the date when control is lost, and
b) the line items in surplus or deficit in which the gain or loss is recognised (if not presented separately).

Separate financial statements

Presentation of separate financial statements

G9.43 This Guidance does not require presentation of separate financial statements for the controlling NPO or for the individual controlled entities.

G9.44 Separate financial statements are a second set of financial statements presented by an NPO in addition to any of the following:

a) consolidated financial statements prepared by a controlling NPO;
b) financial statements prepared by a controlling NPO exempted from preparing consolidated financial statements by paragraph G9.5; or
c) financial statements prepared by an NPO that is an investor in an associate or has **joint control** in a **jointly controlled entity.**

Accounting policy election

G9.45 When a controlling NPO, an NPO investing in an associate or with an interest in a jointly controlled entity prepares separate financial statements and describes them as conforming to INPAG, those statements shall comply with all of the requirements of this Guidance, except as follows. The NPO shall adopt a policy of accounting for its investment or beneficial interests in controlled entities, associates and **jointly controlled entities** in its separate financial statements either:

a) at cost less impairment;
b) at **fair value** with changes in fair value recognised in surplus or deficit; or
c) using the equity method following the procedures in paragraph 14.8.

The NPO shall apply the same accounting policy for all investments in a single class (controlled entities, associates or jointly controlled entities), but it can elect different policies for different classes.

Disclosures in separate financial statements

G9.46 When a controlling NPO, an NPO investing in an associate or with an interest in a jointly controlled entity prepares separate financial statements, those separate financial statements shall disclose:

a) that the statements are separate financial statements; and
b) a description of the methods used to account for the investment or beneficial interest in the controlled entities, jointly controlled entities and associates; and
c) either

i) the consolidated financial statements or other primary financial statements to which they relate; or
ii) if the NPO has elected not to prepare consolidated financial statements, in accordance with paragraph G9.3, the name and principal place of business (and country of incorporation, if different) of the entity whose consolidated financial statements that comply with full IFRS Accounting Standards, another set of national GAAP or with INPAG have been produced for public use.

Combined financial statements

G9.47 Combined financial statements are the financial statements of a reporting entity that comprises two or more entities that are not all linked by a controlling NPO – controlled entity relationship. This Guidance does not require combined financial statements to be prepared.

G9.48 If the controlling NPO prepares combined financial statements and describes them as conforming to INPAG, those statements shall comply with all of the requirements of this Guidance. Inter-entity transactions and balances shall be eliminated; surpluses or deficits or profits or losses resulting from inter-entity transactions that are recognised in assets such as inventory and property, plant and equipment shall be eliminated; the financial statements of the entities included in the combined financial statements shall be prepared as of the same reporting date, unless it is impracticable to do so; and uniform accounting policies shall be followed for like transactions and other events in similar circumstances

Disclosures in combined financial statements

G9.49 The combined financial statements shall disclose the following:

a) the fact that the financial statements are combined financial statements;
b) the reason why combined financial statements are prepared;
c) the basis for determining which entities are included in the combined financial statements;
d) the basis of preparation of the combined financial statements; and
e) the related party disclosures required by Section 33 *Related Party Disclosures*.

Application Guidance: Section 9 – Consolidated and separate financial statements (New)

The basis of control

AG9.1 NPOs control other entities for a variety of reasons. NPOs may control other entities (including NPOs and non-NPOs) specifically to provide services to the public. They may also create trading entities, or may invest in non-NPOs with the intention of generating a surplus which will be used to support activities for the benefit of the public. Unlike for-profit entities, the purpose of acquiring control over another entity or establishing another entity as part of an economic group of undertakings is not to generate a financial return for distribution to providers of risk capital.

AG9.2 Paragraphs G9.7–G9.20 set out the basis of control. This basis of control, which includes power, returns and the linkage between power and returns, have aspects and nuances for NPOs. Control, power and return also need to be interpreted in the context of benefit to the public and activities that further the purposes of the NPO parent for the benefit of the public. These wider considerations are explained below, and specific guidance is provided on each.

Power

AG9.3 Paragraph G9.11 says that a parent NPO (controlling NPO) has power over an entity when the controlling NPO has existing rights that give it the current ability to direct the activities of the entity, or direct the use of the funds of the entity.

AG9.4 Where the other entity is an incorporated for-profit entity, power is likely to mainly be achieved through voting rights, as the entity will have issued share capital or capital instruments that give rise to voting rights. Power is presumed to exist where the controlling NPO owns, directly or through other controlled entities, the majority of the voting rights relating to the entity. Power will also be presumed to exist when the controlling NPO does not own the majority of voting rights, but can exercise voting rights held by others, or can exercise other decision-making rights, which may include:

a) the ability to exercise the majority of voting rights (through voting rights owned by the entity, and contractual arrangements with other vote holders); or
b) the right to appoint the majority of board members; or
c) the right to appoint the majority of the key management personnel; or
d) a right to reject any or all of the activities which the entity might choose to undertake; or
e) a right to reject any or all of the uses to which the funds of the entity may be put.

AG9.5 Where the other entity is a non-profit entity (including an entity in the public sector), power is less likely to depend on voting rights. The ability to direct the activities of the entity or the use of the entity's funds are more likely to give rise to power than voting rights. Therefore, power is presumed to exist where the parent NPO has:

a) the right to appoint the majority of the governing body of the entity directly; or
b) the right to appoint the majority of the key management personnel; or
c) a right to reject any or all of the activities which the entity might choose to undertake; or
d) a right to reject any or all of the uses to which the funds of the entity may be put; or
e) the ability to exercise the majority of any voting rights where these exist separately from the governing body; or
f) the right to achieve any of the above through a combination of the controlling NPO's own rights, and the rights of other entities which the parent NPO controls.

AG9.6 Some rights to direct the use of funds may not give rise to the level of power required to exercise control. For example, where an NPO makes grants to other entities, grant agreements may set out conditions that a grant recipient only uses the funds provided to undertake the activities for which the grant was made and for no other purpose. The agreement though is only relating to one aspect of the recipient entity's purposes and activities. It does not generally provide a right to the grant-making NPO to direct all the activities of the grant receiving entity. In this situation, the expectation is the recipient is not in substance an entity controlled by the grant-making NPO.

Returns

AG9.7 For NPOs delivering activities for the benefit of the public, including making social investments in entities to deliver benefits to the public, the notion of financial returns is sometimes relevant, but in other cases is simply not appropriate. Instead of financial returns, the focus in considering return is on benefits that the controlling NPO receives. This approach allows for non-financial as well as financial benefits.

AG9.8 A controlling NPO is exposed, or has rights, to variable benefits from its involvement with a controlled entity when, as a result of its interest, the controlling NPO is exposed to both the positive and negative effects of the controlled entity's activities and performance. These effects relate to the impact on and ability of the controlling NPO to further its purposes.

AG9.9 A return from an interest in another entity is therefore not necessarily a matter of obtaining funds or a financial return from the entity. Rather the return can be a non-financial benefit that the controlling NPO derives from the activities of the entity. These non-financial benefits would exist where they lead to the direct or partial fulfilment of one or more of the purposes of the controlling NPO. For example, NPO A provides access to safe drinking water and has a relationship with Entity B that provides research into water borne diseases. The type of research carried out by Entity B could have a direct bearing on the purposes of NPO A) For a control relationship to exist then, in addition to having power over NPO B, NPO A would need to be directly impacted by the activities of Entity B on a day-to-day basis (have continuous exposure) rather than, for example, being the beneficiary of a specific one-off piece of research.

AG9.10 Whether contractual or not, it is possible that a significant amount of the obligations that an entity has to a potential controlling NPO may not be carried out at market value, for example where goods or services are provided at below market prices or for nominal consideration. In such situations a controlling NPO may have an interest in a for-profit entity to further a social purpose for the benefit of the public. A controlling NPO's interest in this situation is not held primarily for a financial return, but for benefit in furthering its objectives.

Linking power and returns

AG9.11 As set out in paragraph G9.16, in order for a controlling NPO to have control over an entity, it must have power, it must be exposed to variable returns, and it must be able to use its power over the other entity to influence the amount of the controlling NPO's returns. Power and returns must therefore be linked. Entities that provide a return to a controlling NPO, but where the controlling NPO has no interest or has a minority interest, are not controlled entities under this guidance. It would be unusual for a controlling NPO to have power over other entities that do not provide a relevant return (either financial or non-financial). However, where this is the case, these entities are not controlled entities.

AG9.12 Both for-profit and non-profit entities may invest in other undertakings to generate a return (financial or non-financial) or have a participating interest in joint activities or hold a minority interest in an entity. Such collaborative activities in a for-profit context are associated with equity stakes and a formal contractual relationship. Similar considerations may apply for NPOs. In general, these participating and minority interests will not confer the required power to direct returns, and therefore do not confer control.

AG9.13 Additionally, due to their wider purposes NPOs often collaborate with other NPOs in a co-operative and non-contractual way to further these purposes. While the effect of collaboration with entities with aligned or substantially the same objectives may result in similar returns to those which would be achieved through control, such voluntary arrangements do not represent control unless there are other factors which have the effect of conferring power.

AG9.14 Therefore there is no control relationship where:

a) an NPO has a voluntary collaboration agreement with another entity; or
b) there is a coincidence of activities with another entity; or
c) there is a **joint arrangement** with another entity where another entity has discretion as to the nature and extent of any benefit the controlling NPO might obtain.

This is because the NPO would not be exercising power over any of the entities to obtain benefit. Control arises where power is used to directly benefit a controlling NPO.

Determining whether consolidation of all entities is appropriate

AG9.15 Full consolidation of all controlled entities provides a consistent basis for reporting, and provides a consistent metric for the economic volume of group transactions and balances. These factors may be important for some readers of NPO financial statements, including institutional funders, but may be less relevant to other readers.

AG9.16 It may sometimes be that full consolidation results in financial statements that are less understandable. This might be because there is information the statements do not provide, or perhaps because they are providing more information than is needed to the extent that key information is obscured.

AG9.17 Exceptionally, paragraph G9.22 permits the exclusion of an entity from consolidation where it may provide the most relevant information available about a controlling NPO and its controlled entities. When making such a determination, the parent NPO should have regard to both the fundamental characteristics of relevance of the financial information provided by the consolidated financial statements, and the extent to which this achieves faithful representation.

AG9.18 Faithful representation means that a depiction of relevant economic or other phenomena is sufficiently complete, neutral and free from error. In the context of consolidated financial statements, consolidation would be expected to provide a depiction that is complete and free from error. Although consolidation will not normally introduce bias, an NPO may wish to examine whether consolidation would result in a depiction that is not neutral.

AG9.19 Financial information is relevant if it is capable of making a difference to the decisions made by users; that is, if it has predictive value which helps users consider likely outcomes, or confirmatory value that provides feedback on previous considerations. An NPO shall consider the benefits of providing consolidated financial information, how it presents consolidated financial information in its financial statements to promote understandability and evidence to support the information needs of the users of its financial statements.

AG9.20 When making a judgement about whether a controlled entity should be excluded from consolidation, an NPO should therefore have regard to the effect on the overall readability of financial reports for users of its financial statements. Judgements about the exclusion of an entity from consolidation must not be based on convenience and must be backed by evidence to support management’s judgement.

AG9.21 Where an NPO does not consolidate a controlled entity it is required to provide the disclosures in paragraph G9.23. In determining the information to be disclosed, the controlling NPO should draw on its analysis of the needs of the users of the financial statements that informed its judgement to exclude an entity. This analysis is expected to provide details of the judgements that the NPO has made about the information that users require to meet their needs. These information needs must be met through the disclosures.

Consolidation procedures

AG9.22 Paragraph G9.25 sets out the procedures to be followed when producing consolidated financial statements. The processes carried out to effect consolidation will need to include the consolidation of the accumulated funds of any controlled entities. Where the entity being consolidated is a for-profit entity, accumulated funds are to be included in **funds without restrictions**. Where the entity being consolidated is an NPO, their **funds with restrictions** are to be consolidated into the controlling NPO’s funds with restrictions, and their funds without restrictions are to be consolidated into the controlling NPO’s funds without restriction. The notes to the financial statements shall disclose the funds with restrictions and funds without restrictions that belong to the parent separately from the controlled entities.

AG9.23 Equity in the NPO context is not expected to be common. In the rare situations where a controlling NPO issues equity instruments these will be shown as equity in the Statement of Financial Position. A more common situation will be where a controlling NPO holds equity instruments in for-profit entities, either to achieve a financial return, or to help support the objectives of the controlling NPO; much less often, a controlling NPO may control an NPO through an equity interest. In either case, the controlling NPO's investment or beneficial interest will be eliminated on consolidation with controlled entity equity. Where the controlled entity is 100 per cent owned or controlled by the controlling NPO, these will exactly balance. Where there are other equity interests in the controlled entity, there will be a residual non-controlling interest.

AG9.24 Where a controlling NPO is consolidating a for-profit entity, consideration will need to be given to any items that in a for-profit set of financial statements appear in **OCI**. INPAG covers the same transactions, but requires that certain unrealised gains and losses be shown in the Statement of Changes in Net Assets. A controlling NPO will need to map any items of OCI in for-profit financial statements to the correct financial statement. This will not impact either the carrying value or the accounting policy choice of the mapped item, only its location in the financial statements.

AG9.25 Paragraphs G9.36–G9.39 provide that, if appropriate, group results should be allocated proportionally between controlling and non-controlling interests. This is intended to provide a split between results of the controlling NPO and any controlled entities, separate to the results of any interests that a controlling NPO may have in an entity that it doesn't control. Given the focus of NPOs on furthering their objectives for public benefit, it is less likely that an NPO will have non-controlling interests in other entities as it would not be able to affect the returns (non-financial benefits) in a way that would meet its objectives. It is possible that an NPO holds a non-controlling interest for purely financial return, but it is not anticipated that this will frequently occur. As a consequence, it is expected that the majority of NPO groups do not have any non-controlling interests and the requirements of paragraph G9.35–9.39 are not frequently applied.

Comparison of Section 9 with the *IFRS for SMEs* Accounting Standard

Section 9 of INPAG has been drawn from Section 9 to the *IFRS for SMEs* Accounting Standard. The main differences between Section 9 to the draft Third edition of *IFRS for SMEs* Accounting Standard and Section 9 of INPAG are as follows:

- INPAG Section 9 is designed to produce consolidated financial statements which follow the format set out in INPAG Sections 3–7, using the terminology developed in those Sections, and reflecting the wider scope of reporting NPO set out in INPAG Section 2.
- INPAG Section 9 uses the term controlling NPO rather than parent, controlled entity rather than subsidiary and beneficial interest instead of (certain uses of) investment, to better represent the nature of relationships between NPOs and other entities.
- INPAG Section 9 contains additional material and application on the basis of control which determines which entities should be consolidated, having regard to the different governance arrangements and other mechanisms through which power may be exercised, and the wider nature of return encompassing the wider purposes of NPOs working for the benefit of the public.
- INPAG Section 9 references international financial reporting frameworks and national GAAP rather than referencing only IFRS, reflecting the fact that consolidations under INPAG may involve entities reporting under other frameworks.
- INPAG Section 9 sets out guidance on adjustments which may need to be made when consolidating controlled entities reporting under IFRS, reframing material expressed by reference to other comprehensive expenditure which is not reflected in INPAG.
- INPAG Section 9 sets out specific guidance on consolidation procedures for funds with and without restrictions.
- INPAG Section 9 uses different terminology, referring specifically to NPOs, rather than entities more generally and to other Sections of INPAG, rather than the *IFRS for SMEs* Accounting Standard.

Specific matter for comment	
Question 10: Approach to consolidated and separate financial statements	**References**
a) Is the Application Guidance to apply the control principles sufficient? If not, what changes or additions would you propose and why?	AG9.1–AG9.14
b) Do you agree that a rebuttable presumption relating to control should be retained? Is the current drafting sufficient? If not, what additions would you propose and why?	G9.17
c) Is the Application Guidance sufficient to apply the fundamental characteristics of faithful representation and relevance to consolidation? If not, what additions would you propose and why?	G9.21–G9.22, AG9.17–AG9.19
d) Do you agree with the use of the terms 'controlling entity', 'controlled entity' and 'beneficial interest' instead of 'parent', 'subsidiary' and 'investment'? If not, what would you propose and why?	G9.7, G9.24

Section 10 – Accounting policies, estimates and errors

Scope of this Section

G10.1 This Section provides guidance for selecting and applying the **accounting policies** used in preparing **financial statements**. It also covers changes in **accounting estimates** and correction of **errors** in prior period financial statements.

Selection and application of accounting policies

G10.2 Accounting policies are the specific principles, bases, conventions, rules and practices applied by an NPO in preparing and presenting financial statements.

G10.3 If this Guidance specifically addresses a transaction, other event or condition, an NPO shall apply this Guidance. However, the NPO need not follow a requirement in this Guidance if the effect of doing so would not be material.

G10.4 If this Guidance does not specifically address a transaction, other event or condition, an NPO's management shall use its judgement in developing and applying an accounting policy that results in information that is:

a) relevant to the decision-making needs of users; and
b) reliable, in that the financial statements:
   i) represent faithfully the financial position, income and expenses, other changes in net assets, and **cash flows** of the NPO;
   ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
   iii) are neutral, ie free from bias;
   iv) are prudent; and
   v) are complete in all material respects.

G10.5 In making the judgement described in paragraph G10.4, management shall refer to, and consider the applicability of, the following sources in descending order:

a) the requirements and guidance in this Guidance dealing with similar and related issues; and
b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 *Concepts and pervasive principles*.

G10.6 In making the judgement described in paragraph G10.4, management may also consider the requirements and guidance in other authoritative sources of accounting guidance dealing with similar and related issues:

a) primarily for exchange transactions, **full IFRS Accounting Standards** (where the requirements or guidance do not conflict with the concepts and principles in Section 2);
b) primarily for non-exchange transactions, **IPSAS** (where the requirements or guidance do not conflict with the concepts and principles in Section 2); or
c) primarily for NPO-specific transactions not adequately addressed by full IFRS Accounting Standards or IPSAS, jurisdictional-level accounting standards intended to be applied by NPOs where the requirements or guidance do not conflict with the concepts and principles in Section 2 (including those standards superseded by INPAG).

In considering the relevance of other authoritative sources of accounting guidance, an NPO shall have regard to the specificity of the source (as a source that deals with the specific circumstances is likely to be more relevant than one from which the NPO must draw analogies), and the continued relevance of the source (as the passage of time may diminish the relevance of certain sources).

Consistency of accounting policies

G10.7 An NPO shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless this Guidance specifically requires or permits categorisation of items for which different policies may be appropriate. If this Guidance requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

Changes in accounting policies

G10.8 An NPO shall change an accounting policy only if the change:

a) is required by changes to this Guidance; or
b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the NPO's financial position, income and expenses, other changes in net assets or cash flows.

G10.9 The following are not changes in accounting policies:

a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring;
b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were not material; or
c) a change to the cost model when a reliable measure of **fair value** is no longer available (or vice versa) for an asset that this Guidance would otherwise require or permit to be measured at fair value.

G10.10 If this Guidance allows a choice of accounting treatment (including the measurement basis) for a specified transaction or other event or condition and an NPO changes its previous choice, that is a change in accounting policy.

G10.11 The initial application of a policy to revalue assets in accordance with Section 17 *Property, Plant and Equipment* is a change in an accounting policy to be dealt with as a revaluation in accordance with Section 17. Consequently, a change from the cost model to the revaluation model for a class of **property, plant and equipment** shall be accounted for prospectively, instead of in accordance with paragraphs G10.12–G10.13.

Applying changes in accounting policies

G10.12 An NPO shall account for changes in accounting policy as follows:

a) an NPO shall account for a change in accounting policy resulting from a change in the requirements of this Guidance in accordance with the transitional provisions, if any, specified in that amendment; and
b) an NPO shall account for all other changes in accounting policy **retrospectively** (see paragraph G10.13).

Retrospective application

G10.13 When a change in accounting policy is applied retrospectively in accordance with paragraph G10.12, the NPO shall apply the new accounting policy to comparative information for prior periods to the earliest date for which it is practicable, as if the new accounting policy had always been applied. When it is **impracticable** to determine the individual-period effects of a change in accounting policy on comparative information for one or more prior periods presented, the NPO shall apply the new accounting policy to the **carrying amounts** of assets and liabilities as at the beginning of the earliest period for which **retrospective application** is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of net assets for that period.

Disclosure of a change in accounting policy

G10.14 When an amendment to this Guidance has an effect on the current period or any prior period, or might have an effect on future periods, an NPO shall disclose the following:

a) the nature of the change in accounting policy;
b) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
c) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
d) an explanation if it is impracticable to determine the amounts to be disclosed in b) or c).

Financial statements of subsequent periods need not repeat these disclosures.

G10.15 When a voluntary change in accounting policy has an effect on the current period or any prior period, an NPO shall disclose the following:

a) the nature of the change in accounting policy;
b) the reasons why applying the new accounting policy provides reliable and more relevant information;
c) to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:
    i) for the current period;
    ii) for each prior period presented; and
    iii) in the aggregate for periods before those presented.
d) an explanation if it is impracticable to determine the amounts to be disclosed in c).

Financial statements of subsequent periods need not repeat these disclosures.

Accounting estimates

G10.16 An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an NPO develops an **accounting estimate** to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

G10.17 An NPO uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques (for example, techniques used to measure the **depreciation** expense for an item of property, plant and equipment, applying Section 17 *Property, Plant and Equipment*) and valuation techniques (for example, techniques used to measure the fair value of an asset or liability applying Section 12 *Fair Value Measurement*).

Changes in accounting estimates

G10.18 An NPO may need to change an accounting estimate if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience.

G10.19 The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates, unless they result from the correction of prior period errors. A change in the measurement basis applied is a change in an accounting policy and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

G10.20 An NPO shall recognise the effect of a change in an accounting estimate, other than a change to which paragraph G10.21 applies, in **surplus or deficit** in:

a) the period of the change, if the change affects that period only; or
b) the period of the change and future periods, if the change affects both.

G10.21 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets, the NPO shall recognise it by adjusting the carrying amount of the related asset, liability or net assets item in the period of the change.

Disclosure of a change in accounting estimates

G10.22 An NPO shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period. If it is practicable for the NPO to estimate the effect of the change in one or more future periods, the NPO shall disclose those estimates.

Corrections of prior period errors

G10.23 Prior period errors are omissions from, and misstatements in, an NPO's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

G10.24 Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts and fraud.

G10.25 To the extent practicable, an NPO shall correct a material prior period error retrospectively in the first financial statements authorised for issue after its discovery by:

a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

G10.26 When it is impracticable to determine the effects of an error on comparative information for one or more prior periods presented, the NPO shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period).

Disclosure of prior period errors

G10.27 An NPO shall disclose the following about prior period errors:

a) the nature of the prior period error;

b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;

c) to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented; and

d) an explanation if it is not practicable to determine the amounts to be disclosed in b) or c).

Financial statements of subsequent periods need not repeat these disclosures.

Comparison of Section 10 with the *IFRS for SMEs* Accounting Standard

Section 10 of INPAG has been drawn from Section 10 of the *IFRS for SMEs* Accounting Standard, with changes mainly to terminology and to align with the statements required by INPAG. The main differences between Section 10 to the draft Third edition of *IFRS for SMEs* Accounting Standard and Section 8 of INPAG are as follows:

- Additional guidance is provided in INPAG Section 10 in case an NPO have a transaction, event or condition not covered in other Sections of INPAG. The guidance specifies alternative authoritative sources and circumstances that should be considered where appropriate.
- INPAG Section 10 uses different terminology, referring specifically to NPOs, rather than entities more generally and to other Sections of INPAG rather than the *IFRS for SMEs* Accounting Standard. It also refers to income and expenses rather than financial performance.

Specific matters for comment

Question 11: Approach to accounting policies, construction of estimates and accounting for errors

a) Do you agree with the updates made to Section 10 and that there are no additional NPO specific considerations that need to be addressed in this Section? If not, what changes or additions would you propose and why?

Sections 11–34 and Section 36

Sections 11–34 and Section 36 are not published in this Exposure Draft. These Sections will be first published in either Exposure Draft – Part 2 (ED2) and Exposure Draft – Part 3 (ED3).

ED2 (expected to be published Q2 2023) will contain:

Section	Title	Expected Status
11	Financial instruments	Editorial
21	Provisions and contingencies	Editorial
22	Liabilities and equity	Editorial
23a	Non-exchange revenue [Subject to change]	New
23b	Exchange revenue [Subject to change]	Updated
24a	Grant expenses	New
25	Borrowing costs	Editorial
26	Share based payments	Editorial
28	Employee benefits	Editorial
29	Income tax	Editorial
30	Foreign currency translation	Updated
31	Hyperinflation	Editorial
32	Events after the reporting period	Editorial

ED3 (expected to be published Q4 2023) will contain:

Section	Title	Expected status
12	Fair value	Editorial
13	Inventories	Updated
14	Investment in associates	Editorial
15	Joint arrangements	Editorial
16	Investment property	Editorial
17	Property, plant and equipment	Editorial
18	Intangible assets other than goodwill	Editorial
19	Business combinations and goodwill	Editorial
20	Leases	Editorial
24b	Classification of expenses	New
24c	Fundraising costs	New
27	Impairment of assets	Editorial
33	Related party disclosures	Editorial
34	Specialised advice	Editorial
36	Transition to the Guidance	Modified

Section 35 – Narrative reporting (New)

Scope of this Section

G35.1 This Section sets out narrative reporting requirements for NPOs. It provides guidance on the **performance information** and **financial statement commentary** that is to be presented by an NPO in the same general purpose financial report as its **financial statements**.

G35.2 This Section sets out the minimum narrative reporting requirement for NPOs applying INPAG. Where an NPO is able to go beyond this minimum requirement and present additional information to meet the needs of users of its general purpose financial report, it may do so provided that this minimum requirement has been met.

Principles

G35.3 An NPO shall present performance information and financial statement commentary that is useful for accountability and decision-making purposes in the same general purpose financial report as its financial statements. Performance information and financial statement commentary will enable users to assess the performance of the NPO and provide context to the information included in the financial statements.

G35.4 The performance information and financial statement commentary presented shall be for the same reporting NPO and reporting period as the financial statements.

G35.5 When selecting and presenting performance information and financial statement commentary in a general purpose financial report, an NPO shall apply the qualitative characteristics and the pervasive constraints on information identified in Section 2 *Concepts and pervasive principles*. The narrative report shall:

a) provide **faithful representation** of the NPO's operations and activities;
b) provide **relevant** information that is capable of making a difference in the decisions made by users, ie it is material;
c) provide information that is **comparable** between reporting periods;
d) provide information that can be **verified**;
e) be provided on a **timely** basis; and
f) be **understandable** by the users of the **general purpose financial reports**.

This will result in performance information and financial statement commentary that is useful to users of the NPO's general purpose financial report.

G35.6 An NPO shall also ensure that the performance information and financial statement commentary presented is fair and balanced. The information presented should provide an objective view and assessment of the NPO's performance and financial statements for the reporting period.

G35.7 Exceptionally an NPO shall not disclose aspects of performance information and financial statement commentary that would compromise the safety or wellbeing of individuals working/volunteering for the NPO, or those to whom it provides goods and services, because the information is sensitive and/or could prejudice the ability of the NPO to deliver its mission. An NPO will remain in compliance with the requirements of INPAG where this exception is utilised. When a sensitive information exception has been used, the NPO should disclose that the narrative report has been prepared in accordance with the requirements of this paragraph but is not required to provide any information that would have the effect of highlighting the nature or substance of the sensitive information. An NPO shall present performance information and financial statement commentary related to those operations and activities that does not result in sensitive information.

Performance information and financial statement commentary to be reported

G35.8 An NPO shall:

a) present information to enable users to understand what the performance objectives of the NPO are and what it has done during the reporting period in working towards those performance objectives; and
b) present commentary to discuss and analyse the NPO's financial statements.

G35.9 In providing performance information and financial statement commentary, an NPO shall provide users with information related to the following topics.

An overview of the NPO

G35.10 An NPO shall provide contextual information that enables users to understand the NPO. The information provided as part of the overview should include:

a) **Who are we? –** a description of the legal form of the NPO, how it is structured and what governance arrangements apply to it.
b) **What do we exist for?** – a description of the purpose for which the NPO exists, including any formal mission and vision statements.
c) **What do we do?** – a description of the NPO's main activities, including significant relationships the NPO has with other entities.

Performance information

G35.11 An NPO shall present information to enable users to understand:

a) what the performance objectives of the NPO are and what it intended to achieve during the reporting period; and
b) what it has done in working towards those performance objectives and what is has achieved during the reporting period.

G35.12 The NPO shall provide performance measures and descriptions that enable the NPO to demonstrate to its users its performance for the reporting period. The performance measures and descriptions will depend on the NPO and its performance objectives, but must have regard to:

a) **Quantitative measures** that provide a numerical measurement by which to assess performance – for example the quantity of a particular good or service provided by an NPO, or ratings by service users on a scale of 1–10.
b) **Qualitative measures** that provide a non-numerical measurement by which to assess performance – for example whether the goods and services provided by an NPO were in accordance with a particular quality standard, or ratings by service users of high/medium/low.
c) **Qualitative descriptions** that provide a non-numerical description by which to assess performance – for example descriptions by individuals supported by the NPO of improvements made to their wellbeing from open-ended questions in interviews.

G35.13 An NPO will need to exercise judgement to ensure that it provides information that is useful for accountability and decision-making purposes to users of the general purpose financial report.

Financial objectives and strategies

G35.14 An NPO shall discuss its objectives and strategies relating to its financial position, income and expenses, net assets and **cash flows**. This should be done in a way that enables users of the financial statements:

a) to understand the NPO's financial objectives and strategies;

b) to identify the resources that must be managed by the NPO to achieve them; and
c) how these financial objectives and strategies support the achievement of the NPOs performance objectives.

G35.15 Where relevant, an NPO should also discuss significant changes in its financial objectives and strategies from the previous period or periods, and the impact this may have on the achievement of its performance objectives.

Analysis of the NPO's financial statements

G35.16 An NPO shall include an analysis of significant changes and trends in its financial position, income and expenses, net assets and cash flows. Judgement should be applied to ensure a focus on significant and important financial statement items, and the NPO should not simply reiterate the information presented in the financial statements. Specifically, the analysis should not repeat the disclosures made in accordance with Section 8, but these disclosures may inform the analysis.

G35.17 As part of this analysis, the NPO should provide information on the impact that these significant changes and trends in its financial position, income and expenses, net assets and cash flows have on the achievement of its performance objectives.

Risks and uncertainties

G35.18 An NPO shall discuss the principal risks and uncertainties that affect the achievement of its performance objectives and its financial position, income and expenses, net assets and cash flows. This should include:

a) an explanation of how these risks and uncertainties relate to the performance objectives and financial objectives and strategies of the NPO;
b) an explanation of changes in those risks and uncertainties since the last **reporting date**; and
c) how the NPO manages risks and uncertainties.

G35.19 This information will help users to evaluate the impact of those risks and uncertainties on the achievement of the NPO's performance objectives and its financial position, income and expenses, net assets and cash flows in the current period, as well as expected longer term outcomes.

Presentation

G35.20 Performance information and financial statement commentary shall be clearly identified and distinguished from the financial statements.

G35.21 NPOs should develop a format that meets the information needs of their users while complying with the requirements of this Section.

G35.22 Cross-referencing of performance information and financial statement commentary to the financial statements will enable users to understand and assess the performance information and financial statement commentary within the context of the financial statements.

G35.23 In addition to cross-referencing of information to the financial statements within the general purpose financial report, an NPO may also consider it beneficial to cross-reference to information that is held outside of the general purpose financial report. For example, it may be appropriate to provide users with additional detail on performance objectives and to reduce the volume of information provided in the general purpose financial reports.

G35.24 Where an NPO does cross-reference to information held outside of the general purpose financial report, it must ensure that:

a) a complete set of performance information and financial statement commentary is provided to users in the general purpose financial report in accordance with this Section – an NPO shall not simply provide references to information held elsewhere; and
b) the cross-referenced information held outside of the general purpose financial report is, and will remain, unchanged and available to users of the general purpose financial report.

Comparative information and consistency of reporting

G35.25 The usefulness of performance information and financial statement commentary to users is improved through the provision of comparative information and consistent reporting by an NPO.

G35.26 Comparative information shall be provided by an NPO for the preceding period for amounts and descriptive information reported in the current period.

G35.27 Performance information and financial statement commentary shall also be reported consistently by an NPO. Where changes are made to what or how an NPO reports its performance information and financial statement commentary, the reasons for and the nature and effect of these changes shall be explained.

G35.28 If an NPO becomes aware of material prior period **errors**, be this related to numerical or descriptive information, it shall correct these by restating the comparative information for any prior period(s) presented in the general purpose financial reports and disclose an explanation of the error.

Disclosure of judgements

G35.29 An NPO will use judgement in the selection and presentation of performance information and financial statement commentary that is reported in accordance with this Section. An NPO shall disclose those judgements that are most relevant to users' understanding of the NPO's performance information and financial statement commentary.

Reporting of other information

G35.30 An NPO may choose or be required to present additional information in its general purpose financial report beyond the performance information and financial statement commentary included in this Section. Where it does so, the additional information shall, as far as possible, be presented in compliance with the requirements of this Section (principles, presentation, comparative information, consistency of reporting, and disclosure of judgements).

Application Guidance: Section 35 – Narrative reporting (New)

AG35.1 Section 35 *Narrative Reporting* sets out the principles and high-level requirements for reporting performance information and financial statement commentary by NPOs. As INPAG will be applied internationally by a diverse range of NPOs, it is impractical to determine a detailed set of requirements and a specific reporting format for a narrative report that would be appropriate for all NPOs. The principles and high-level requirements of the Section instead permit a flexible approach. NPOs are able to report in a manner that best meets the needs of their users. At the same time all NPOs are required to report a base level of information that is useful to users.

Performance information and objectives

AG35.2 Performance information required by paragraphs G35.11–G35.13 gives an NPO the opportunity to provide users with an understanding of why the NPO exists, what it intends to achieve now and in the longer term, and how it goes about doing this, including what it has done in the reporting period to achieve its objectives. Performance information is best supported by performance measures and descriptions (see paragraph IG35.17). These can be presented in a variety of ways including charts, maps, tables and infographics, and need not just rely on narrative descriptions.

AG35.3 Performance objectives should be linked to the discussion of what the NPO exists for that is included within the overview. They will be derived from the purpose of the NPO, and should indicate what the NPO intends to achieve now and in the longer term and how it goes about doing this. Reporting should be on the objectives that the NPO executive/management has set to monitor the activities or performance of the NPO. Performance objectives should not be created purely for the purpose of the narrative report.

AG35.4 A key decision will be deciding on which aspects of performance the NPO wishes to report. NPOs should focus on the needs of users of the general purpose financial report to make this judgement. The principles in paragraph G35.5 will guide these judgements, particularly the relevance of the information. Many NPOs will already provide performance information outside of their general purpose financial report to groups such as donors. While NPOs may be able to use the information that is contained in such reports, they should ensure that the information presented is not too detailed and that it complies with the high-level reporting principles.

Financial objectives and strategies

AG35.5 As per paragraphs G35.14 and G35.15, NPOs should provide sufficient information on financial objectives and strategies so that users can understand the NPO's financial priorities, the resources it needs to achieve them, and how these relate to it performance objectives. Given that NPOs exist primarily to deliver a benefit to the public rather than to generate financial returns for investors, financial objectives and strategies are likely to be derived from the NPOs performance objectives.

AG35.6 For example, an NPO may have a performance objective of delivering a certain volume of services over a financial period and has volatile incoming resources. To ensure that the NPO has sufficient resources to deliver this volume of services, it may have a reserves policy that requires it to hold six months equivalent of expenditure in unrestricted reserves or funds. To achieve this the NPO may have a strategy of increasing both the amount and percentage of unrestricted donations it receives compared to those that can only be spent on a specific project.

Discussion and analysis of the financial statements

AG35.7 Financial statement commentary required by paragraphs G35.16 and G35.17 gives an NPO the opportunity to discuss and analyse the financial statements. The commentary can focus on the significant items, transactions and events that are presented in the NPO's financial statements and the factors that have influenced them. This provides context to the financial statements for users, thus ensuring that they are useful for accountability and decision-making purposes.

AG35.8 The focus of the analysis of financial statements should be on significant changes and trends, and the achievement of its performance objectives, both in this period and the future. An explanation should be provided of the impact that these changes and trends have on the NPO's:

- financial position;
- income and expenses;
- net assets; and
- cash flows.

For example, how a significant amount of income from holding **financial assets** has enabled the NPO to increase its unrestricted cash reserves and how this will permit it to increase the number of members of the public it can support in the next financial year.

AG35.9 The NPO should not simply reiterate or replicate the information in the financial statements. The focus should be on enabling the **primary users** of the general purpose financial reports to gain a better understanding of the financial position, income and expenses and cash flows of the NPO. Judgement will be required to identify and present the significant items, transactions and events that will provide this understanding, with users provided with a clear link between the financial statement analysis and items within the financial statements. Any adjustments to information from the financial statements in producing the financial statement analysis must be disclosed along with the nature and reasons for the adjustment.

Comparative information and consistency of reporting

AG35.10 Comparative information is required by paragraphs G35.25–G35.28. Users understanding of performance and financial information is usually improved when comparative information for the preceding reporting period is included. Where the information provided is numerical, it should be relatively easy for an NPO to provide the comparative information. Where it cannot provide comparative information an NPO must follow the requirements of Section 3 regarding consistency. Where the information is narrative or descriptive, judgement may be required in determining what and how to disclose comparative information.

AG35.11 Users' understanding of performance and financial information is also improved when an NPO reports in a consistent manner over time what it reports and how it reports it. Consistency of reporting can be supported by thinking carefully about what users require when first considering the performance and financial information that will be reported and how it will be presented. Where changes are required, for example if an NPO changes its primary objective or measures performance in a different way, consistency of reporting is supported if the reason for the change and its impact on reporting is explained.

AG35.12 An item is material if its exclusion or misstatement would affect the decision and assessments made by users of the general purpose financial report. As such materiality depends not just on size but also on nature. A material prior period error occurs either where performance information or financial statement commentary has either been materially misstated or omitted altogether in a previous general purpose financial report. Where an NPO becomes aware that a material prior period error has occurred it needs to correct this in the next general purpose financial report it produces by restating comparative information for any prior periods presented and by disclosing an explanation of the error.

Reporting of other information

AG35.13 Paragraph G35.30 permits the inclusion of additional information beyond the mandatory core in paragraphs G35.8–G35.19. Where possible, an NPO should disclose other relevant information to enhance understanding for the users of the financial report, that goes beyond the minimum core requirement of this Guidance. This could include environmental, social and governance (ESG) information, climate related disclosures, and/or broader sustainability reporting.

Judgements

AG35.14 As required by paragraph G35.29, NPOs should disclose the judgements that have had the most significant effect on the selection, measurement and presentation of performance information and financial statement commentary. Only those that are most significant to the information reported and are relevant to the users understanding of the information provided. This might include for example a decision by an NPO to disclose performance information by region or activity, or why an NPO utilises a certain financial ratio to determine if it has sufficient funds to continue to provide services.

Specific matter for comment	
Question 12: Scope and content of narrative reporting	**References**
a) Do you agree with the principles proposed to underpin narrative reporting? If not, what would you propose to change and why?	G35.3–G35.7
b) Do you agree with the scope of the minimum mandatory requirement, with additional information, such as sustainability reporting to be optional? If not, what changes should be made and why?	G35.8–G35.19, G35.30, AG35.2–AG35.13
c) Do you agree with the proposals that sensitive information can be excluded from narrative reports? If not, what alternative would you propose and why?	G35.7
d) Should a two-year transition period for narrative reporting be permitted to assist in overcoming any implementation challenges? If not, what approach would you propose and why?	

Glossary of terms

This glossary is an integral part of INPAG.

Not all of the terms included in this glossary are used in ED1. Additional terms may be added as INPAG is developed. All terms will be used in the final INPAG.

accounting estimates	Monetary amounts in financial statements that are subject to measurement uncertainty.
accounting policies	The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
accounting profit	Profit or loss for a period before deducting tax expense.
accumulating compensated absences	Compensated absences that are carried forward and can be used in future periods if the current period's entitlement is not used in full.
active market	A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
acquiree	The business or businesses that the acquirer obtains control of in a business combination.
acquirer	The entity that obtains control of the acquiree.
aggregation	The adding together of assets, liabilities, equity, income or expenses that have shared characteristics and are included in the same classification.
agricultural activity	The management by an entity of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets.
agricultural produce	The harvested product of the entity's biological assets.
amortisation	The systematic allocation of the depreciable amount of an asset over its useful life.
amortised cost of a financial asset or financial liability	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.
asset	A present economic resource controlled by the entity as a result of past events.
associate	An entity, including an unincorporated entity such as a partnership, over which the controlling NPO has significant influence and that is neither a controlled entity nor an interest in a joint arrangement.
bearer plant	A bearer plant is a living plant that: a) is used in the production or supply of agricultural produce; b) is expected to bear produce for more than one period; and c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.
beneficial interest	An interest resulting from the control of another entity that arises other than through equity ownership.
biological asset	A living animal or plant.
borrowing costs	Interest and other costs incurred by an entity in connection with the borrowing of funds.
business	An integrated set of activities and assets that is capable of being conducted and managed for the purpose: a) providing goods or services to customers; b) generating investment income (such as dividends or interests); or c) generating other income from ordinary activities.
business combination	A transaction or other event in which an acquirer obtains control of one or more businesses.
carrying amount	The amount at which an asset, or liability or equity is recognised in the Statement of Financial Position.
cash	Cash on hand and demand deposits.
cash equivalent	Short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

cash flows	Inflows and outflows of cash and cash equivalents.
cash-generating unit	The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
cash-settled share-based payment transaction	A share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity.
class of assets	A grouping of assets of a similar nature and use in an entity's operations.
classification	The sorting of assets, liabilities, equity, funds in net assets, income or expenses on the basis of shared characteristics for presentation and disclosure purposes.
close members of the family of a person	Those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity, including: a) that person's children and spouse or domestic partner; b) children of that person's spouse or domestic partner; and c) dependents of that person or that person's spouse or domestic partner.
combined financial statements	Financial statements of a reporting entity that comprises two or more entities that are not all linked by a parent–subsidiary (controlling NPO-controlled entity) relationship.
component of an entity	Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.
compound financial instrument	A financial instrument that, from the issuer's perspective, contains both a liability and an equity element.
consolidated financial statements	The financial statements of a controlling NPO and its controlled entities presented as those of a single economic entity.
construction contract	A contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.
constructive obligation	An obligation that derives from an entity's actions where: a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
contingent asset	A possible asset 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.
contingent consideration	Usually, an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.
contingent liability	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 recognised because: i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or ii) the amount of the obligation cannot be measured with sufficient reliability.
contract	An agreement between two or more parties that creates enforceable rights and obligations.
contract asset	An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance).
contract liability	An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.
contributions from holders of equity claims	An inflow of resources to an NPO, contributed by parties external to the NPO, which establishes or increases a financial interest in the net assets of the NPO.

control (of an entity)	A controlling NPO controls an investee (controlled entity) when the controlling NPO is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
controlled entity	An entity that is controlled by another entity.
controlling NPO	The NPO that has control of an entity as a result of the application of the principles of control.
credit loss	The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (that is, all cash shortfalls), discounted at the original effective interest rate.
current tax	The amount of income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period or past periods.
customer	A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.
date of initial application	The date an entity first applies the First edition of INPAG.
date of transition to INPAG	The beginning of the earliest period for which an entity presents full comparative information under INPAG in its first financial statements that comply with INPAG.
deductible temporary differences	Temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
deferred tax	Income tax payable (recoverable) in respect of the taxable profit (tax loss) for future periods as a result of past transactions or events.
deferred tax assets	The amounts of income tax recoverable in future periods in respect of: a) deductible temporary differences b) the carryforward of unused tax losses; and c) the carryforward of unused tax credits.
deferred tax liabilities	The amounts of income tax payable in future periods in respect of taxable temporary differences.
defined benefit liability	The present value of the defined benefit obligation at the reporting date minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.
defined benefit obligation	The expected future payments, without deducting any plan assets, required to settle the obligation resulting from employee service in the current and prior periods.
defined benefit plans	Post-employment benefit plans other than defined contribution plans.
defined contribution plans	Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
depreciable amount	The cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value.
depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
derecognition	The removal of all or part of a recognised asset or liability from an entity's Statement of Financial Position.
development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.
discontinued operation	A component of an entity that either has been disposed of, or is held for sale, and: a) represents a separate major line of business or geographical area of operations; b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or c) is a controlled entity acquired exclusively with a view to resale.
distributions to holders of equity claims dividends	An outflow of resources from an NPO, distributed to parties external to the NPO, which returns or reduces a financial interest in the net assets of the NPO. It may also be an inflow of resources to an NPO in return for its financial interest in the net assets of another entity (for example, a dividend received). Distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital.

economic phenomena	Economic phenomena are economic resources, claims against those resources, and the effects of transactions and other events and conditions that change those resources and claims.
economic resource	A right that has the potential to produce economic benefits or service potential.
effective interest method	A method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
effective interest rate	The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.
effectiveness of a hedge	The degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.
employee benefits	All forms of consideration given by an entity in exchange for service rendered by employees.
enhancing qualitative characteristic	A qualitative characteristic that makes useful information more useful. The enhancing qualitative characteristics are comparability, verifiability, timeliness and understandability.
equity	The residual interest in the assets of an entity after deducting all its liabilities.
equity claim	A claim on the residual interest in the assets of an entity after deducting all its liabilities.
equity-settled share-based payment transaction	A share-based payment transaction in which the entity: a) receives goods or services as consideration for its own equity instruments (including shares or share options), or b) receives goods or services but has no obligation to settle the transaction with the supplier.
errors	Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: a) was available when financial statements for those periods were authorized for issue; and b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
executory contract	A contract, or a portion of a contract, that is equally unperformed– neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent.
existence uncertainty	Uncertainty about whether an asset or liability exists.
expenses	Decreases in assets or increases in liabilities that result in decreases in net assets, other than those relating to distributions to holders of equity claims.
fair presentation	Faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses.
fair value	The price that would be received to sell, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.
finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. A lease that is not a finance lease is an operating lease.
financial asset	Any asset that is: a) cash; b) an equity instrument of another entity; c) a contractual right: i) to receive cash or another financial asset from another entity; or ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or d) a contract that will or may be settled in the entity's own equity instruments and: i) under which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or ii) that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

financial guarantee contract A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

financial instrument A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

financial liability Any liability that is:

a) a contractual obligation:
   i) to deliver cash or another financial asset to another entity; or
   ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

b) a contract that will or may be settled in the entity's own equity instruments and:
   i) under which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments, or
   ii) will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

financial position The relationship of the assets, liabilities and equity of an entity as reported in the Statement of Financial Position.

financial statements Structured representation of the financial position, income and expenses and cash flows of an entity.

financing activities Activities that result in changes in the size and composition of the equity and borrowings of the entity.

firm commitment A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

first-time adopter of INPAG An entity that presents its first annual financial statements that conform to INPAG, regardless of whether its previous accounting framework was full IFRS Accounting Standards or another set of accounting standards.

forecast transaction An uncommitted but anticipated future transaction.

foreign operation An entity that is a controlled entity, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

full IFRS Accounting Standards Standards and Interpretations issued by the International Accounting Standards Board (IASB). They comprise:

a) International Financial Reporting Standards;
b) International Accounting Standards;
c) IFRIC Interpretations; and
d) SIC Interpretations.

functional currency The currency of the primary economic environment in which the entity operates.

functional currency normalisation date The date when an entity's functional currency no longer has either, or both, of the two characteristics of severe hyperinflation, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.

fundamental qualitative characteristic A qualitative characteristic that financial information must possess to be useful to the primary users of general purpose financial reports. The fundamental qualitative characteristics are relevance and faithful representation.

funding (of post-employment benefits) Contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid.

funds with restrictions Funds that are required to be expended, invested or retained by the NPO for a specific purpose or activity as a consequence of externally imposed funding or other legal arrangements placed on the NPO by a resource provider.

funds without restrictions	Funds that are freely available to be used by an NPO for any of its purposes or activities. An NPO is free to internally designate funds for a specific purpose or activity (including designation by the NPO's board of directors), but the absence of any externally imposed funding or other legal arrangement means that they are not required to be used for this purpose or activity and are therefore not funds with restrictions.
general purpose financial statements	Financial statements directed to the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.
general purpose financial reports	Financial reports that present management commentary and other narrative reporting alongside the financial information contained in the general purpose financial statements and that are directed to the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.
going concern	An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
goodwill	An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.
government	Government, government agencies and similar bodies whether local, national or international.
government grants	Assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.
grant date	The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At the grant date, the entity confers on the counterparty the right to cash, other assets or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), the grant date is the date when that approval is obtained.
gross investment in a lease	The aggregate of: a) the minimum lease payments receivable by the lessor under a finance lease; and b) any unguaranteed residual value accruing to the lessor.
group	A parent (controlling NPO) and all its controlled entities.
hedged item	For the purpose of special hedge accounting by SMEs under Part II of Section 11 of this Standard, a hedged item is: a) interest rate risk of a debt instrument measured at amortised cost; b) foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction; c) price risk of a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; or d) foreign exchange risk in a net investment in a foreign operation.
hedging instrument	For the purpose of special hedge accounting by SMEs under Part II of Section 11 of this Standard, a hedging instrument is a financial instrument that meets all of the following terms and conditions: a) it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in paragraph 11.65 that is designated as the hedged risk; b) it involves a party external to the reporting entity (ie external to the group, segment or individual entity being reported on); c) its notional amount is equal to the designated amount of the principal or notional amount of the hedged item; d) it has a specified maturity date not later than: i) the maturity of the financial instrument being hedged; ii) the expected settlement of the commodity purchase or sale commitment; or iii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged e) it has no prepayment, early termination or extension features.
highly probable	Significantly more likely than probable.

impairment (loss)	The amount by which the carrying amount of an asset exceeds: a) in the case of inventories, its selling price less costs to complete and sell, or b) in the case of other non-financial assets, its recoverable amount.
impracticable	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
imputed rate of interest	The more clearly determinable of either: a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.
income	Increases in assets, or decreases in liabilities, that result in increases in net assets, other than those relating to contributions from holders of equity claims.
income statement	A financial statement that presents all items of income and expense recognised in a reporting period, excluding the items of other comprehensive income.
income tax	All domestic and foreign taxes that are based on taxable profits. Income tax also includes taxes, such as withholding taxes, that are payable by a controlled entity, associate or joint arrangement on distributions to the reporting entity.
insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
intangible asset	An identifiable non-monetary asset without physical substance. Such an asset is identifiable when it: a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
interest rate implicit in the lease	The discount rate that, at the inception of the lease, causes the aggregate present value of a) the minimum lease payments and b) the unguaranteed residual value to be equal to the sum of i) the fair value of the leased asset and ii) any initial direct costs of the lessor.
interim financial report	A financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period.
interim period	A financial reporting period shorter than a full financial year.
International Public Sector Accounting Standards (IPSAS)	Standards and Interpretations issued by the International Public Sector Accounting Standards Board (IPSASB) for use by public sector entities other than government business enterprises. They comprise: a) International Public Sector Accounting Standards: and b) International Recommended Practice Guidelines.
intrinsic value	The difference between the fair value of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares. For example, a share option with an exercise price of CU15, on a share with a fair value of CU20, has an intrinsic value of CU5.
inventories	Assets: a) held for sale in the ordinary course of business b) in the process of production for such sale, or c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.
investment property	Property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, instead of for: a) use in the production or supply of goods or services or for administrative purposes; or b) sale in the ordinary course of business.
joint arrangement	An arrangement of which two or more parties have joint control. Joint arrangements can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities.

joint control The contractually agreed sharing of control of an arrangement. It exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

jointly controlled entity A joint arrangement that involves the establishment of a corporation, partnership or other entity in which each party has an interest. The entity operates in the same way as other entities, except that an arrangement between the parties establishes joint control.

lease An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

lessee's incremental borrowing rate of interest The rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.

liability A present obligation of the entity to transfer an economic resource as a result of past events.

loans payable Financial liabilities other than short-term trade payables on normal credit terms.

market participants Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

a) they are independent of each other, that is, they are not related parties as defined in Section 33;
b) they are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information;
c) they are able to enter into a transaction for the asset or liability; and
d) they are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

market vesting condition A performance condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group), such as:

a) attaining a specified share price or a specified amount of intrinsic value of a share option, or
b) achieving a specified target that is based on the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group) relative to an index of market prices of equity instruments of other entities.

A market condition requires the counterparty to complete a specified period of service (that is, a service condition); the service requirement can be explicit or implicit.

material Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

measure The result of applying a measurement basis to an asset or liability and related income and expenses.

measurement basis An identified feature – for example, historical cost, fair value or fulfilment value – of an item being measured.

measurement uncertainty Uncertainty that arises when monetary amounts in financial reports cannot be observed directly and must instead be estimated.

minimum lease payments The payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or
b) for a lessor, any residual value guaranteed to the lessor by:
    i) the lessee;
    ii) a party related to the lessee; or
    iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

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.

most advantageous market The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

multi-employer (benefit) plans Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

a) pool the assets contributed by various entities that are not under common control; and
b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

net investment in a lease The gross investment in a lease discounted at the interest rate implicit in the lease.

non-controlling interest The equity in a controlled entity not attributable, directly or indirectly, to a controlling NPO.

notes (to financial statements) Notes contain information in addition to that presented in the Statement of Financial Position, Statement of Income and Expenses, Statement of Changes in Net Assets and Statement of Cash Flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.

notional amount The quantity of currency units, shares, bushels, pounds or other units specified in a financial instrument contract.

objective of financial statements To provide information about the financial position, income and expenses and cash flows of an entity that is useful for decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.

observable inputs Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

offsetting Grouping an asset and liability that are recognised and measured as separate units of account into a single net amount in the Statement of Financial Position.

onerous contract A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

operating activities The principal activities of the entity that are not investing or financing activities.

operating lease A lease that does not transfer substantially all the risks and rewards incidental to ownership. A lease that is not an operating lease is a finance lease.

orderly transaction A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

other comprehensive income Items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by the *IFRS for SMEs* Accounting Standard.

outcome uncertainty Uncertainty about the amount or timing of any inflow or outflow of economic benefits that will result from an asset or liability.

parent An entity that has one or more subsidiaries or controlled entities. The term 'controlling NPO' is used where an NPO is a parent.

performance condition A vesting condition that requires:

a) the counterparty to complete a specified period of service (that is, a service condition); the service requirement can be explicit or implicit; and
b) specified performance target(s) to be met while the counterparty is rendering the service required in a).

The period of achieving the performance target(s):

a) shall not extend beyond the end of the service period; and
b) may start before the service period on the condition that the commencement date of the performance target is not substantially before the commencement of the service period.

A performance target is defined by reference to:

a) the entity's own operations (or activities) or the operations or activities of another entity in the same group (that is, a non-market condition); or
b) the price (or value) of the entity's equity instruments or the equity instruments of another entity in the same group (including shares and share options) (that is, a market condition).

A performance target might relate either to the performance of the entity as a whole or to some part of the entity (or part of the group), such as a division or an individual employee.

plan assets (of an employee benefit plan) Assets held by a long-term employee benefit fund and qualifying insurance policies.

post-employment benefits	Employee benefits (other than termination benefits) that are payable after the completion of employment.
post-employment benefit plans	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.
potential to produce economic benefits	Within an economic resource, a right that already exists and that, in at least one circumstance, would produce for the entity economic benefits or service potential beyond those available to all other parties.
present value	A current estimate of the present discounted value of the future net cash flows in the normal course of business.
presentation currency	The currency in which the financial statements are presented.
primary users	Existing and potential investors, lenders and other creditors.
principal market	The market with the greatest volume and level of activity for the asset or liability.
probable	More likely than not.
profit or loss	The total of income less expenses, excluding the components of other comprehensive income of for-profit entities.
projected unit credit method	An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method).
promise (in a contract with a customer)	An obligation to transfer a good or service (or bundle of goods or services) that is distinct.
property, plant and equipment	Tangible assets that: a) are held for use in the production or supply of goods or services, for rental to others or for administrative purposes; and b) are expected to be used during more than one period.
prospective application (of a change in accounting policy)	Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed.
provision	A liability of uncertain timing or amount.
prudence	The exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses.
public accountability	An entity has public accountability if: a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).
publicly traded (debt or equity instruments)	Traded, or in process of being issued for trading, in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
recognition	The process of capturing for inclusion in the Statement of Financial Position or the statement(s) of financial performance an item that meets the definition of one of the elements of financial statements – an asset, a liability, equity, income or expenses. Recognition involves depicting the item in one of those statements – either alone or in aggregation with other items – in words and by a monetary amount, and including that amount in one or more totals in that statement.
recoverable amount	The higher of an asset’s (or cash-generating unit’s) fair value less costs to sell and its value in use.

related party	A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity): a) a person or a close member of that person's family is related to a reporting entity if that person: i) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity; ii) has control or joint control over the reporting entity; or iii) has significant influence over the reporting entity. b) an entity is related to a reporting entity if any of the following conditions applies: i) the entity and the reporting entity are members of the same group (which means that each controlling NPO, controlled entity and fellow controlled entity is related to the others) ii) one entity is an associate or jointly controlled entity of the other entity (or an associate or jointly controlled entity of a member of a group of which the other entity is a member) iii) both entities are jointly controlled entities of the same third entity iv) one entity is a jointly controlled entity of a third entity and the other entity is an associate of the third entity v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity vi) the entity is controlled or jointly controlled by a person identified in a) vii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity viii) a person identified in a)ii) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
related party transaction	A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.
relevance	Relevant financial information is capable of making a difference in the decisions made by users.
relevant activities (of an investee)	The activities that significantly affect the investee's returns.
reliability	The quality of information that makes it free from material error and bias and represent faithfully that which it either purports to represent or could reasonably be expected to represent.
reporting date	The end of the latest period covered by the financial report or by an interim financial report.
reporting entity	An entity that is required, or chooses, to prepare general purpose financial reports.
reporting NPO	A reporting NPO is a single NPO, part of an NPO or a combination of NPOs that is required, or chooses, to prepare general purpose financial reports.
reporting period	The period covered by a financial report or by an interim financial report.
research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
residual value (of an asset)	The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
retrospective application (of a change in accounting policy)	Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.
revenue	Income arising in the course of an entity's ordinary activities.
separate financial statements	Those presented by an entity, in which the entity could elect, in accordance with paragraphs 9.25–9.26, to account for its investments in controlled entities, jointly-controlled entities and associates either at cost less impairment, at fair value with changes in fair value recognised in profit or loss or using the equity method following the procedures in paragraph 14.8.
service beneficiary	Individual, group of individuals or organisation that is in receipt of services, goods, or advocacy of an NPO.
service concession arrangement	An arrangement whereby a government or other public sector body contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals.

service condition
A vesting condition that requires the counterparty to complete a specified period of service during which services are provided to the entity. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, it has failed to satisfy the condition. A service condition does not require a performance target to be met.

service potential
The capacity to provide services that contribute to achieving the NPO's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.

severe hyperinflation
The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

a) a reliable general price index is not available to all entities with transactions and balances in the currency; and
b) exchangeability between the currency and a relatively stable foreign currency does not exist.

share-based payment arrangement
An agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive:

a) cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity; or
b) equity instruments (including shares or share options) of the entity or another group entity;

provided the specified vesting conditions, if any, are met.

share-based payment transaction
A transaction in which the entity:

a) receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment arrangement; or
b) incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.

small and medium-sized entities
Entities that:

a) do not have public accountability; and
b) publish general purpose financial statements for external users.

An entity has public accountability if:

a) it files, or it is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; or
b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

societal accountability
An expansive view of accountability that recognises a general accountability to society at large due to the importance of NPO goods and services, the funding environment, the preferential treatment that NPOs can receive compared to other organisations, and the need to ensure the effective operation of the wider sector.

state (employee benefit) plan
Employee benefit plans established by legislation to cover all entities (or all entities in a particular category, for example a specific industry) and operated by national or local government or by another body (for example an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity.

Statement of Cash Flows
A financial statement that provides information about the changes in cash and cash equivalents of an entity for a period, showing separately changes during the period from operating, investing and financing activities.

Statement of Changes in Net Assets
A financial statement that presents the surplus or deficit for a period, items of income and expense not recognised directly in Statement of Income and Expenses for the period, the effects of changes in accounting policy and corrections of errors recognised in the period, the amounts of changes in equity and movements between funds.

Statement of Financial Position
A financial statement that presents the relationship of an entity's assets, liabilities and interests of holders of equity claims as of a specific date (also called the balance sheet).

Statement of Income and Expenses
A financial statement that presents all items of income and expense recognised in the period, except for items of income and expense explicitly required to be recognised in the Statement of Changes in Net Assets and totals to the surplus or loss for a period.

surplus or deficit from operating activities	The difference between items of income and expenses in the reporting period that do not include those items to be shown separately on the Statement of Income and Expenses or in the Statement of Changes in Net Assets.
subsidiary	An entity that is controlled by another entity.
tax base	The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.
tax expense	The aggregate amount included in total comprehensive income or equity for the reporting period in respect of current tax and deferred tax.
taxable profit (tax loss)	The profit (loss) for a reporting period upon which income taxes are payable or recoverable, determined in accordance with the rules established by the taxation authorities. Taxable profit equals taxable income less amounts deductible from taxable income.
taxable temporary differences	Temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
temporary differences	Differences between the carrying amount of an asset or liability in the Statement of Financial Position and its tax base.
termination benefits	Employee benefits payable at the earlier of the following dates: a) when an entity can no longer withdraw the offer of those benefits; and b) when the entity recognises costs for a restructuring that is within the scope of Section 21 and involves the payment of termination benefits.
timing differences	Income or expenses that are recognised in surplus or deficit in one period but, under tax laws or regulations, are included in taxable income in a different period.
timeliness	Having information available to decision-makers in time to be capable of influencing their decisions.
total comprehensive income	The change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners (equal to the sum of profit or loss and other comprehensive income) as defined by the *IFRS for SMEs* Accounting Standard.
transaction costs	The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria: a) they result directly from and are essential to that transaction; and b) they would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made.
treasury shares	An entity's own equity instruments, held by the entity or other members of the consolidated group.
understandability	Classifying, characterising and presenting information clearly and concisely makes it understandable.
unit of account	The right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations, to which recognition criteria and measurement concepts are applied.
unobservable inputs	Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.
useful life	The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.
value in use	The present value of the future cash flows or service potential expected to be derived from an asset or cash-generating unit.
vest	Become an entitlement. Under a share-based payment arrangement, a counterparty's right to receive cash, other assets or equity instruments of the entity vests when the counterparty's entitlement is no longer conditional on the satisfaction of any vesting conditions.
vested benefits	Benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.
vesting conditions	A condition that determines whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. A vesting condition is either a service condition or a performance condition.
vesting period	The period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.

INPAG

International Non-Profit Accounting Guidance Part 1

Basis for Conclusions

Comments to be received by 31 March 2023
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INPAG ED/2022/1

Preface

Introduction

BC P.1 This Basis for Conclusions summarises the factors considered during the development of the Exposure Draft.

BC P.2 It includes details of any changes made to the approach that were set out in the IFR4NPO Consultation Paper Part 1 and the development of financial reporting options that were included in Part 2 as a result of feedback from respondents. The discussion has been provided to enable respondents to this Exposure Draft to understand the evolution of the proposals from the Consultation Paper to Exposure Draft stage.

BC P.3 This Basis for Conclusions will be updated following the Exposure Draft stage, in the light of comments received and subsequent deliberations.

Governance framework

BC P.4 The IFR4NPO project, which is being funded by donations and grants, is being delivered jointly by a Project Secretariat formed of two non-profit organisations (NPOs), the Chartered Institute of Public Finance and Accountancy (CIPFA) and Humentum.

BC P.5 A Steering Group comprising executive and non-executive members governs the project. The Steering Group provides oversight to the delivery of the project, ensuring that the project partners remain focused on the project objectives and that these are delivered cost effectively. The project is also being supported by a Technical Advisory Group, a Practitioner Advisory Group, a Donor Reference Group and Country Champions.

BC P.6 As the IFR4NPO project has moved to the Exposure Draft stage, the INPAG Secretariat has been formed by CIPFA to undertake its development.

BC P.7 The INPAG Secretariat uses professional judgment in reaching its conclusions. As part of due process, it consults with the Technical Advisory Group on technical financial reporting considerations. The aim of these consultations is to achieve consensus on the changes proposed. The INPAG Secretariat also consults with the Practitioner Advisory Group on practical financial and operational implications for NPOs. The Steering Group is informed of any risks arising to the project from significant disagreements or issues that impact project delivery. Ultimately, CIPFA is responsible for the approval of INPAG and related documents.

Accrual-based guidance

BC P.8 INPAG is accrual-based guidance. The additional information accrual accounting can provide improves the quality and transparency of financial reports and information. Accrual accounting is also best able to address NPO-specific issues and improve comparability.

BC P.9 Respondents to the IFR4NPO Consultation Paper were asked to highlight practical challenges that NPOs might face in implementing accrual-based guidance.

BC P.10 Respondents noted that some NPOs and their staff would potentially not have the capacity and capability to move to and maintain an accruals-based accounting system. This was deemed a particular issue for those NPOs reliant on volunteer and/or non-specialist staff who may not have the skills and technical expertise required to operate finance systems on an accrual basis, or understand the accrual based financial reports that they produced.

BC P.11 Respondents also commented that access to, and the affordability of, the education and training needed to apply accrual accounting would be challenging in many jurisdictions, and that the resources needed to introduce the computer software and hardware that would be required for accrual accounting would be scarce for many NPOs. The additional costs associated with compliance and audit of accrual-based financial reports was also noted as posing additional burdens.

BC P.12 In addition to practical challenges, some respondents to the IFR4NPO Consultation Paper also raised conceptual challenges to the use of accruals. The most common was that NPOs with less complex financial reporting needs were unlikely to gain any significant benefit from accrual-based guidance. Respondents noted that this was because the stakeholders of these NPOs would have little understanding of accrual-based financial information and their transactions were simple and adequately accounted for on a cash-basis.

BC P.13 It was also noted by respondents that for many NPOs, donors and regulators would continue to require cash or modified cash basis reports to understand the utilisation of funding or for tax or other purposes.

BC P.14 These practical and conceptual issues, and the need to ensure that the guidance provides for proportionate financial reporting requirements that can be applied by a wide range of NPOs in many jurisdictions, have been key considerations when developing INPAG.

BC P.15 For some NPOs, cash-based or modified cash-based accounting will continue to be appropriate given the level of the financial reporting needs of their users. Decisions on which entities are required or permitted to use INPAG rests with legislative and regulatory authorities and standard setters in individual jurisdictions. It will be for these authorities to determine whether the accrual-based guidance within INPAG in whole, or part, should apply and to which entities. An NPO will, however, only be able to state that its general purpose financial reports are compliant with INPAG if it complies with all of the requirements of INPAG.

BC P.16 As noted by respondents, there will continue to be a requirement for other forms of reporting by NPOs, including potentially reporting using a different accounting basis. INPAG can, however, support a reduction in the reporting burden on NPOs, as greater consistency in requirements at the level of general purpose financial reports will enable a range of stakeholders to make greater use of these financial reports.

BC P.17 The introduction of common financial reporting standards also has the potential to reduce diversity in different reporting requirements if utilised by donors for any continued special purpose financial reports requested from NPOs.

BC P.18 While there is a cost to producing accrual-based financial information, for many NPOs these will be significantly outweighed by the benefits to them and the users of this information or accountability and decision-making purposes.

General purpose financial reports

BC P.19 INPAG provides financial reporting guidance for the production of general purpose financial reports. General purpose financial reports present management commentary and other narrative reporting alongside the financial information contained in the general purpose financial statements.

BC P.20 General purpose financial reports will provide users with information to allow a meaningful understanding of an NPO's nature, objectives, strategy, risks, and performance. When used effectively, management commentary and other narrative reporting provides a range of performance measures and indicators consistent with underlying financial information. This can give users a clearer view of the impact of the NPO's projects, programmes, and wider activities.

BC P.21 Respondents to the IFR4NPO Consultation Paper recognised that it was important to include non-financial information reporting within INPAG as its inclusion would be beneficial in enabling NPO financial reports to meet the broader needs and expectations of users.

BC P.22 Guidance on the requirements for non-financial information reporting is included in Section 35 *Narrative Reporting*

The use of existing international frameworks

BC P.23 The IFR4NPO project does not currently have sufficient resources to develop, from first principles, a conceptual framework and complete suite of NPO financial reporting standards. The use of existing international frameworks is a pragmatic approach given the time and resource constraints on the IFR4NPO project. There are several examples from across the globe of jurisdictions that have adapted existing international frameworks to develop NPO financial reporting frameworks that demonstrate that an adaptive approach can succeed.

BC P.24 There are significant advantages in being able to utilise the work that has been undertaken to develop and maintain these international frameworks, including the extensive consultation and best practice development processes associated with these frameworks, the potential for familiarity amongst preparers and users, and the existence of extensive educational and support material.

BC P.25 While jurisdictional-level frameworks are also used to develop INPAG in specific areas, international frameworks are considered the best start point because they are developed with international rather than jurisdictional-level application in mind and are subject to international rather than jurisdictional-level due process.

BC P.26 It is recognised that existing international frameworks have been developed to provide financial reporting standards for for-profit organisations and government entities based on their respective sector contexts and the needs of their primary users of financial statements. In developing INPAG, the primary users of NPO general purpose financial reports have been identified and their financial and non-financial information needs articulated. The primary users of NPO general purpose financial reports are covered in Section 2 *Concepts and pervasive principles.*

The use of the *IFRS for SMEs* Accounting Standard[1] as the foundational framework

BC P.27 INPAG is a single set of standalone financial reporting guidance, that can be applied to preparing general purpose financial reports of NPOs without access to or knowledge of other financial reporting frameworks. Assessment of the existing international frameworks showed that the use of the *IFRS for SMEs* Accounting Standard as the foundational framework for INPAG had the most benefits, as it provides a shorter, simplified standalone Standard with less onerous disclosure requirements.

BC P.28 Where INPAG does not yet directly address a topic, the relevant Sections in the *IFRS for SMEs* Accounting Standard have been retained for now. For the topics within the IFR4NPO project scope, other international and jurisdictional-level frameworks are used to develop financial reporting guidance where NPO-specific financial reporting issues have not been comprehensively or appropriately dealt with in the existing *IFRS for SMEs* Accounting Standard, or where there is no related Section in the *IFRS for SMEs* Accounting Standard.

BC P.29 Several respondents to the IFR4NPO Consultation Paper questioned whether IPSAS would be more appropriate as the foundational framework. Had an "IPSAS for SMEs" standard been available, that could have potentially provided a better solution than the *IFRS for SMEs* Accounting Standard. Such a framework does not currently exist. Whilst recognising that IPSAS addresses some NPO specific accounting issues, it was considered that the benefits of utilising the shorter, simpler, standalone *IFRS for SMEs* Accounting Standard outweighed this potential benefit. IPSAS is a key source of financial reporting guidance on public benefit related financial reporting issues.

BC P.30 The process for using the *IFRS for SMEs* Accounting Standard as a starting point, with terminology changes and modification made where necessary for the NPO context is similar to the IPSASB's well-established process for using relevant IASB documents as a start point for its guidance. The process used by the INPAG Secretariat can be found in **Process for developing the International Non-Profit Accounting Guidance through changes to the IFRS for SMEs Accounting Standard**.

[1] All references to the *IFRS for SMEs* Accounting Standard in this document are to the Third edition of the *IFRS for SMEs* Accounting Standard exposed in September 2022 unless otherwise stated.

Section 1 – Non-profit organisations

Intended scope of the INPAG

BC 1.1 INPAG application can be beneficial for all non-profit organisations no matter their size or jurisdiction. For those organisations that are small, have simple stakeholder needs, and where there is no fiduciary obligation, INPAG and its accrual requirement may be more than is needed to meet accountability requirements. For these organisations INPAG provides useful guidance that NPOs may draw on and move to over time. More complex organisations that meet the public accountability definition in IFRS need to follow full IFRS Accounting Standards, or equivalent national Generally Accepted Accounting Practice (GAAP). However, INPAG may provide useful guidance for NPO specific transactions that can be adopted. The decision about which entities apply INPAG rests with legislative and regulatory authorities and standard setters in individual jurisdictions.

Description of non-profit organisations

BC 1.2 A broad characteristics approach was developed for INPAG to identify the entities that INPAG is expected to primarily benefit. This has enabled a focus on how to best meet the needs of the users of the general purpose financial reports of entities with these characteristics.

BC 1.3 Respondents to the IFR4NPO Consultation Paper were overwhelmingly supportive of this approach. It was recognised that a narrower focus on entities with, for example, a specific legal status as an NPO could exclude many entities that could benefit from INPAG and that not all jurisdictions have a relevant legal framework that would permit a narrow legal status approach. In addition, entities that are deemed to be NPOs in one jurisdiction's legal code may not be deemed to be an NPO in another jurisdiction, despite them being structured in the same way and carrying out the same activities.

BC 1.4 Based on the feedback to the Consultation Paper, changes have been made to the broad characteristics that were included in the IFR4NPO Consultation Paper. Respondents noted that the broad characteristics included in the Consultation Paper could have unintentionally included or excluded entities. This was partly due to the presentation of the characteristics as "and/or" statements, concern about how each individual characteristic might be applied and uncertainty as to what was meant by key terms included in the characteristics.

BC 1.5 Some respondents, for example, noted that the characteristics might call for the inclusion of a wide range of entities that they did not expect to be an appropriate focus for the Guidance. These included:

- government entities that should follow public sector accounting standards;
- private sector entities like hospitals that provide services for the public benefit or use assets to fulfil a social purpose, but which would be expected to follow private sector accounting standards; and
- certain types of organisations providing benefit only to a small and privileged membership that could be deemed too exclusive to be viewed as a non-profit organisation.

BC 1.6 As well as scoping in entities that they did not believe were an appropriate focus for INPAG, some respondents also noted that the broad characteristics currently proposed might exclude entities that they believed should be within scope. Examples included:

- entities providing goods for the benefit of the public and not services;
- grant-giving bodies providing funding to other NPOs; and
- entities that work to preserve and enhance the environment, heritage assets, or other areas that might not immediately be deemed to be for a "social" purpose.

BC 1.7 In addition to raising the possibility of unintended consequences with respect to scope, some respondents also questioned whether all of the broad characteristics were characteristics in their own right or should more appropriately be seen as indicators of other characteristics or consequential to activities driven by them.

Broad characteristics

BC 1.8 The broad characteristics were amended so that they are no longer presented as "and/or" statements. Rather, an entity is expected to display all the broad characteristics if it is to be described as an NPO for the purpose of INPAG.

BC 1.9 The broad characteristics of NPOs were revised as follows:

- they have the primary objective of providing a benefit to the public;
- they direct surpluses for the benefit of the public; and
- they are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards.

Primary objective of providing a benefit to the public

BC 1.10 Having a primary objective of providing a benefit to the public is an essential characteristic of an NPO, and in many cases this will be specified in the founding documents of the entity. Through the services and goods it delivers in pursuit of its primary objective, the NPO will provide a benefit to the general public, community or wider society, and it is the general public, community or a particular section of the community who will be the primary beneficiaries of the entity's activities. The primary objective of an NPO will not be for financial or other economic returns, though some incidental private benefits may be provided in the pursuit of its purpose.

BC 1.11 This contrasts with for-profit entities, which have the primary objective of generating a financial surplus in order to provide a financial return to equity holders or others for private benefit. It is these equity holders, or other providers of resources to the entity such as holders of debt or suppliers, who will be the primary beneficiaries of the activities of the entity.

BC 1.12 In response to the feedback received on the IFR4NPO Consultation Paper, this characteristic explicitly notes that an entity may provide goods for public benefit as well as services. The characteristic also makes clear that depending on the services and goods provided by the entity, the section of the public that benefit from the NPOs activities could be quite limited and even restricted to a defined membership of the entity. Where the 'public' is limited in this way it is likely to be necessary to carefully examine the other characteristics and indicators to ensure the entity is an NPO.

Direct surpluses for public benefit

BC 1.13 NPOs will need to be financially viable to meet their objectives. This may include undertaking activities which generate a profit or financial surplus such as selling goods and services or holding and trading financial assets. These should be used to support the primary objective of providing a benefit to the public) Generating profits or a financial surplus should not be the primary objective of the NPO.

BC 1.14 This contrasts with for-profit entities, where generating profits is a primary objective and financial returns are generally distributed to providers of economic resources such as contributors of equity.

Not government or public sector entities that should prepare general purpose financial reports under public sector accounting standards

BC 1.15 Responses to the IFR4NPO Consultation Paper noted that it was unclear whether government entities were expected to be within scope of INPAG.

BC 1.16 In some jurisdictions, financial reporting guidance for NPOs is included as part of a broader framework of standards for all 'public benefit entities' which includes government and public sector entities as well as non-profit organisations. Where this is the case, however, there is usually a clear distinction made between those standards that are applicable to entities that are controlled by government and other public benefit entities which are not.

BC 1.17 The IFR4NPO project does not have an objective of providing financial reporting guidance to government entities, nor to examine those transactions and economic events that are only relevant in the public sector context. For most government and public sector entities, the accountability and decision-making needs of the users of their general purpose financial reports are likely to be best met by preparing them under public sector accounting standards.

Indicators

BC 1.18 Some of the broad characteristics included in the IFR4NPO Consultation could more appropriately be seen as indicators of other characteristics or consequential to activities driven by them. Implementation Guidance may assist in cases where there may be uncertainty as to whether the broad characteristics have been met.

BC 1.19 “Indicators” were therefore developed to assist entities in determining whether they are within the intended scope of applicability of the INPAG. These are intended to assist in decision making where it is not clear if an entity fully displays the broad characteristics of an NPO.

BC 1.20 Two of these, namely ‘voluntary funding’ and ‘holding and using assets for the benefit of the public’ were previously included as broad characteristics in the IFR4NPO Consultation Paper. ‘Voluntary funding’ was expanded to cover grant-giving bodies that provide funding to other NPOs. The Consultation Paper was only focussed on the receipt of voluntary funding and not its provision. ‘Holding and using assets for the benefit of the public’ was also expanded to provide clarity that it covers entities that have a responsibility for the preservation and enhancement of assets such as artistic works, heritage assets, and natural assets.

BC 1.21 Two additional indicators were introduced for the Exposure Draft. These are ‘an absence of individuals with rights to financial returns from surpluses’ and ‘a requirement that the NPO transfer residual net upon dissolution to an entity with a similar purpose’. These indicators were included as the consultation responses identified them as being useful in a number of jurisdictional-level frameworks that provide guidance on determining whether an entity exists to provide a benefit to the public) These additional indicators focus on the nature of defined rights to financial benefits during an entity’s existence and upon its dissolution.

Public accountability and societal accountability

BC 1.22 The IFR4NPO Consultation Paper proposed that NPOs have a wider societal accountability. This is an expansive view of accountability that recognises a general accountability to society at large due to the importance of NPO goods and services, the funding environment, the preferential treatment that NPOs can receive compared to other organisations, and the need to ensure the effective operation of the wider sector.

BC 1.23 While all NPOs can be said to have societal accountability, some may also meet the IFRS definition of public accountability. The *IFRS for SMEs* Accounting Standard notes that an entity has public accountability if:

a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion)

BC 1.24 INPAG uses the *IFRS for SMEs* Accounting Standard as its foundational framework. As a standard that is specifically designed for entities that do not have public accountability:

- there are topics that may be relevant to entities that have public accountability that have been omitted;
- accounting policy options that may be useful to entities that have public accountability are unavailable; and
- there are simplified recognition and measurement principles and reduced disclosures that may not be appropriate for entities with public accountability to meet the needs of users.

BC 1.25 Entities that have public accountability are expected to use IFRS Accounting Standards or follow an appropriate jurisdictional GAAP. If an entity has public accountability, it is likely that INPAG will not meet the requirements of either the preparers or the users of their general purpose financial reports, although entities should follow any direction provided by their jurisdictional standard setter or regulator.

BC1.26 INPAG is being developed to provide accounting guidance specifically for NPOs. Those NPOs that have public accountability may find the guidance in INPAG useful. Such organisations are not prohibited from using INPAG. In the event that an entity with public accountability chooses or is required to use INPAG, the Exposure Draft requires an explanation of how INPAG is being used to provide transparency, including an explanation as to why the use of INPAG meets the needs of users of its financial statements.

Section 2 – Concepts and pervasive principles

The use of the IFRS Conceptual Framework and the IPSASB's Public Sector Conceptual Framework

BC 2.1 INPAG utilises the *IFRS for SMEs* Accounting Standard as its foundational framework. Where NPO-specific financial reporting issues have not been comprehensively or appropriately dealt with in the existing *IFRS for SMEs* Standard, or where there is no related Section in the *IFRS for SMEs* Standard providing financial reporting guidance, INPAG may differ from the *IFRS for SMEs* Standard. In accordance with the "**Process for developing the International Non-Profit Accounting Guidance through changes to the IFRS for SMEs Standard**", this allows for the use of:

- IFRS Accounting Standards and its conceptual framework (the IASB's revised *Conceptual Framework for Financial Reporting* March 2018); and
- International Public Sector Accounting Standards (IPSAS) and its conceptual framework (the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* October 2014)

where this can provide more appropriate financial reporting guidance in the NPO context.

BC 2.2 A number of responses to the IFR4NPO Consultation Paper indicated that the conceptual basis of the *IFRS for SMEs* Accounting Standard was inappropriate for NPOs as it is based on the needs of users of general purpose financial statements of for-profit entities. At the time that the Consultation Paper was released it was also the case that the *Concepts and pervasive principles* contained in the *IFRS for SMEs* Standard published in 2015 did not reflect changes made to the conceptual framework that underpins IFRS Accounting Standards. The Third edition of the *IFRS for SMEs* Accounting Standard, which is currently being exposed for comment has now, however, incorporated the changes made to the conceptual framework that underpins IFRS Accounting Standards.

BC 2.3 The Consultation Paper explained that there are insufficient resources available to the IFR4NPO project to develop an entirely new conceptual framework for NPO financial reporting. As such it was necessary to use those aspects of the IASB's Conceptual Framework that have been incorporated into the *IFRS for SMEs* Accounting Standard where these are suitable for use in the NPO context. The IPSASB's Conceptual Framework was also drawn upon to provide the concepts and principles needed to develop financial reporting guidance for NPOs where these are not comprehensively or appropriately dealt with in the existing *IFRS for SMEs* Standard.

BC 2.4 As such there are aspects of both the IASB and IPSASB's conceptual frameworks that were utilised in developing Section 2 *Concepts and pervasive principles* for INPAG.

Primary users of general purpose financial reports and their information needs

BC 2.5 The IFR4NPO Consultation Paper focused on the external stakeholders, to whom NPOs are accountable, and their information needs. These were service users, resource providers, regulators and broader society. Feedback from respondents indicated that recognition had not been given to internal stakeholders who are also important in the NPO context. Examples provided by these respondents of internal stakeholders included those charged with governance, staff, and members.

BC 2.6 Stakeholders who may traditionally be seen as internal in nature are important for NPOs. With specific reference to general purpose financial reporting, however, the conceptual bases of international frameworks for general purpose financial reporting define primary users as those that do not possess the authority to require an entity to disclose the information they need. Many of the internal stakeholders raised by respondents to the Consultation Paper, including those charged with governance and staff, are likely to possess the authority to require an entity to disclose information to meet their own specific information needs.

BC 2.7 The position of internal stakeholders was discussed with both the Practitioner Advisory Group and Technical Advisory Group. It was agreed that they would be likely to possess the authority to require an NPO to disclose the information they need for accountability and decision-making purposes. In this regard, they are akin to some external stakeholders, in particular regulatory bodies and major donors, who are also likely to possess this authority in certain circumstances.

BC 2.8 International financial reporting frameworks indicate that those who possess the authority to require an entity to disclose the information they need are not the primary users of general purpose financial reports even if they may find the information contained within them useful. As such the primary users of NPO general purpose financial reports were deemed to be the public to whom the NPO provides services and goods and those resource providers who do not possess the authority to require an NPO to disclose the information they need for accountability and decision-making purposes.

BC 2.9 Primary users also include those that fulfil oversight functions on behalf of the public and resource providers. This is likely to include elected representatives and public officials who have a duty to represent the interests of members of the public who are provided with services and goods by the NPO or who provide it with financial and other resources.

BC 2.10 Respondents supported the view expressed in the Consultation Paper that the information needs of these primary users cannot be met only through the reporting of financial information contained in general purpose financial statements. As indicated in the Preface, general purpose financial reports are needed to provide users with a meaningful understanding of an NPO's nature, objectives, strategy, risks, and performance.

Qualitative characteristics

BC 2.11 The qualitative characteristics of financial information are set out in conceptual frameworks to identify the types of information that are likely to be most useful to users of financial reports for accountability and decision-making. The qualitative characteristics provide a coherent framework for determining the decision-usefulness of financial reporting information, guidance on what to do when qualitative characteristics may be in conflict, and overall cost-benefit constraints on financial reporting.

BC 2.12 The *IFRS for SMEs* Accounting Standard provides explanations of the qualitative characteristics of information in financial statements. These qualitative characteristics match those of the revised IASB Conceptual Framework which underpins the development of IFRS Accounting Standards. They are also consistent with the broader scope of general purpose financial reporting that is recognised in the IPSASB's Conceptual Framework.

BC 2.13 The qualitative characteristics in the IASB Conceptual Framework that are now reflected in the *IFRS for SMEs* Accounting Standard are appropriate in the NPO context. As such these qualitative characteristics were deemed to be appropriate for use in the concepts and pervasive principles of the INPAG.

Undue cost or effort exemption

BC 2.14 The revised *IFRS for SMEs* Accounting Standard retains an undue cost or effort exemption. As there are Sections of the *IFRS for SMEs* Accounting Standard that have not yet been examined except for terminology changes as part of the IFR4NPO project, the undue cost or effort exemption was retained.

BC 2.15 In order to assist NPOs in the correct use of the undue cost or effort exemption, Implementation Guidance was developed. This Implementation Guidance notes that the exemptions relate to the cost or effort required to obtain or determine the information necessary to comply with a requirement which will depend on the NPOs specific circumstances, management's judgement on the costs and benefits from applying that requirement, and the information available at the time of the assessment.

BC 2.16 It also makes clear that NPOs should not treat the undue cost or effort exemptions as accounting policy choices and that NPOs need to disclose when they have used the exemption and the reasons why applying the requirement would in management's judgement involve undue cost or effort.

The reporting NPO

BC 2.17 The Consultation Paper considered the definition of the reporting NPO in terms of the financial reporting definition and its links to both the definition of control and the sometimes complex operational structures of NPOs. This included the use of local offices or administrative units that operate as branches of the NPO, that can be established to reach local communities and the recipients of the goods and services provided by NPOs.

BC 2.18 The Exposure Draft therefore provides additional guidance to assist in the identification of the reporting NPO which have been discussed with focus groups and included in Application Guidance. This can assist in identifying an NPO as a reporting entity where there is no legal entity nor a group/parent structure.

BC 2.19 Implementation Guidance and illustrative examples were also developed. These examine different types of operating structure and provide suggestions for the questions and analysis may be undertaken to determine the reporting NPO.

BC 2.20 The Consultation Paper also considered in its alternatives the use of the definition of control when looking at the reporting entity and the operational structures used, including branches. The Basis for Conclusions for Section 9 *Consolidated and Separate Financial Statements* provides a commentary on the conclusions on that issue.

BC 2.21 As noted in the Preface, the decision on which entities are required or permitted to use the INPAG rests with legislative and regulatory authorities and standard setters in individual jurisdictions. As such, the reporting NPO for the purpose of applying the INPAG could also be any entity that relevant authorities deem to be an NPO and that is required or chooses to prepare general purpose financial reports.

The elements of financial statements

BC 2.22 The *IFRS for SMEs* Accounting Standard follows the IASB Conceptual Framework in including equity as an element of financial statements. Equity is defined in these standards as the residual interest in the assets of the entity after deducting all its liabilities, and it effectively encompasses all net assets. The term equity implies a formal ownership structure with holders of equity being entitled to financial returns and the residual of net assets based on that ownership. This is unlikely to reflect the reality of the majority of NPOs, where such considerations either will not exist or such ownership interests are likely to be inconsequential.

BC 2.23 Although the term 'equity' and its association with ownership is unlikely to be relevant for most NPOs, there does need to be an element that reflects the possibility of a party external to the NPO having a financial interest in the net assets of the NPO.

BC 2.24 The IPSASB faced a similar challenge in the development of its Conceptual Framework. It decided that reference to ownership was appropriate in the public sector context. The IPSASB Conceptual Framework defined ownership contributions as an element, which establish or increase an interest in the net assets of an entity, and ownership distributions, which return or reduce that interest. The approach taken by the IPSASB has been examined and the possibility of the development of an element defined as contributed capital was considered for INPAG to reflect that parties external to the NPO may have a financial interest in the net assets of the NPO.

BC 2.25 Following discussion with the project's Technical Advisory Group, the retention of the element of equity was deemed preferable to the definition of a new element that ultimately reflected the same underlying concept. As such, equity was included as a financial statement element, with the Application Guidance providing additional detail on its use in the NPO context.

BC 2.26 NPOs will often be provided with financial resources where the provider of those resources restricts the use to specific purposes or activities. INPAG includes these financial resources as funds with restrictions. Funds with restrictions are to be used by NPOs when there are externally imposed funding or other legal arrangements governing the use of financial resources. Other financial resources, including those that the NPO internally designates itself to specific purposes or activities, are included within funds without restrictions. Funds with restrictions and funds without restrictions will reflect accumulated surpluses. They are presented as a component of net assets but are not a separate financial statements element.

BC2.27 Net assets comprise funds with and without restrictions, as well as equity where it exists. Exceptionally, an NPO may also need to recognise and present non-controlling interests. As this is expected to be rare, detail on such interests were not included specifically in Section 2. Where an NPO does recognise and present any non-controlling interest, this will also form part of net assets.

BC2.28 Net assets are an arithmetical total and were not considered to be a financial statement element. Amounts may be set aside for future distribution to holders of equity claims. These amounts will be included within funds with restrictions only if there is an externally imposed basis for them being set aside. This could be for example a legal requirement that holders of equity claims are guaranteed a specific return on their contributions of equity. Otherwise they will be disclosed in funds without restrictions. Funds set aside for future distribution to holders of equity claims will need to be transferred to equity prior to distribution. This is to ensure that equity is not understated following distribution.

BC2.29 Although the majority of the Technical Advisory Group agreed with this overall approach to the inclusion of equity as an element and the use of funds with restrictions and funds without restrictions to present accumulated surpluses, one member disagreed. They were concerned that there were transactions and economic events that might not be adequately captured by the elements, and in particular equity as defined in the NPO context. SMCs 2(d) and 2(e) seek stakeholder views on this position.

BC 2.30 Service potential is not a concept explicitly recognised in the IASB Conceptual Framework, although it is included in the IPSASB's Public Sector Conceptual Framework. It was included, where appropriate, in the definition of elements for INPAG. This is because it is relevant for assets that are held by an NPO not to generate cash flows, but rather for the services that can be provided by the asset. As part of measurement, value in use as a potential measurement basis was amended to incorporate the concept of service potential.

BC 2.31 Details of how service potential will apply in the NPO context are not part of Exposure Draft 1. The topic will be covered Exposure Draft 2 as it relates to revenue and in Exposure Draft 3 as it relates to inventory. As a result of feedback from respondents to the Consultation Paper Section 17 *Property, Plant and Equipment* is not currently proposed to be updated. This will, however, be a priority area should resources allow.

Recognition and derecognition

BC 2.32 Feedback from the Consultation Paper was that users of general purpose financial reports do not associate the financial performance of NPOs with profit and loss, but many accept the concept of a surplus or deficit. There was also feedback to request simplicity in the presentation of information. On this basis the INPAG Statement of Income and Expenses is focused on surplus and deficit and not comprehensive income as permitted in the *IFRS for SMEs* Accounting Standard. Further explanation is provided in the Basis for Conclusions to Sections 3, 5 and 6.

BC 2.33 As a consequence, amendments were made to the recognition process of the *IFRS for SMEs* Accounting Standard and specifically in which primary financial statements transactions are recognised. These amendments ensure that income and expenses that contribute to surplus and deficit are recognised in the Statement of Income and Expenses, and income and expenses that do not contribute to surplus and deficit are instead recognised in the Statement of Changes in Net Assets.

Presentation in GPFRs

BC 2.34 Presentation concepts and principles in both the *IFRS for SMEs* Accounting Standard and the IASB's Conceptual Framework are focussed primarily on the primary financial statements, whereas presentation in the IPSASB Conceptual Framework has a wider scope encompassing financial reports outside the core financial statements. This IPSASB Conceptual Framework was utilised in developing additional presentation concepts and principles for INPAG.

Section 3 – Financial statement presentation

Presentation

BC 3.1 The format and content of financial statements is fundamental to how the information is presented to stakeholders. This presentation is particularly important when revenue can only be used for particular purposes. A detailed description of the issue was included as Issue 7: Financial statement presentation in Part 2 of the IFR4NPO Consultation Paper.

BC 3.2 Feedback was sought on how financial statements should be presented to help the user's understanding of an NPO's activities and whether there should be disclosure of material categories of income and expenses and/or transactions. The Consultation Paper also sought views on how unrestricted and restricted funds should be presented in the main financial statements and notes (including reserves), the role of fund accounting and how any requirements might align with donor reporting requirements.

BC 3.3 The Consultation Paper proposed three alternatives for developing guidance for the presentation of NPO financial statements. The first was to retain the requirements in the international standards (IFRS Accounting Standards, the *IFRS for SMEs* Accounting Standard and IPSAS) unchanged and provide supplementary guidance. The second was to build on the *IFRS for SMEs* Accounting Standard and to add the use of fund accounting which would require, as a minimum, that income is split between restricted and unrestricted income on the face of the income statement. The third alternative included a new requirement to provide supplementary donor or project statements for material funds or projects in addition to proposals for fund accounting in alternative two.

BC 3.4 There was no consensus as to the preferred alternative, with roughly a third supporting each alternative, but accountability and meeting users' needs were highlighted as important issues. Approximately two thirds of respondents supported alternatives that included the use of fund accounting. Some responses suggested that fund accounting is essential to ensure the stewardship of funds with restrictions and provide clarity regarding the NPO's free reserves position at year-end. Other responses suggested that fund accounting often results in more complex financial statements that readers find difficult to understand, and that it may not be suitable for all NPOs. It is acknowledged that adopting fund accounting could result in more complex financial statements, but on balance consider this risk is justified by the need to provide information that supports the proper stewardship of funds with restrictions. This information is also needed for a full understanding of NPOs' financial statements.

BC 3.5 A slight amendment to terminology is proposed as the term 'restricted' can be used alongside other accounting terms (eg restricted cash) and potentially have a different meaning to 'restricted' in the context of NPOs, where the focus is on restrictions placed by fund providers and grantors. As a consequence, the financial statements include proposals for the separation of funds with and without restrictions in a number of places. A definition of funds with restrictions and funds without restrictions is provided in Section 2.

BC 3.6 Respondents to the consultation raised concerns about the potential complexity and increased length of financial statements that could occur with the introduction of fund accounting. As a consequence it is proposed to require separate presentation of income and expenses, net assets (and changes in net assets) for the aggregates of funds with restrictions and funds without restrictions only. Any additional disclosures are to be driven by the usefulness of the information based on the nature of the NPO and the materiality of the information to the understanding of the users of General Purpose Financial Reports.

BC 3.7 The separate presentation of funds with restrictions and funds without restrictions will provide useful information to users of the financial statements without imposing the costs associated with full fund accounting on NPOs. Respondents commented that requiring the presentation of funds with restrictions and funds without restrictions beyond the income and expenses statement and net assets could be challenging for some NPOs and would add little value for readers of the financial statements.

BC 3.8 However, some NPOs may have the capacity to implement full fund accounting and may consider that this would improve the usefulness of their financial statements. Such NPOs are permitted to provide this additional information, in line with the additional disclosures permitted for all financial statements.

BC 3.9 Issues were raised about capital grants and donated assets in responses from stakeholders. As a consequence, additional presentation requirements have been included in the Statement of Income and Expenses and Statement of Cash Flows to provide transparency over such items, where they are material to an NPO's financial statements.

Deferred revenue

BC 3.10 The Consultation Paper sought feedback on the approach to deferring revenue as part of considerations about the presentation of the financial statements. Proposals for revenue recognition and measurement will be included in Exposure Draft 2 (ED2) and are not considered further here. Consequently, the presentation of deferred revenue included in ED1 is subject to change, depending on the accounting for revenue that is adopted.

Additional supplementary information

BC 3.11 As discussed above, the third alternative for the presentation of financial statements proposed supplementary donor or project information on major funds. Some respondents acknowledged that if a donor statement could be developed that would meet the reporting and auditing requirements of major donors, this could lead to an overall reduction in the reporting burden.

BC 3.12 The INPAG Secretariat will explore this further with the IFR4NPO Donor Reference Group. This process is expected to take some time, and consequently proposals will be developed for inclusion in Exposure Draft 3 (ED3) at the earliest. The INPAG Secretariat is of the view that supplementary donor or project statements would be permitted but not required.

BC 3.13 Where a standardised reporting format cannot be developed in time, it is proposed, as part of ED3, to develop generic guidance setting out the issues NPOs will need to consider in preparing their own donor or project statements should they choose to do so.

Statement names and terminology

BC 3.14 The Consultation Paper proposed the use of the term 'Statement of Financial Performance' for the statement that contains the NPO's income and expenses and sought feedback on this proposal. Around two thirds of those that responded to this question supported the use of this term.

BC 3.15 The main reason given by those that did not support the use of the term was that NPOs' performance is not judged on whether they make surpluses or deficits, but whether they meet their aims and objectives (social performance). Using the term 'financial performance' could imply that this is the main measure of NPOs' performance, which is not the case. It is therefore proposed that the term Statement of Income and Expenses is used as it may be better understood.

BC 3.16 Based on feedback, surplus or deficit is preferred to profit or loss to show the difference between income and expenses. This is seen as more relevant for users of NPO financial statements.

BC 3.17 The other key area of terminology where a proposal has been made to add NPO context to a term relates to the description of what is traditionally equity. Equity is a term that is used in for-profit standards. Equity is defined in the for-profit standards as the residual interest in the assets of the entity after deducting liabilities. This will include items that don't meet the definition of a liability such as share capital and will also include retained earnings and reserves, for example the revaluation reserve (sometimes called revaluation surplus).

BC 3.18 In for-profit entities, all the residual interest in the assets of the entity after deducting liabilities are ultimately due to external parties who would be described as owners. This form of ownership with entitlement to all the residual interest of the entity does not exist for NPOs, but it is possible that some entities that meet the definition of an NPO have some form of equity claims on the organisation, either from historic set-up or because of jurisdiction specific legislation/regulation.

BC 3.19 It is therefore proposed to retain the term equity but describe it in the NPO context and include it as an element that is a component of a Section in NPO financial statements named 'net assets'. Net assets will typically comprise equity, funds with restrictions, and funds without restrictions. Equity would include all forms of equity claims including any shares that have been issued.

BC 3.20 This discussion of these responses to the Consultation Paper are also discussed as appropriate in Sections 4-10.

Fair presentation

BC 3.21 Along with responses from the consultation, the INPAG Secretariat has received input from various stakeholders and has reviewed a number of academic reports. Collectively, these point to concerns about the understandability of financial statements. As a consequence, the INPAG Secretariat has considered the number and scope of the financial statements.

BC 3.22 Following this review, it is proposed that the Statement of Income and Expenses statement totals to surplus or deficit and that some of the items that under the *IFRS for SMEs* Accounting Standard are shown in the Statement of Comprehensive Income (Other Comprehensive Income), are presented in a Statement of Changes in Net Assets. Presenting these items outside the Statement of Income and Expenses is expected to deliver some simplification. As not all Sections of the *IFRS for SMEs* Accounting Standard are being reviewed as part of the first phase of INPAG, some items, predominantly changes arising from fair value adjustments will need to continue to be shown in the Statement of Income and Expenses. Many NPOs will not have these fair value adjustments.

BC 3.23 The Statement of Changes in Net Assets is proposed to disclose information that will allow the information equivalent to that found in statements prepared under the *IFRS for SMEs* Accounting Standard, such as comprehensive income. It will also show the movement between restricted and unrestricted funds.

BC 3.24 Not all members of the Technical Advisory Group supported the decision to depart from the presentation used in the *IFRS for SMEs* Accounting Standard. Instead, they supported the retention of comprehensive income. They also had some concerns over the presentation of some items in the Statement of Changes in Net Assets. As some of these items will be dependent on the requirements of other Sections of INPAG that are scheduled for ED2 or ED3, these requirements will be reviewed once the remaining Sections of INPAG are complete.

Comparability

BC 3.25 Some responses to the Consultation Paper proposed limiting the comparative information provided in respect of fund accounting (for example, the provision of comparative information for movements in fund balances). The Technical Advisory Group questioned the removal of comparatives given the beneficial information they provide. It was agreed that the matter of comparatives would be considered in later topics, and proposals finalised in Exposure Draft 3 (ED3). A specific matter for comment on comparatives (SMC 4 b)) is included to inform these later considerations.

Section 4 – Statement of Financial Position

Funds with and without restrictions

BC 4.1 The Consultation Paper asked whether unrestricted and restricted funds (that are to be used for specific NPO purposes) should be presented in the main financial statements and notes (including reserves). It asked for feedback on how this would align with donor reporting requirements and the role of fund accounting.

BC 4.2 The level of disclosure in the Statement of Financial Position is proposed to be limited to a split between funds with restrictions and funds without restrictions on the face of the statement. Taking this approach will provide users with important information about the level of funds available to the NPO, which is key to financial resilience. However, for some NPOs, users’ needs may only be met by providing an analysis of funds with restrictions. Such information may be provided in the notes to the financial statements. It was also agreed that NPOs should not be prevented from presenting this information on the face of the statements where they considered this would be useful to the users of their financial statements.

BC 4.3 Detailed proposals regarding the accounting for income with restrictions, which will impact on funds will be developed as part of the topics on non-exchange revenue and grant expenses that will be included in Exposure Draft 2 (ED2). Income with restrictions may include income from endowments. Endowments are typically donations of cash or other assets to an NPO to be used as an investment, with the investment income being made available for the NPO to use, either for a specific purpose or more generally. Because of the complexity associated with endowments, and potentially differing treatments under different legal frameworks, detailed requirements for endowments will not, for the time being, be included in INPAG.

BC 4.4 In addition to the split between funds with restrictions and funds without restrictions, consultation respondents also supported the provision of information about the purposes for which reserves are being held as this would be useful to users of the financial statements. This requirement is being carried forward from the existing requirement in the *IFRS for SMEs* Accounting Standard.

Equity

BC 4.5 In reviewing the content of the Statement of Financial Position, consideration has been given to whether to include the term equity and its use. Equity is a term that is used in for-profit standards and is also included in the standards to be used by public sector entities. Equity is defined in the for-profit standards as the residual interest in the assets of the entity after deducting liabilities. This includes items that don’t meet the definition of a liability such as share capital and will also include retained earnings and reserves, for example the revaluation reserve (sometimes called revaluation surplus). Equity is defined as a financial statement element.

BC 4.6 The standards for the public sector recognise that some entities may have share capital. The IPSAS Conceptual Framework does not define equity as a financial statement element but does discuss the terms 'net assets/equity' and 'net financial position' as equivalent terms to the 'equity' section of the balance sheet of for-profit financial statements. IPSAS 1 *Presentation of Financial Statements* also uses the term 'net assets/equity' which it defines as contributed capital (with ownership contributions and ownership distributions defined as financial statement elements), accumulated surplus or deficit, reserves and non-controlling interests.

BC 4.7 Non-profit organisations have a variety of different legal structures, including incorporated entities, trusts, or various forms of unincorporated entity. It is possible that some entities that meet the definition of an NPO have some form of equity claims on the organisation, either from historic set-up or because of jurisdiction specific legislation/regulation.

BC 4.8 The use of the term contributed capital was considered to describe these arrangements for NPOs, but the retention of the term equity was deemed preferable, with a description of equity in the NPO context included in AG 2.6-AG2.9. As with the *IFRS for SMEs* Accounting Standard, equity is defined as a financial statement element but because of the different concept of ownership, equity in the NPO context does not equate to a residual interest encompassing all the NPO's net assets.

BC 4.9 Instead, to reflect the NPO context and to recognise the various arrangements that might exist, it is proposed that the net assets in an NPO financial statements comprise equity, funds with restrictions, funds without restrictions, and exceptionally, non-controlling interests. Equity would include all forms of equity claims including any shares that have been issued. Funds with restrictions and funds without restriction would together be the accumulated surplus or deficit of the NPO.

BC 4.10 It is considered much less likely, although not impossible for an NPO to have share capital. As a consequence the information required to be presented in the financial statements places less emphasis on share capital, and it is not a mandatory heading in the Statement of Financial Position. However, disclosures must be made where it is relevant.

BC 4.11 Similarly non-controlling interests are expected to be unlikely, but not impossible for NPOs. Given the nature of such interests, the requirement to disclose on the face of the financial statement has been maintained, but is expected to be used rarely in practice.

BC 4.12 Further information on the definition of equity is available in Section 2 *Concepts and pervasive principles.*

Section 5 – Statement of Income and Expenses

Statement name

BC 5.1 The Consultation Paper covered a number of aspects of financial statement presentation including the term that should be used for the primary statement that covers the income and expenses of an NPO. The Consultation Paper proposed the use of the term 'Statement of Financial Performance'.

BC 5.2 Around two thirds of respondents supported the use of the term 'Statement of Financial Performance' although many of these respondents did not provide a rationale for supporting the term. However, there were a number of disagreements with the proposal. The main reason given by those that did not support the use of the term was that NPOs' performance is not judged on whether they make surpluses or deficits, but whether they meet their aims and objectives (social performance).

BC 5.3 Respondents were concerned that using the term 'financial performance' could imply that this is the main measure of an NPOs' performance. Alternative terms proposed by respondents were considered. The most commonly suggested alternative terms were 'income and expenses statement' and 'statement of financial activities' as these terms were considered to be better understood by NPO stakeholders.

BC 5.4 Alternatives were discussed with the project advisory groups and it was agreed that Statement of Income and Expenses was best understood by stakeholders and had the benefit of simplicity.

BC 5.5 Nevertheless, NPOs will have the flexibility to use a different term in their financial statements if an alternative would best explain the financial statement or to comply with local regulations.

Key financial information

Surplus and deficit

BC 5.6 The INPAG Secretariat received a substantial amount of feedback that profit or loss was not an appropriate term for non-profit organisations. In discussion with stakeholders and advisory groups, the term surplus or deficit was considered to be more appropriate. As a consequence this term has been adopted in the financial statements. This removes the implication that there is any profit or loss and is more focused on the arithmetic difference between income and expenses.

Classification of expenses

BC 5.7 The presentation of expense information is included in Section 5 of the *IFRS for SMEs* Standard. This topic was identified as a priority issue for NPOs and was included as topic 8 in the Consultation Paper. This topic will be considered as part of Exposure Draft 3 (ED3). As a consequence, the text from the *IFRS for SMEs* Standard has not yet been updated with the requirements yet to be determined. This text will be updated at part of ED3, and a new INPAG Section will be created to provide more guidance on expense analysis and disclosure.

Statement format

BC 5.8 The Consultation Paper sought views on how financial statements should be presented to help the user's understanding of an NPO's activities. This included feedback on the disclosure of material categories of income and expenses and/or transactions. The Consultation Paper also asked about the presentation of restricted and unrestricted funds.

Income and expenses with restrictions

BC 5.9 Most of the feedback received related to the use of fund accounting, which has implications for the presentation of income with, and without, restrictions and its related expenses rather than on the disclosure of material categories of income and expenses.

BC 5.10 The majority of respondents to the Consultation Paper supported the separate presentation or disclosure of restricted and unrestricted funds. Respondents felt that this was an important aspect of accountability and meeting users' needs. As a consequence it is proposed that the Statement of Income and Expenses shows separately, through two columns, an aggregation of those incomes and expenses with restrictions and, separately, an aggregation of those incomes and expenses without restrictions.

BC 5.11 There was some discussion in response to the Consultation about the need for comparatives, and concerns about the complexity of the financial statements if comparatives are mandated alongside fund accounting requirements. This was considered by the project advisory groups, and whilst acknowledging the potential for complexity, the advice was that comparative information is important for users to understand the financial statements. As a consequence, it is proposed that comparatives are required for aggregated income and expenses with restrictions; and aggregated income and expenses without restrictions only. It is proposed that comparatives will not be mandated for the disaggregation of these balances, but can be provided where this is helpful to the understanding of the NPO's financial statements.

BC 5.12 As part of Exposure Draft 2 (ED2), guidance will be developed on revenue from grants and donations and grant expenses, which will include the accounting for income and expenses that might have restrictions. Possible impacts on this Section include additional items of revenue and expenses to be presented, subtotals for transactions arising from exchange transactions and non-exchange transactions and/or possible requirements regarding offsetting revenue and fundraising expenses.

Single statement

BC 5.13 In response to issues raised about the understandability of financial statements, it is proposed that the Statement of Income and Expenses gives prominence to the income and expenses in the reporting period and focuses less on the impact of revaluations of items held in the Statement of Financial Position. This will mean that income and expenses and the effects of realised gains and losses (such as from the sale of an asset) are the focus of the Statement of Income and Expenses.

BC 5.14 As not all Sections of the *IFRS for SMEs* Standard are being reviewed as part of this initial set of guidance, the Guidance may require that some unrealised gains or losses are shown in the Statement of Income snd Expenses, particularly those losses or gains from adjustments to fair value. These will be shown in a separate Section in the Statement of Income and Expenses.

BC 5.15 With this focus, it is proposed that all other items be presented in a Statement of Changes in Net Assets. This statement would provide a subtotal of transactions that form Other Comprehensive Income in IFRS based standards, so that equivalent information to the Statement of comprehensive income could be found. This would be a departure from the *IFRS for SMEs* Accounting Standard which provides a choice of whether Other Comprehensive Income is in a single statement that includes all types of income and expense.

BC 5.16 As a consequence of these changes, it is proposed that the Statement of Income and Expenses should show 'surplus or deficit from operating activities', share of surplus or loss from associates, gains or losses on the disposal of assets, unrealised gains from foreign exchange differences, unrealised gains or loss through fair value adjustments (if any) and then a total surplus or deficit. The presentation of foreign exchange differences is being considered as part of Exposure Draft 2.

Section 6 – Statement of Changes in Net Assets

Statement structure

BC 6.1 The Consultation Paper did not directly seek feedback on the Statement of Changes in Net Assets. Amendments to this statement arose as a result of feedback on other financial statements and from stakeholder feedback about the understandability of financial statements.

BC 6.2 It is proposed that the Statement of Income and Expenses should be simplified by excluding items referred to in the *IFRS for SMEs* Accounting Standard as 'Other Comprehensive Income'. As a consequence, other Sections of INPAG would require some items of income and expenses to be presented in a Statement of Changes in Net Assets rather than in an 'Other Comprehensive Income' section of the Statement of Income and Expenses.

BC 6.3 The INPAG Secretariat noted that this approach might mean that information that was previously available in the *IFRS for SMEs* Accounting Standard based statement formats would be harder to find. As a consequence it is proposed that the Statement of Changes in Net Assets:

a) commences with the surplus or deficit from the Statement of Income and Expenses;
b) adds or subtracts the items that would be unrealised gains and losses found in 'Other Comprehensive Income' in the statements prescribed by the *IFRS for SMEs* Accounting Standard; and
c) produces a sub total of a) and b)

BC 6.4 This approach will generate a subtotal that would provide equivalent information to the Statement of comprehensive income. This would be a departure from the *IFRS for SMEs* Accounting Standard, which provides a choice of whether Other Comprehensive Income is in a single statement that includes all types of income and expense, but does not require its inclusion in the Statement of Changes in Net Assets.

BC 6.5 To support understandability of this statement it is proposed to subdivide the Statement of Changes in Net Assets into the following sections:

a) movements arising from unrealised gains and losses (other than those prescribed in the Guidance to be taken through the Statement of Income and Expenses);
b) movements between funds and reserves (including movements between funds with restrictions and funds without restrictions);
c) movements arising from contributions from holders of equity claims or distributions to holders of equity claims; and
d) other changes in net assets.

These sections would provide a reconciliation of the opening and closing carrying amount of components of net assets.

Section 7 – Statement of Cash Flows

BC 7.1 No major revisions have been made to the principles established in the *IFRS for SMEs* Accounting Standard for the Statement of Cash Flows. Any updates have been limited to terminology, use of language specific to NPOs or alignment with updates to Sections 1-10. This Section is marked as updated to show that it has not been fully reviewed as yet.

BC 7.2 The Statement of Cash Flows was included in the scope of topic 7 *Presentation of financial statements* in part 2 of the Consultation Paper, primarily to consider whether the cash flow could be used as a basis for an additional statement for inclusion in general purpose financial reporting to meet the needs of donors and funders. This was based on feedback that donors and funders frequently require cash-based information to meet their reporting requirements.

BC 7.3 The possibility of an additional donor/project statement was included in alternative 3 of this topic) Around one third of respondents supported the development of a donor/project statement. It was acknowledged that if donors are willing to rely on such statements, and not require special-purpose financial reports, this could reduce burdens, costs and complexity. However, other respondents felt that donors' requirements are best met by special-purpose financial reports, not general-purpose financial reports. There was also a concern that any proposals would only be helpful to some NPOs and that this could come at the cost of additional complexity.

BC 7.4 The objective of producing supplementary project/programme information as part of the NPO's general purpose financial statements requires coordinated outreach with donors, which was supported by consultation respondents. As a result, the development of a supplementary information statement will be explored with the IFR4NPO Donor Reference Group.

BC 7.5 Respondents to the consultation supported the availability of guidance on the form and content of supplementary information if it is required as it would assist consistency. A guidance-based approach would allow each organisation to balance the cost/benefit of preparing supplementary information in its own context. As a consequence, respondents were of the view that reporting on material projects should be optional and not a mandatory requirement. Given the likely varied circumstances of each non-profit organisation, the INPAG Secretariat supported this approach.

BC 7.6 The process to develop a supplementary information schedule is expected to take time. A proposal for a new statement may be ready for inclusion in Exposure Draft 3 (ED3). However, if such a statement is not developed in time for inclusion in ED3, generic guidance setting out the issues that NPOs will need to consider in preparing their own donor or project statements, should they choose to do so, will be included in ED3 instead.

Section 8 – Notes to the financial statements

BC 8.1 Section 8 does not specify the notes to the financial statements required in respect of specific assets, liabilities, revenue, or expense. Such requirements are set out in the sections of INPAG dealing with those items, and the rationale for any revisions to those requirements is set out in the Basis for Conclusions to those sections.

BC 8.2 No major revisions have been made to Section 8 (which covers the general requirements for the notes to the financial statements) in ED1. Any updates have been limited to terminology or use of language specific to NPOs, or to reflect revisions to the financial statement requirements in other sections of INPAG.

BC 8.3 The Consultation Paper did not include specific proposals relating to the general requirements for the notes to the financial statements, and where respondents commented on the notes, these comments related to specific disclosures rather than the general principles set out in Section 8.

BC 8.4 The approach to the notes to the financial statements set out in Section 8 of the *IFRS for SMEs* Accounting Standard is consistent with the approach to the notes in full IFRS Accounting Standards and in IPSAS. These requirements have been reviewed and it was concluded that there are no NPO-specific issues that require addressing. The requirements in the *IFRS for SMEs* Accounting Standard have therefore been retained in INPAG.

Section 9 – Consolidated and separate financial statements

Introduction

BC 9.1 The consultation paper considered the definition of the reporting entity in terms of the financial reporting definition and its links to the definition of control, and the sometimes complex structures such as branches and other operational structures that can be established to reach local communities and the recipients of the goods and services provided by NPOs (see also comments in the basis of conclusions for Section 2 *Concepts and pervasive principles*).

Requirement to present consolidated financial statements

Defining control

BC 9.2 The Consultation Paper considered alternatives for the approach to the definition of control in relation to the reporting entity. Alternative 1 was based on the IFRS 10 *Consolidated financial statements* and IPSAS 35 *Consolidated financial statements* definition of control. Alternative 2 was based on the guidance in the *IFRS for SMEs* Accounting Standard 2015 edition that included a rebuttable presumption about control to simplify application.

BC 9.3 The IFRS and IPSAS standards on consolidated financial statements require a judgement about control to be formed based the concepts of control in those standards.

BC 9.4 On balance, respondents to the consultation favoured the approach in alternative 2, but there was also support for alternative 1. The reasons provided for favouring alternative 2 centred on the ease of application and respondents contrasted this with the resources that might be required in forming the judgements needed under alternative 1.

BC 9.5 Alternative 1 was expressed as a preference by some respondents as this was consistent with the key international frameworks and because the control frameworks are based on the substance of the transaction and not the form. Comments included that NPOs can find it easier to understand the substance of the relationships in operation better than their legal forms. As the IASB and IPSASB frameworks do not use 'bright-lines' judgements, they can be more easily adopted in different jurisdictions.

BC 9.6 A Focus Group held to explore these views further was more evenly balanced in support for the two alternatives. Attendees supported consultees views on both approaches but placed additional emphasis on the resource benefits of alternative 2.

BC 9.7 Since the Consultation Paper was issued, the IASB has issued an Exposure Draft proposing revisions to the *IFRS for SMEs* Accounting Standard. In this revision, the IASB has agreed with respondents to its consultation to align the definition of control with IFRS 10. The IASB's view was that using the control model as a single basis for consolidation is a simplification. The IASB acknowledged, based on its Post Implementation Review of IFRS 10 that assessing control requires judgement, and that depending on the complexity of transactions this can sometimes be significant.

BC 9.8 The Technical Advisory Group were strongly of the view that alignment with IFRS 10 is important. On the basis of these views, the feedback from the consultation paper and the alignment proposed in the revised *IFRS for SMEs* Accounting Standard the control framework in IFRS and IPSAS have been adopted. In drafting the Guidance and Application Guidance, the Technical Advisory Group supported the use of IPSAS 35 and other internationally available guidance to explain how these concepts apply to NPOs. The Application Guidance specifically addresses how the concepts in IFRS 10 of:

a) power over the investee;
b) exposure, or rights, to variable returns from its involvement with the investee; and
c) the ability to use its power over the investee to affect the amount of the investor's returns.

should be used in an NPO context.

Rebuttable presumption

BC 9.9 Paragraph 9.5 of the 2015 *IFRS for SMEs* Accounting Standard says that 'control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity'. It also provides other examples of control relating to powers by virtue of voting rights, power to govern the financial or operating policies of an entity, powers to appoint members of the board, or to cast the majority of votes on the Board.

BC 9.10 The *IFRS for SMEs* Accounting Standard includes a rebuttable presumption to simplify the application of the control concepts, which were considered by consultation respondents to be valuable for NPOs. Applying a rebuttable presumption would allow judgements to be formed in line with the benefits of alternative 1, but allows a simplified approach.

BC 9.11 The ED for the Third edition of the *IFRS for SMEs* Accounting Standard continues to include a rebuttable presumption to ease application of the control model. However, the examples have changed to focus on contractual arrangements between the parent and other vote holders, rights arising from other contractual arrangements, the parent's actual and potential votes. These examples appear to be less relevant to NPOs, where control might be more likely to come from the ability to govern the financial or operating policies of an entity and from the power to appoint trustees or members of a board. For a rebuttable presumption to be effective for NPOs, it needs to be applicable to a wide range of NPOs. As a consequence, it is proposed to retain the examples from the current *IFRS for SMEs* Accounting Standard rather than those in the Exposure Draft for the Third edition of the *IFRS for SMEs* Accounting Standard.

Basis of consolidation

BC 9.12 In developing the Guidance, the Technical Advisory Group raised questions about the conceptual basis of consolidation of NPOs and whether there were any differences between for-profit and non-profit entities. It was noted, predominantly through review of academic studies, that some users find it difficult to understand consolidated financial information, but value understanding the relationship between associated and controlled entities.

BC 9.13 In some cases, the elimination of intra-group items may mean that information is less complete in a way which matters for some readers of the financial statements, perhaps because important 'internal' transactions become invisible when eliminated. This might be best addressed by additional disclosure rather than producing a full consolidation.

BC 9.14 How the qualitative characteristics that form part of the concepts and pervasive principles for INPAG might apply to consolidation were considered. The two fundamental qualitative characteristics of 'faithful representation' and 'relevance' were identified as being important in considering whether controlled entities should be consolidated by a parent NPO.

BC 9.15 Further guidance to explain how an NPO might consider each of these characteristics in forming a judgement about whether it should consolidate a controlled entity has been developed.

BC 9.16 The INPAG Secretariat was strongly of the view that, where an NPO has not consolidated a controlled entity, it must explain the reasons why, and set out the relationship between the entities. This should include information about the nature of the relationship, governance arrangements and the nature and value of transactions between the entities, including related party transactions.

Consolidation procedures, disclosures in consolidated financial statements, separate financial statements and combined financial statements

BC 9.17 The topic of consolidation was not prioritised in responses to the Consultation. It is therefore outside of the scope of current developments and will not be included in the initial INPAG. However, the INPAG Secretariat is keen to understand views on this topic to further develop the Guidance in subsequent phases.

BC 9.18 A number of the requirements in Section 9, particularly with regard to non-controlled entities, may be less likely to occur for NPOs. As a consequence, paragraphs G9.36 and G9.39 are intended to only be applied in the rare situations where they are needed by an NPO.

BC 9.19 Changes to terminology have been made to be consistent with other Sections of INPAG and to reflect the nature of NPOs. As noted in BC9.17, this Section has not been reviewed for NPO specific issues related to consolidation. As a consequence, this Section is considered to only have been partially updated for the NPO context.

Section 10 – Accounting policies, estimates and errors

BC 10.1 The Consultation Paper did not include specific proposals relating to accounting policies, estimates and errors, and respondents did not raise any issues.

BC 10.2 The approach to the accounting policies, estimates and errors set out in Section 10 of the *IFRS for SMEs* Accounting Standard is consistent with the approach to the issues in full IFRS Accounting Standards and in IPSAS. These requirements have been reviewed and it was concluded that there are no NPO-specific issues that need addressing. The requirements in the *IFRS for SMEs* Accounting Standard have therefore been retained in INPAG, with the exception of text relating to the use of accounting standards (see paragraph BC10.3 to BC 10.5). Any other updates have been limited to changes in terminology or use of language specific to NPOs.

BC 10.3 The *IFRS for SMEs* Accounting Standard permits an entity to refer to full IFRS Accounting Standards in developing accounting policies for transactions, other events, or conditions not addressed in the *IFRS for SMEs* Accounting Standard. This approach has been retained in INPAG, but noted that NPOs may encounter transactions, other events or conditions that are not addressed in full IFRS Accounting Standards.

BC 10.4 Transactions, other events, or conditions not addressed in full IFRS Accounting Standards may involve transactions that are not commercial in nature (non-exchange transactions such as grants and donations), which may be addressed in IPSAS. The INPAG Secretariat therefore decided that where there are no specific requirements or guidance in either the *IFRS for SMEs* Accounting Standard or full IFRS Accounting Standards, NPOs may refer to IPSAS in developing an appropriate accounting policy. Permitting NPOs to refer to a relevant IPSAS only where there are no requirements or guidance in either the *IFRS for SMEs* Accounting Standard or full IFRS Accounting Standards, is intended to maximise consistency with the concepts and principles set out in Section 2.

BC 10.5 The INPAG Secretariat noted that there may be transactions, other events or conditions that are not addressed in any international standard. In such cases, it was agreed that it would be appropriate for NPOs to refer to national standards that addressed such transactions, other events or conditions where the accounting treatment in those national standards are consistent with the concepts and principles set out in Section 2.

Section 35 – Narrative reporting

Consultation Paper feedback on narrative reporting

BC 35.1 The IFR4NPO Consultation Paper proposed in Part 1 that one of the core premises of the INPAG, in order to meet Guidance objectives, would be the inclusion of non-financial reporting information also known as narrative reporting. This would lead to NPOs producing general purpose financial reports rather than just general purpose financial statements.

BC 35.2 A detailed description of the issue was included as part of Issue 10: *Narrative Reporting* in Part 2 of the Consultation Paper. This highlighted the importance of non-financial information for NPOs to demonstrate accountability and stewardship to stakeholders, and the difficulty caused by varying disclosure requirements globally.

BC 35.3 Respondents to Part 1 of the Consultation Paper provided feedback on what they deemed the challenges would be from guidance that included non-financial information reporting requirements for NPOs. At a conceptual level, respondents highlighted issues such as scope, timing of introduction, prescription and flexibility, the reliability and integrity of data, and integration with existing performance reporting. A number of practical challenges were also raised, including NPO capacity and capability, costs and expertise, and subjectivity in reporting.

BC 35.4 For Part 2, respondents were asked to provide feedback on the description of the issue, the alternative treatments proposed, and whether the guidance should be set at the level of an overarching framework and high-level principles, or include more specific reporting requirements. Respondents to Part 2 were supportive of the description of the issue (96% agreed) and were mainly in agreement with the list of alternatives identified (77% agreed). Substantive comments received from respondents included a need for a fuller understanding of user's needs to determine how they can be met, which could require a solution not presented as an alternative. There was also support for narrative reporting to focus on an NPO's objectives, its impact, the effectiveness of the organisation's governance structures and processes, and broader sustainability issues, rather than being restricted to financial statement analysis.

BC 35.5 With respect to the alternatives put forward in the Consultation Paper, there was little support for the do-nothing alternative, which was widely seen as a missed opportunity. There was relatively even support amongst those providing a preference for the other alternatives, with the approach based on the Integrated Reporting Framework (50%) being slightly more favoured than an approach based on IASB/IPSASB guidance (37%).

BC 35.6 Those favouring the IASB/IPSASB guidance approach indicated that it would complement the information in the financial statements and would be less complicated for NPOs to apply. Those favouring the Integrated Reporting Framework approach felt that, although more ambitious, it offered an opportunity for NPOs to apply emerging best practice and to deliver standardised narrative reporting based on stakeholder needs.

BC 35.7 With respect to whether guidance should be set at the level of an overarching framework and high-level principles, or if specific reporting requirements or recommendations should be required instead, the majority of respondents noted that the diversity of NPOs and jurisdictions pointed to the need for a framework and principles solution. Some of these respondents noted, however, that this would need to be backed by detailed guidance on how to apply the framework and principles.

Compulsory requirement

BC 35.8 Analysis of the Consultation Paper responses supported a framework and principles-based approach that provides a mandatory core of narrative reporting requirements that could be applied by all NPOs. The approach proposed is adaptable, so that NPOs wishing to go beyond this core could do so provided that the mandatory topics and elements important to users of all NPO general purpose financial reports were met. The proposed approach is designed to ensure a base level of consistency and comparability amongst all NPOs applying the INPAG, while providing NPOs the freedom to move beyond this to meet the needs of the users of their general purpose financial reports.

BC 35.9 Concerns were raised by the IFR4NPO project's Technical Advisory Group, the Practitioner Advisory Group and by attendees at additional outreach events, that requiring all NPOs to comply with narrative reporting requirements could act as a barrier to the adoption of INPAG.

BC35.10 While feedback from these groups was that the narrative reporting proposals could bring significant benefit to both the users of the NPOs general purpose financial reports and the NPOs themselves, it is the case that international guidance in this area is not mandatory and there are only a few jurisdictions that mandate NPOs to produce general purpose financial reports and undertake this type of reporting.

BC35.11 As such, whilst the Exposure Draft contains proposals for a mandatory core of narrative reporting, a specific matter for comment has been included to gain additional feedback on whether this should be mandatory for all NPOs.

Narrative reporting proposal

BC35.12 The narrative reporting requirements were developed as a mandatory framework, using a principles approach based on the existing IASB Practice Statement and IPSASB Recommended Practice Guidelines (RPGs) and jurisdictional-level frameworks. The IASB Practice Statement and IPSASB RPGs and jurisdictional-level frameworks were used instead of the Integrated Reporting Framework as they are expected to be less complicated for NPOs to apply and will complement the information in the financial statements rather than require NPOs to also apply broader integrated reporting principles.

BC35.13 In developing these proposals, the requirements of the IASB Practice Statement, IPSASB RPGs and jurisdictional-level frameworks were tailored to meet the needs of users of NPO general purpose financial reports and to reflect the capacity and capability of the NPOs that the INPAG is initially aimed at.

BC35.14 Under the proposals for narrative reporting, NPOs would need to:

- present information to enable users to understand what the performance objectives of the NPO are and what it has done during the reporting period in working towards those performance objectives; and
- present commentary to discuss and analyse the NPO's financial statements.

BC35.15 Reporting on these two areas was integrated where possible to reduce repetition and reflect their integrated nature, with the proposals requiring that NPOs provide mandatory information on defined topics:

- **Overview of the NPO –** contextual information that enables users to understand the NPO such as legal form, structure, governance, purpose, mission, vision, main activities and significant relationships.
- **Performance information –** information on performance objectives and plans and what has been achieved with measures and descriptions to demonstrate performance being a mix of quantitative measures, qualitative measures and qualitative descriptions.
- **Financial objectives and strategies –** users with an understanding of the NPOs financial objectives and strategies in relation to its financial position, income and expenditure, net assets and cash flows and how these support the achievement of its performance objectives.
- **Analysis of financial statements –** information on significant changes and trends and how these impact on the achievement of its performance objectives.
- **Description of principal risks and uncertainties –** information on principal risks and uncertainties and how these relate to the NPO's performance objectives and financial objectives and strategies. Any significant changes and how the NPO manages risks and uncertainties should also be included.

BC35.16 Sitting alongside this mandatory requirement is a proposal that this information be presented in accordance with certain principles including:

- the performance information and financial statement commentary being for the same reporting NPO and reporting period as the financial statements;
- in selecting and presenting the performance information and financial statement commentary the NPO should apply the qualitative characteristics and pervasive constraints on information in Section 2 Concepts and pervasive principles;
- the NPO should also ensure that the performance information and financial statement commentary presented is fair and balanced; and
- non-disclosure of aspects of performance information and financial statement commentary would be permitted where an NPO engages in 'sensitive' activities. This would mean that where the activities of the NPO would be compromised by aspects of the narrative report, for example specific humanitarian aid programs, this can be omitted.

BC35.17 Permission to not disclose information was introduced to the proposals following recommendations from the project's Practitioner Advisory Group and a specific focus group that was created to provide additional advice to the INPAG Secretariat on narrative reporting. These groups noted that the mandatory nature of the narrative reporting proposals would cause difficulties for some NPOs if they were required to disclose information that could jeopardise the safety and security of staff, volunteers, or the public that benefit from the goods and services provided by the NPO. They also noted that subsequently requiring NPOs to disclose that they had made use of the permission to not disclose information on 'sensitive' activities could also be problematic, especially if this were to highlight the nature of substance of the information that was not being disclosed.

BC35.18 It is recognised that there is the possibility that exercising a permission to not disclose sensitive information could be misused by NPOs as a way of hiding poor performance or financial problems that may have arisen with aspects of its operations, particularly if there were no requirements to disclose that information relating to 'sensitive' activities has been withheld. The project's Technical Advisory Group shared these concerns. As such, agreement was reached that where an NPO does use the sensitive information exemption, users should be required to disclosure that the narrative report has been prepared in accordance with the requirements of the sensitive information exemption paragraph. NPOs are not, however, required to provide any information that would have the effect of highlighting the nature or substance of the sensitive information.

Extended transition period

BC35.19 It is recognised that for some NPOs, the narrative reporting required by INPAG might represent a challenge, particularly if the NPO is also transitioning to accrual accounting at the same time. Extensive guidance was developed to assist in implementing these requirements through the implementation guide and implementation examples. The option for an extended transition period of two years was supported by a focus group on narrative reporting, and this is being considered alongside other feedback as evidence of support for an extended transition period.

Additional specific reporting requirements

BC35.20 Consultation Paper responses, and outreach feedback, did see some support for the inclusion of certain specific reporting requirements, including governance, objectives and risks. These are included as areas that the NPO would be required to report on in the mandatory topics, so have effectively been integrated into these narrative reporting proposals.

BC35.21 Climate reporting and broader sustainability reporting were also highlighted by some respondents to the Consultation Paper as specific topics for inclusion in NPO narrative reporting. Inclusion of these areas as mandatory requirements was also supported by the narrative reporting focus group.

BC35.22 It is recognised that this is an important area for NPOs and their users. Developments in climate reporting and sustainability reporting frameworks are ongoing, and have, to date, been aimed at the needs of private sector entities and their users. Given the broader challenges to introducing mandatory narrative reporting for NPOs, the INPAG Secretariat and the project advisory groups felt that it was premature to require sustainability reporting as a mandatory component of narrative reporting at the current time.

BC35.23 The proposed approach to narrative reporting does, however, permit NPOs to apply existing climate reporting and sustainability reporting frameworks should they wish to do so. This could be either through a specific climate and/or sustainability report or by reporting on the impacts of climate relates issues and sustainability through the financial statement commentary and performance information presented in areas such as governance, strategy, risk, and performance measures and descriptions.

BC35.24 Developments in this area, and their impact on broader reporting requirements, are being actively monitored as part of the IFR4NPO project's ongoing work. Any changes to the requirements of Section 35 *Narrative reporting* to reflect them would be undertaken in accordance with due process.

International
Non-Profit
Accounting
Guidance
Part 1

Implementation Guidance

INPAG

Comments to be received by 31 March 2023
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INPAG ED/2022/1

Preface

IGP.1 This Implementation Guidance is non-authoritative guidance to assist users applying the principles in INPAG. It sets out factors that an NPO should consider in reaching the judgements that will be required to determine the most appropriate treatment for each NPO's events and transactions.

IGP.2 Illustrative examples are provided in some cases to show how the INPAG would apply in a particular scenario. The illustrative examples are not exhaustive and should not be used as a checklist. They have been developed to illustrate important principles and will not cover the full range of circumstances and transactions that might occur.

Section 1 – Non-profit organisations

IG1.1 The following paragraphs provide Implementation Guidance relating to the description of NPOs. It considers various questions that an individual organisation or jurisdiction may wish to consider when determining whether it would meet the description of an NPO in Section 1 of INPAG and its associated Application Guidance.

IG1.2 This Implementation Guidance is supported by illustrative examples to highlight the issues which may arise and the decision-making processes that standard setting and regulatory authorities in jurisdictions and individual organisations may need to take in deciding whether they are NPOs.

How should an individual organisation or a jurisdiction use the broad characteristics to determine if an entity is an NPO?

IG1.3 The broad characteristics approach to describing NPOs was developed to identify the entities that the INPAG is expected to primarily benefit. In determining whether an entity is an NPO as described in Section 1 of INPAG, an individual organisation or jurisdiction should examine the entity against the three broad characteristics. Where in their judgement they believe that they have been met, then it is likely that the entity can be described as an NPO and the users of its general purpose financial reports will gain most benefit from the INPAG.

Which indicators might support the making of judgement?

IG1.4 It may not always be clear if an entity fully displays the broad characteristics of an NPO. To support individual organisations and jurisdictions in making this judgement, indicators have been included as part of the Application Guidance for Section 1 – Non-profit organisations. These indicators are common features of entities that are deemed to be NPOs or their equivalent. Where it is not clear if an entity displays the broad characteristics fully, further examination of the indicators may assist in the judgement of whether an entity is an NPO or not.

What is meant by 'for the benefit of the public'?

IG1.5 The first broad characteristic is that an NPO should have the primary objective of providing a benefit to the public rather than generating a financial surplus for distribution to owners or holders of equity claims for private benefit. This means that:

- the purpose for which the NPO exists must be beneficial to the public;
- this benefit should be to a sufficient section of the public, where sufficiency will vary depending on the NPO's purpose, so this could be a small section of society rather than a broad public group; and
- this should not give rise to more than an incidental private benefit; effectively the nature and amount of the private benefit is a necessary result of the NPO carrying out its purpose.

IG1.6 Often it will be immediately clear that this characteristic is met. For example, in many jurisdictions, organisations can be granted a special charitable status where they can only gain this status if they have demonstrated that they exist for the 'public benefit'. In other situations, it will be more difficult to determine if the characteristic is met or not. This may be the case for example when an entity has multiple objectives which are not all aimed at providing a benefit to the public, or if the section of the public that benefits from the entity's purpose is heavily restricted. In these more difficult situations, a judgement will need be made to determine if there is a primary purpose that is beneficial to a **sufficient section of the public** and any private benefits that arise are **no more than incidental**.

Can an entity distribute surpluses for private benefit and still be described as an NPO?

IG1.7 Generally, if an entity is solely or mainly distributing surpluses for private benefit and not to further its objective of providing a benefit to the public, then it is likely it will be described as a for-profit organisation and not an NPO. The payment of dividends to holders of equity claims is a clear example of distributing surpluses for private benefits.

IG1.8 In examining whether surpluses are being distributed for private benefit, it is important to examine the quantum and nature of the financial benefits that that are distributed by the entity. A co-operative organisation may potentially distribute financial surpluses for private benefit to members by paying them a rebate based on the volume of transactions that the member has with the NPO rather than paying dividend payments. This may be connected to a primary objective of providing a benefit to the public, for example providing the lowest possible cost goods and services to disadvantaged communities. However, it may simply be a way of rewarding members instead of providing dividends. In these more complex situations judgement will be required when determining whether financial surpluses are being directed to further the NPO's **primary objective of providing a benefit to the public** or for **private** benefit.

Is it appropriate for government and public sector organisations to use INPAG?

IG1.9 The users of the general purpose financial reports of government and public sector organisations have accountability and decision-making needs that differ from the entities that are described as NPOs in Section 1. While there are aspects of INPAG that may be of use to government and public sector entities, there are transactions and economic events that are only relevant in the public sector context such as taxation, which are not within the scope of INPAG. In order to meet the accountability and decision-making needs of the users of their general purpose financial reports, government and public sector entities should use public sector accounting standards.

Illustrative examples

Determining whether or not an entity can be described as a non-profit organisation

The following examples aim to illustrate the application of the broad characteristics approach to describing non-profit organisations. They show how the broad characteristics in Section 1 and indicators in the Application Guidance could be considered when making an assessment of whether or not an entity can be described as a non-profit organisation.

The circumstances in relation to individual entities will vary significantly. These examples are only illustrations of how professional judgement may be applied. They should not be relied upon by legislative and regulatory authorities and standard setters in individual jurisdictions which will need to apply their own professional judgements to their own circumstances.

Example 1. Private organisation providing education services

Entity A is a private organisation dedicated to providing education to children who have lost parents to HIV/AIDS. It was established as a trust with an initial endowment of CU10m from a private estate. Entity A is required under the regulations of the jurisdiction in which it operates to ensure that, as a minimum, the relevant government prescribe the educational curriculum that is provided to students.

In order to supplement its income, Entity A accepts a limited number of fee-paying students. The fees for these students are determined in accordance with market rates. Surplus on fee revenue once the costs related to fee-paying students are covered is applied by Entity A towards its objective of providing education to children who have lost parents to HIV/AIDS. It also accepts some donations from the general public and a number of small government grants.

The revenue from fee-paying students, donations and government grants has enabled Entity A to expand the range of educational services it offers and to increase the number of children who have lost parents to HIV/AIDS on its roll. The trustees of Entity A manage its resources in order maximise the number of children who have lost parents to HIV/AIDS it can accept and to maintain a high-quality educational service. Any profits or surpluses that are generated from the endowment or other revenue sources are required to be directed towards Entity A's primary objectives.

Broad characteristics

Primary objective of providing a benefit to the public

The primary objective of Entity A is to provide education to children who have lost parents to HIV/AIDS and not to maximise its financial surplus from fee-paying students. Although free education services are restricted to those children who have lost parents to HIV/AIDS, this is acceptable given its purpose.

Direct surpluses for the benefit of the public

Entity A applies all its surpluses to its primary objective of providing a benefit to the public by educating children who have lost parents to HIV/AIDS. They are not distributed to the provider of the initial endowment, holders of equity claims or other providers of financial resources.

Not a government or public sector entity that should prepare general purpose financial reports under public sector reporting standards

Entity A is a private organisation, but it receives some revenue from government grants, and is required to ensure that as a minimum the relevant government set educational curriculum is provided to the children it educates. Although the government grant has conditions attached which require it to be spent on educational activities, Entity A is not required to accept the funding. While it must ensure that that as a minimum the relevant government set educational curriculum is provided, it is not told by government how it must achieve this, and it is free to provide broader educational activities unrelated to the government set curriculum.

Assessment

Entity A displays all the broad characteristics that would enable it to be described as a non-profit organisation. This means it is not necessary to examine the indicators included in the Application Guidance. Were these to be examined they would provide further support for describing Entity A as a non-profit organisation as highlighted below.

Indicator	Factors
Rights to financial returns	Entity A has no holders of equity claims with a right to financial returns.
A requirement to transfer of residual net assets upon dissolution	In the event that is dissolved, the founding document of Entity A requires its residual net assets to be transferred to an entity with a similar purpose.
Voluntary funding	Although Entity A receives some fee income, it is primarily reliant on voluntary funding, including income from its founding endowment, donations and government grants.
Purpose and use of assets	Entity A controls assets such as buildings, equipment and sporting facilities. Although these are partly funded by fee income, they are held to deliver educational provision and not to generate financial returns to providers of resources.

Example 2. Social enterprise selling bicycles

Entity B is a company that refurbishes donated and purchased second-hand bicycles and sells them on a commercial basis. For every bicycle that it sells, it gives a bicycle for free to someone in the local community who cannot afford to purchase their own. The objective of the company is to promote the use of bicycles and to reduce unnecessary waste by stopping bicycles that could be refurbished from being sent to landfill.

The company was founded by two investors in social enterprises who provided the initial capital and have equal equity stakes. The initial capital investment was spent on tools and a workshop. Profits that the company makes have been reinvested within the company to date to promote its growth and the achievement of its broader social objectives, but the holders of equity claims are entitled to dividends should there be sufficient profits available to distribute. In the event that the company is wound up, any remaining stock of bicycles and the tools and workshop are to be donated to an organisation with similar aims, but the holders of equity claims are entitled to any residual net financial assets.

Broad characteristics

Primary objective of providing a benefit to the public

Whether Entity B has a primary objective of providing a benefit to the public is not clear. While it gives bicycles away for free to those who cannot afford them, and also reduces unnecessary waste being sent to landfill, it also aims to generate a profit from the commercial sale of refurbished bicycles.

In this case it will be necessary to examine the social enterprise’s founding documents to determine whether its primary objective is to give bicycles for free to those that cannot afford them, or whether it seeks to maximise profits from the sale of bicycles and provide financial returns to holders of equity claims while also achieving its social objective.

Direct surpluses for the benefit of the public

Entity B to date has directed profits to promote its growth and wider social objectives. There is nothing, however, to prevent it from providing financial returns to its holders of equity claims either now or in the future.

While it may be argued that until now some profits have been directed for the benefit of the public, they have also been used to expand and increase profits. Again it will be necessary to determine whether the sale of bicycles is the primary objective or is simply a way of financing providing bicycles for free to those that cannot afford them.

Not a government or public sector entity that should prepare general purpose financial reports under public sector reporting standards

Entity B is a private organisation that is not part of the government or public sector.

Assessment

Entity B could potentially be described as a non-profit organisation although this would depend on whether its primary objective is to give bicycles away for free to those that cannot afford them or whether it seeks to maximise profits from the sale of bicycles while also achieving its social objective. There is also a significant question related to the right that holders of equity claims have to financial returns, even if to date they have not received them.

As it is not clear from the broad characteristics if Entity B is a non-profit organisation, the indicators should also be examined.

Indicator	Factors
Rights to financial returns	Entity B has holders of equity claims with a right to financial returns.
A requirement to transfer of residual net assets upon dissolution	In the event that it is dissolved, the founding document of Entity B requires that any remaining stock of bicycles and the tools and workshop are donated to an organisation with similar aims, but the holders of equity claims are entitled to any residual net financial assets.
Voluntary funding	While Entity B receives some voluntary funding through the donation of bicycles, it is primarily reliant on sales for funding.
Purpose and use of assets	Entity B controls some assets including tools and equipment. These have been funded through founding capital and subsequently from sales. These assets are partly used to refurbish bicycles that will be given away for free and also to refurbish bicycles that will be sold for a profit. That profit may in turn be given to providers of financial resources.

Considering the indicators, in this case it may be more appropriate for Entity B to use financial reporting standards applicable to for-profit private sector entities.

Example 3. Sports club

Entity C is a sports club in an urban area that organises competitions and provides coaching and training for a wide range of age groups within its local community. It was established to promote physical activity and wellbeing among a community with limited financial resources and little access to other sporting facilities.

Entity C is a membership organisation. To participate in the sports club's activities individuals must be resident in the local area and pay an annual membership fee. However, the membership fee is set at a nominal rate to ensure that it is affordable. Entity C receives the majority of its income from grants from a range of organisations including a local professional football team and a major employer in the community. Entity C also has a small clubhouse that is open to the general public where it sells food and drinks. The food and drinks are available at subsidised cost to members. Any profits or surplus from the clubhouse and other activities of Entity C are used to maintain the sporting facilities and pay for the costs associated with coaching and competitions. If Entity C were to dissolve, residual net assets are to be distributed to another entity with similar objectives in the community.

Broad characteristics

Primary objective of providing a benefit to the public

The primary objective of Entity C is to promote physical activity and wellbeing within a community with limited financial resources and little access to similar resources. Although restricted to a defined local paying membership, Entity C appears to have a primary objective of providing a benefit to the public. The value associated with the facilities and services received in exchange for the membership fee exceed the fee paid. Entity C does not seek to maximise financial returns for providers of financial resources and the private benefits that members receive from subsidised food and drink are incidental.

Direct surpluses for the benefit of the public

Entity C receives income from membership fees, grants and sales at its clubhouse. Surpluses are directed to its primary objective of providing a benefit to the public. Membership fees are nominal, and members do not pay for coaching or use of the sports facilities. As noted, members do receive subsidised food and drinks at the clubhouse, which could potentially be seen as a private benefit to providers of resources to the entity. However, this is a relatively minor activity and an incidental benefit.

Not a government or public sector entity that should prepare general purpose financial reports under public sector reporting standards

Entity C is not a government or public sector entity.

Assessment

Examination of the broad characteristics and other indicators highlights that although benefits are restricted to members it is reasonable to describe Entity C as a non-profit organisation. Membership is focused on a community with limited financial resources and little access to similar resources and membership fees are nominal. Any private financial benefits received by members from subsidised food and drink are incidental. Entity C is not a government or public sector entity. In the event of dissolution residual net assets are required to be transferred to another entity in the community with a similar purpose and not to members or other providers of financial resources.

While the entity could be described as a non-profit organisation from review of the broad characteristics, its restricted membership means that it is useful to also examine the indicators.

Indicator	Factors
Rights to financial returns	Entity C has no holders of equity claims but does have members. These members do not have a right to ongoing financial returns other than the incidental benefit of subsidised food and drinks.
A requirement to transfer of residual net assets upon dissolution	In the event that Entity C is dissolved, the residual net assets are required to be transferred to another entity in the community with a similar purpose.
Voluntary funding	Although it generates some income from membership fees and food and drinks sales at its clubhouse the majority of Entity C's income is from voluntary funding (primarily grants).
Purpose and use of assets	Entity C controls assets such as sports facilities and equipment and its clubhouse. These are used to promote the physical activity and wellbeing of members to the benefit of the community.

Examination of the indicators would support the description of Entity C as an NPO.

Example 4. Government sponsored animal shelters

Entity D is a network of animal shelters, where pets that have been abandoned are looked after until they can be rehomed. It does not charge fees for rehoming animals. While it receives some funding from private donations and endowments, the majority of its income is from a government grant that under the terms of its constitution it is required to accept. Any surplus is reinvested in the entity to fulfil its animal welfare objectives. As part of the conditions of the government grant, the government is permitted to have a director on the governing board of Entity D. This director has a veto over certain reserved matters, including changes to the rules that govern the entity and the annual expenditure budget. If the entity were to dissolve, it is required to pass its net assets to another entity with similar aims.

Broad characteristics

Primary objective of providing a benefit to the public

The primary objective of Entity D is to ensure the welfare of abandoned animals by looking after them until they are rehomed. It does not receive fees for rehoming animals. This would indicate that the entity has a primary objective of providing a benefit to the public.

Direct surpluses to the benefit of the public

Entity D applies all its surpluses to its primary objective of providing a benefit to the public. They are not distributed to the provider of the initial endowment, holders of equity claims, or other providers of financial resources.

Not a government or public sector entity that should prepare general purpose financial reports under public sector reporting standards

Entity D receives the majority of its funding from a government grant that it is required to accept. The government, through its director who sits on the governing board of Entity D, has a veto over key decisions. This effectively means that that the government can dictate how the entity achieves its objectives through control over its key financial and operational policies.

Assessment

Although Entity D meets two of the three broad characteristics, the ability for control by government means that it could be described as a government or public sector entity rather than as a non-profit organisation. This is supported by examining the indicators.

Indicator	Factors
Rights to financial returns	Entity D has no holders of equity claims. However, the ability to have a director on the governing board of Entity D and their veto over certain reserved matters, including changes to the rules that govern the entity and the annual expenditure budget, may create the ability to vary financial returns.
A requirement to transfer of residual net assets upon dissolution	In the event that Entity D is dissolved, the residual net assets are required to be transferred to another entity with a similar purpose.
Voluntary funding	Although it generates some income from voluntary funding, the majority of its income is from a government grant that under the terms of its constitution it is required to accept.
Purpose and use of assets	Entity D's control of the assets relating to the animal shelter could be impacted by the matters reserved to the director appointed by government.

In this circumstance, whether or not Entity D can be described as a non-profit organisation for the purposes of applying INPAG will depend on the financial reporting requirements that the individual jurisdiction requires for entities that are controlled by government. If the jurisdiction requires that all government-controlled entities apply relevant public sector financial reporting standards, then Entity D should use these to meet the needs of users. If not, then the use of INPAG may be appropriate.

Section 2 – Concepts and pervasive principles

Undue cost and effort

How does an NPO determine when it can or should use the undue cost or effort exemption?

IG2.1 An undue cost or effort exemption is available to reporting NPOs for some requirements in INPAG. As explained in G2.34–G2.35 this will depend on:

a) the NPO's specific circumstances;
b) management's judgement on the costs and benefits from applying that requirement; and
c) the information available at the time of the assessment.

IG2.2 It is important that NPOs do not treat the undue cost or effort exemptions as accounting policy choices. They are not. An accounting policy choice is appropriate when INPAG explicitly includes options for the accounting treatment for an item or transaction, such as a cost measurement basis for the valuation of certain assets as its accounting policy. In this case an undue cost or effort exemption would be relevant specifically for those situations where management has selected the fair value measurement basis for the valuation of those assets, but is unable to determine a fair value without undue cost or effort and hence uses the exemption and values them using cost as a measurement basis.

IG2.3 It is also important that whenever an undue cost or effort exemption is used, NPOs disclose this and the reasons why applying the requirement would in management's judgement involve undue cost or effort.

Costs and undue effort

IG2.4 The NPO's specific circumstances will obviously vary depending on the individual NPO and this will be a driver of the cost and level of effort required. It is not possible to reflect all possible situations, but factors may include:

- relative costs of producing the information in relation to the benefit to users; the cost of producing the information would be expected to be material to the NPO's income and expenses;
- practicalities in obtaining the information needed;
- the expectation that if the information relates to the first occurrence of the type of transaction whether the initial cost from its recognition and measurement, although initially significant, will be lower on an ongoing basis;
- significance of the asset or liability to which the undue cost or effort provisions are being applied in terms of the operations of the NPO; and
- significance of the asset or liability to which the undue cost or effort provisions are being applied in terms of the NPO's net assets.

IG2.5 These factors, alongside other relevant context, should be considered individually and collectively in determining the NPO's specific circumstances. As an example, there may be no suitably qualified valuers in the jurisdiction in which an NPO operates an asset that requires measurement. A valuer would need to physically inspect the asset to provide a valuation, and therefore a valuer from another jurisdiction would be needed. This may result in an 'undue cost or effort', because of a language barrier or the cost of travel and/or subsistence. The absence of valuation professional might generate a specific circumstance, and this would need to considered in the context of the other factors. It may or may not in itself be sufficient to support an exemption.

Benefits

IG2.6 Management's judgement on the impact on the benefits that users, including management, would gain from applying that requirement requires consideration of:

a) how the economic resource allocation and other decisions of those that are expected to use the financial reports could be affected by not having that information; and
b) whether there is undue cost or effort involved in the incremental cost or additional effort that would substantially exceed the benefits to users of the financial reports.

IG2.7 These judgements are concerned with the users of the financial information. Consideration needs to be given to the benefits that users of general purpose financial reports might have had if the information had been available and therefore the impact of it not being available. Management will need to consider and be able to explain factors such as:

- the reliance that users might have placed on the affected information;
- the extent to which this information is routinely provided by other NPOs in the locality or in the NPO's field of activity;
- the importance of the information to the financial objectives of the NPO; and
- the loss of the information to the understanding of the NPO's financial resilience.

Management judgement

IG2.8 Management must not use the undue cost or effort exemptions to avoid providing information that an NPO would prefer not to disclose. The exercise of judgement is fundamental to decisions made. As required in G2.36, management must be able to explain its rationale for exercising the exemption through disclosures in the notes to the accounts. The explanation should identify:

- the key factors that have led to management's decision;
- the weight applied to each of these factors;
- how the balance of the factors had led to the conclusion; and
- cover both the impact on costs and effort as well as the impact on the loss of information.

The reporting NPO

How does an NPO determine whether a subscription or fee-based structure is a reporting NPO or some other form of reporting structure?

IG2.9 Some NPOs may be established under a subscription or fee-based structure. In such circumstances the NPO may pay a subscription or a fee to a national or international NPO as means to fund that NPO. A national or international NPO is then required to set the parameters under which the subscribing or fee paying NPOs are required to operate. The subscribing or fee-paying organisations that operate under such frameworks might take the form of the three structures discussed in the table below:

Table 1: Typical forms of operating structures that are subscription or fee based

	Type of organisation	How should the organisation be treated?
1	Part of the national or international organisation (this may or may not be operating as an internal branch)	INPAG requires that the financial and other transactions are included in the general purpose financial reports of the national or international NPO.
2	A separate legal entity or other incorporated structure which has a relationship with the national or international NPO	INPAG requires that the NPO ascertain the financial reporting relationship, if any, with that organisation in accordance with Sections 2 and 9.
3	Separate legal entities or other incorporated structure where there is no financial reporting relationship with the NPO	INPAG requires these organisations to produce general purpose financial reports as a separate reporting NPO (if meeting the definition of a reporting NPO). Where relevant the NPOs should follow national financial reporting requirements.

How does an NPO determine that organisations established as a separate legal entity to manage the financial burden or risk of the activities of the NPO, or purely for fundraising activities, are reporting NPOs or some other form of structure?

IG2.10 Some NPOs may be established as separate legal entities to:

- undertake specific activities;
- manage the risk of loss; or
- for the sole purpose of raising funds, for example to provide financial support to a hospital.

IG2.11 The NPO that creates these separate legal entities will need to establish its financial reporting relationship, if any, with these separate legal entities (including any reporting NPOs) based on the provisions in Section 2 on the identification of a reporting NPO and the definition of control in Section 9 of INPAG.

How does an NPO determine that organisations using affiliated structures are a reporting NPO or some other form of structure?

IG2.12 Some organisations may be established and described as 'affiliated' structures. These organisations may include both individuals and/or other organisations including NPOs as members. These members may pay a fee or subscription for access to services or other membership benefits. These relationships are more akin to a customer–supplier relationship and therefore a financial reporting relationship has not been established between the NPO and the members.

Illustrative examples – Section 2 – Reporting NPO

The following illustrations assume that the relevant transactions are material.

Example 1. Charitable theatre NPO and fee-paying charitable companies – different operating structures

Entity A, an NPO, has been established to promote the dramatic arts throughout a nation. One of the activities, which is run by a sub-division, is the operation of the For Everyone Theatre, which develops theatrical plays that promote diversity. The For Everyone Theatre has a separate bank account to manage the income from the theatre sales.

Entity A establishes six NPO entities which tour the plays developed by For Everyone Theatre across six of the regions of the nation. It establishes the governing bodies for each of the entities, where it appoints the majority of the membership of each board. There is a standard constitution to operate within a set of parameters. Each of these entities pays 50% of its ticket sales to Entity A when they reach a certain agreed level. This fee is used to develop the plays for the following year's programme of the For Everyone Theatre.

Other NPO theatre groups can also pay a fee for the plays and may use the national logo for the diversity-based plays, though they must agree to perform the plays as written.

Analysis

The 'For Everyone Theatre' transactions, including the financial assets in the bank account, are included in the financial statements of Entity A.

The six NPO theatre entities are separate legal entities and Entity A needs to establish the financial reporting relationship with those companies. As Entity A establishes the constitution, appoints the majority of the voting members of the governing body, and is able to benefit from the relevant activities (both receipt of the fees and the promotion of the relevant activities established under the constitution), Entity A would control the NPO theatre entities.

Other NPO theatre groups that were not set up by Entity A are separate entities (or possibly parts of separate entities). Entity A has no power in relation to their governing bodies or the operation of these theatre groups and so there is no direct financial reporting relationship with Entity A. These theatre groups would produce their own financial statements under the provisions of INPAG or other GAAP under which they might operate.

Example 2. Hospital charitable company established for fundraising purposes

Entity B, a hospital, decided that to have a more focused approach to fundraising, it would set up a separate NPO Entity (Entity C) solely to raise funds for the hospital. This would allow Entity C to focus on attracting legacies from individuals in the locality and to ensure that the resources are invested to maximise returns (provided this was effectively risk managed and in accordance with the charitable purposes of the Entity).

Entity B establishes the fundraising Entity C using the name of the hospital and establishes its purposes such that fundraising is solely for use by the hospital. Entity C puts in place arrangements for a regular dividend to be paid to the hospital to fund services.

Analysis

Based on the facts and circumstances outlined above and because:

- the hospital has established the charitable purposes of Entity C; and
- determines how those resources are utilised;
- Entity B has created a mechanism where it has power over the relevant activities of Entity C so as to benefit from these relevant activities. As a result, Entity B controls Entity C.

Entity B would include Entity C into its consolidated financial statements accounts as a controlled entity.

Example 3. Affiliated organisation

A tennis association, Entity D, is established across a nation to improve the fitness of that nation through the medium of tennis. There are 20 separate legal entities, tennis clubs that pay a subscription to the association and receive non-mandatory advice and guidance on how to run a tennis club to improve the fitness in a local area and on issues such as inclusivity and outreach. Individuals not able to sign up to a club can become members of the association for a small fee and they are provided with a link to regular videos to improve their skills and can update a chart when they have achieved a particular skill.

Analysis

The 20 separate legal entities have customer–supplier relationships with the umbrella organisation, Entity D. While they receive advice and guidance from Entity D, they are not required to follow that advice and guidance and Entity D does not have power over the relevant activities or funds of these separate legal entities.

Entity D may be a reporting NPO, as a separate legal entity. The 20 tennis clubs are also separate legal entities. As their relationship with Entity D is only about the provision of services, and Entity D does not have power to control their activities or funds, they will produce their own financial statements and not be consolidated into the financial statements of Entity D.

Example 4. Internal branches

A national NPO Entity E that supports educational needs has six potential internal branches, which are all separate unincorporated organisations.

- Organisation A was established for fundraising for Entity E across the nation.
- Organisations B, C and D were set up to ensure that resources were distributed effectively across communities identifying where need for services is greatest. They have all established separate bank accounts and produce informal quarterly financial accounts. Organisation D is always late with its monthly
- returns and disputes the need to produce them. Its bank account was set up in the name of the chief finance officer.
- Organisation E was established to raise awareness of specific educational needs.
- Organisation F was established for administrative purposes, to support the effective operation of Organisations A to E and to provide advice and guidance on operational and financial issues.
- All six organisations were established to follow the constitution of Entity E.
- All six organisations use the same website, letterheads and title of Entity E on a regular basis.

Analysis

Despite the separate bank accounts, all six organisations are internal branches to the national NPO Entity E. This is because a number of the indicators were met including:

- the branches are not separately incorporated;
- they do not have autonomous governing bodies;
- they follow the financial reporting and other operational requirements of the main NPO; and
- they use the same website and letterheads of the national NPO.

The funds raised by Organisation A should be recognised as income of Entity E. Even though Organisation D challenges the structure, and the bank account has been established in the name of the chief finance officer, the funds are used to benefit the recipients of the educational services of Entity E and therefore are recognised as a part of the entity.

Section 3 – Financial statement presentation

How should I present information in the financial statements?

IG3.1 INPAG sets out the components of financial statements and minimum requirements for disclosure on the face of the Statement of Financial Position and the Statement of Income and Expenses, as well as for the Statement of Changes in Net Assets. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes.

IG3.2 Annex 1 contains illustrative financial statements, which provide simple examples of the ways in which the requirements of INPAG might be met for the presentation of the Statement of Financial Position, Statement of Income and Expenses, and linked Statement of Changes in Net Assets, Statement of Cash Flows and the notes to the financial statements. The order of presentation and the descriptions used for line items should be changed when necessary in order to achieve a fair presentation in each entity's particular circumstances.

IG3.3 The examples are not intended to illustrate all aspects of INPAG. Nor do they comprise a complete set of financial statements, as further updates will be made to the INPAG as part of Exposure Drafts 2 and 3. A complete set of financial statements will be included in ED3.

When should comparative information be provided for narrative and descriptive reporting?

IG3.4 G3.14 requires that comparative information is provided for narrative and descriptive information where it is relevant to an understanding of the current period's financial statements. This will require judgement about how best to meet the objectives of financial reporting and the information needs of users of the financial statements.

IG3.5 The judgement about when comparative information should be provided about narrative and descriptive information should take account of the materiality of the information to the delivery of the NPO's performance or financial objectives and the NPO's overall purpose or mission. These include whether the comparative information provide material information about:

a) the progress that the NPO has made in achieving its purposes or mission;
b) how the NPO intends to meet its purposes or mission in the future;
c) the context they provide to evaluating the financial sustainability of the NPO;
d) how the NPO has used or intends to use its existing resources (people and assets);
e) how the NPO is dealing with any legal or regulatory issues;
f) how the NPO has worked or intends to work with key partners or communities;
g) how the NPO has impacted or intends to impact on the environment;
h) how the NPO has generated or intends to generate the financial resources it needs.

Where an NPO is adopting INPAG in a way that differs to the requirements of Section 36, what disclosure requirements are likely to be necessary to enable users to understand the financial statements?

IG3.6 The NPO should set out how it is accounting for material transactions in its accounting policies. This is particularly important for material transactions that are not yet accounted for in accordance with INPAG.

IG3.7 Users will be interested in how the information in the financial statements can be expected to change in future in respect of matters not yet reported under INPAG. To meet this information need, the NPO should describe in the notes to the financial statements those parts of the Guidance where compliance has been achieved in the reporting year and in previous years as well as those areas where compliance has not yet been achieved. The NPO's plans for full adoption should also be set out so that there is transparency about the timeframe for full adoption and the level of completeness with the provisions of the Guidance in each financial year.

Where an NPO is applying some of the provisions of INPAG but does not plan to fully adopt, or is not permitted to adopt INPAG, what disclosures would help users understand its financial statements?

IG3.8 The NPO should set out how it is accounting for material transactions in its accounting policies note disclosure. This is particularly important when material transactions are accounted for in accordance with a mixture of INPAG and another accounting framework(s).

IG3.9 Additional disclosures that will help users understand the financial statements will depend on the NPO's specific circumstances, and the mixture of INPAG and another accounting framework that it is applying.

IG3.10 Where the NPO is adopting INPAG requirements to supplement the requirements of another accounting framework, for example by following INPAG requirements for transactions that are not addressed by that other framework, the NPO could usefully disclose:

a) The transactions that are accounted for by applying the INPAG requirements.
b) An explanation of why it is not able to apply the other accounting framework to these transactions.
c) An explanation of the extent to which the INPAG requirements are consistent with the concepts and principles underlying the other accounting framework.

IG3.11 Where the NPO is generally adopting INPAG except for certain types of transaction, the NPO could usefully disclose:

a) Which transactions are not accounted for by applying the INPAG requirements, and the accounting treatment adopted for those transactions.
b) An explanation of why the NPO is not applying the INPAG requirements in accounting for those transactions (which may be that the relevant regulator requires an alternative treatment).
c) An explanation of the how the financial statements would differ if the requirements of INPAG had been applied. Quantifying these differences, where this can be done without undue cost, is likely to be beneficial to users.

Illustrative financial statements and table of presentation and disclosure requirements

Illustrative financial statements

IG3.12 Section 3 *Financial statement presentation* of INPAG defines a complete set of financial statements and prescribes general standards of financial statement presentation. Section 4 *Statement of Financial Position*, Section 5 *Statement of Income and Expenses*, Section 6 *Statement of Changes in Net Assets*, Section 7 *Statement of Cash Flows* and Section 8 *Notes to the financial statements* prescribe the format and content of the individual financial statements and notes. Other sections of INPAG establish additional presentation and disclosure requirements. The financial statements in Annex 1 illustrate how those presentation and disclosure requirements might be met by a typical NPO. Of course, each NPO will need to consider the content, sequencing and format of presentation and the descriptions used for line items to achieve a fair presentation in that NPO's particular circumstances. These illustrative financial statements should not be regarded as a template appropriate for all NPOs.

IG3.13 The Guidance provides some flexibility over the presentation of the financial statements. Examples of how this flexibility can be used include:

a) Information in the Statement of Financial Position may be presented to follow a 'vertical' or 'horizontal' presentation. In addition to these different forms of presentation, an NPO can choose how to sequence the information as long as it complies with other elements of the guidance. For example, non-current assets might appear before current assets, and current liabilities before non-current liabilities, to allow working capital to be presented on the financial statement. Judgements about sequencing shall reflect the nature of the NPO and the needs of users of the financial statements.
b) In the Statement of Income and Expenses, NPOs may present their income before their expenses before arriving at the surplus or deficit from operating activities. Alternatively expenses can be presented first with income showing how expenses have been funded. An NPO shall choose a format that best explains to users of the financial statements the activities, transactions and events of the NPO.

IG3.14 Different formats and sequencing of some illustrative statements are presented. INPAG does not specify the formats or sequencing of items to be used, and alternative formats or sequencing are permitted by INPAG. Consistent with paragraph G3.22 of INPAG, an NPO may use titles for the financial statements other than those used in these illustrations.

IG3.15 INPAG does not require a Statement of Financial Position at the beginning of the earliest comparative period. The following illustrative Statement of Financial Position only includes a column for the opening Statement of Financial Position to aid in understanding of the calculations underlying amounts in the Statement of Cash Flows prepared under the indirect method.

IG3.16 The illustrative financial statements are not intended to illustrate all aspects of INPAG.

Table of Presentation and Disclosure Requirements by Section

This table has been derived from the presentation and disclosure requirements in INPAG.

IG3.17 This table collects together the presentation and disclosure requirements in INPAG for ease of reference when preparing the financial statements.

Other disclosures

Section 8 *Notes to the Financial Statements* [This is extracted from INPAG and will be updated as appropriate in full in ED3.]

Structure of the notes

G8.2 The notes shall:

a) present information about the basis of preparation of the financial statements and the specific accounting policies used, in accordance with paragraphs G8.5–G8.7;
b) disclose the information required by this Guidance that is not presented elsewhere in the financial statements; and
c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

G8.3 An NPO shall, as far as practicable, present the notes in a systematic manner. An NPO shall cross-reference each item in the financial statements to any related information in the notes.

G8.4 An NPO normally presents the notes in the following order:

a) a statement that the financial statements have been prepared in compliance with INPAG (see paragraph G3.3);
b) a summary of significant accounting policies applied (see paragraph G8.5);
c) supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and
d) any other disclosures.

Disclosure of accounting policies

G8.5 An NPO shall disclose the following in the summary of significant accounting policies:

a) the measurement basis (or bases) used in preparing the financial statements; and
b) the other accounting policies used that are relevant to an understanding of the financial statements.

Information about judgements

G8.6 An NPO shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph G8.7), that management has made in the process of applying the NPO's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Information about key sources of estimation uncertainty

G8.7 An NPO shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

a) their nature; and
b) their carrying amount as at the end of the reporting period.

Section 10 *Accounting Policies, Estimates and Errors*

Disclosure of a change in accounting policy [This is extracted from INPAG and will be updated in full in ED3.]

G10.14 When an amendment to this Guidance has an effect on the current period or any prior period, or might have an effect on future periods, an NPO shall disclose the following:

a) the nature of the change in accounting policy;
b) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
c) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
d) an explanation if it is impracticable to determine the amounts to be disclosed in (b) or (c).

Financial statements of subsequent periods need not repeat these disclosures.

G10.15 When a voluntary change in accounting policy has an effect on the current period or any prior period, an NPO shall disclose the following:

a) the nature of the change in accounting policy;
b) the reasons why applying the new accounting policy provides reliable and more relevant information;
c) to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:
   i) for the current period;
   ii) for each prior period presented; and
   iii) in the aggregate for periods before those presented; and
d) an explanation if it is impracticable to determine the amounts to be disclosed in (c).

Financial statements of subsequent periods need not repeat these disclosures.

Disclosure of a change in estimate

G10.19 An NPO shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expenses for the current period. If it is practicable for the NPO to estimate the effect of the change in one or more future periods, the NPO shall disclose those estimates.

Disclosure of prior period errors

G10.24 An NPO shall disclose the following about prior period errors:

a) the nature of the prior period error;
b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
c) to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented; and
d) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c).

Financial statements of subsequent periods need not repeat these disclosures.

Section 9 – Consolidated and separate financial statements

Example 1. Leisure NPO – Reporting NPO and control not relating to voting rights

Entity F, a leisure services NPO, was established to increase the fitness of a region by operating through sport centres in local parks. This fitness programme is approved and agreed by Entity F. Eight separate smaller incorporated associations of NPOs have been established for each of the localities in its region. The only activities of these separate associations are to manage the sport centres within their parks. The associations have no ownership instruments, but a governing body (local management committee) has been established by each comprising members of the community that are dedicated to increasing fitness and members interested in the local parks. For each location, the establishment of the management body and its terms of reference are overseen by Entity F, which also oversees ongoing operations. There is a small team of sports instructors and a sports centre director managing each association. People under the age of 18 do not pay, while other participants pay a significantly subsidised price for using the amenities. The activities of the eight associations are:

- the day-to-day operation of the sport centres;
- managing the groups of individuals that have been recommended by their medical practitioners to join the sports centres;
- deciding the numbers of other members that can join at a subsidised fee; and
- maintenance and upkeep of the sport centres facilities and improving where necessary.

To ensure the eight associations promote the improvements in fitness using the sports centres Entity F specifies:

- the types of facilities and classes that must be made available;
- the length of each activity for each group using the facilities; and
- the groups prioritised for membership because of their medical needs.

Performance reports are sent monthly to Entity F setting out the activities that have taken place and the fees earned. Entity F also sets the subsidised price for the associations. All the income is sent to Entity F, which redistributes it in accordance with its priorities.

Analysis

Entity F has the power to control the activities and the operation of each of the associations, by specifying its activities, the individuals using the centres and gains the benefits of delivering on its purposes and the subsidised fees including their redistribution.

Entity F therefore satisfies the criteria for having control.

Section 35 – Narrative reporting

IG35.1 This Implementation Guidance is supported by illustrative examples and links to other sources of information.

What is meant by fair and balanced?

IG35.2 G35.6 requires that the information presented by the NPO is fair and balanced. Narrative reporting must not be biased towards a particular portrayal of its circumstances for example to be used by NPOs as a selling pitch or to provide a subjective view of performance or the financial statements that does not reflect reality. Users must be provided with an objective view of what has gone well and what has gone less well during the reporting period and the implications that this has for the future.

IG35.3 In making a judgement of whether the narrative report is fair and balanced an NPO should consider issues such as:

a) does the narrative overstate what has been achieved?
b) is there too much focus on successes to the exclusion of activities that were less successful?
c) Is reporting deliberately selective with items omitted in order to portray a particular view of the NPO's activities or financial position?
d) does the narrative report put the information presented into its full context?

What is meant by sensitive information or information that could prejudice the ability of the NPO to deliver its mission?

IG35.4 NPOs are permitted to not disclose aspects of performance information and financial statement commentary where the information is sensitive or could prejudice the ability of the NPO to deliver its mission. Given the diversity of activities undertaken by NPOs, it is not possible to provide a definition or exhaustive list of the activities that could give rise to such information. It is intended to include situations where there is a risk, including of physical harm, to an NPO's staff, its volunteers or the public who engages with the NPO, or that would provoke significant ongoing disruption to the NPOs operating activities in a locality if information was publicly disclosed in the general purpose financial reports.

IG35.5 Permission to not disclose information must not be used by NPOs as a way of hiding poor performance or financial problems that may have arisen with aspects of its operations. It should be reserved solely for situations where disclosure would jeopardise the safety and security of staff, volunteers or the public that benefit from the goods and services provided by the NPO.

IG35.6 Examples of sensitive or mission prejudicial information that an NPO may not disclose could include, but is not limited to:

a) information that identifies the nature of activities being undertaken by an NPO;
b) information that discloses the scope of geographic activities being undertaken by an NPO;
c) information that identifies the individuals, communities or groups that benefit from the goods and service provided by the NPO.

How should the qualitative characteristics be applied?

IG35.7 **Faithful representation** requires the NPO to provide information that is complete, neutral and free from error. Performance information and financial statement analysis should be reviewed by the NPO to ensure that it is not partial, wholly subjective and/or materially incorrect, taking into consideration the overall requirement to ensure fair and balanced reporting.

IG35.8 NPOs should only provide information that is **relevant** ie information that is capable of making a difference to the decisions made by users. What is relevant will be NPO-specific, and may be based on magnitude or nature. Including only material information will enable the NPO to produce a concise narrative report that is focused on the needs of users.

IG35.9 The information provided by the NPO should also be **verifiable**. NPOs should aim to provide users with assurance that the information provided is a faithful representation. This may involve providing evidence of a formal assurance process that the information has been subjected or describing how the NPO satisfies itself that the information is a faithful representation.

IG35.10 **Timeliness** requires that information is available to users in time to be capable of influencing their decisions. Generally, NPOs should aim to provide the most up-to-date information that they can although this does not mean that older information is not of use to users, as it may be useful for identifying and assessing trends.

IG35.11 NPOs should also ensure that users are able to identify and understand similarities and differences among the information that is provided in the narrative report. Although NPOs may utilise different performance measures, **comparability** means that users should be able to make meaningful comparisons between information that is presented.

IG35.12 There is no set format for presenting performance information and financial statement commentary. What is most effective for users to provide **understandability** will vary depending on the nature of the NPO and its activities. As performance information and financial statement commentary will be both numerical and narrative in nature, NPOs have the option of using a variety of different formats which may include charts, graphs, tables, narrative text and infographics.

IG35.13 In general, NPOs should ensure that information is presented in a manner that is:

a) easy to read;
b) visually appealing;
c) focused and/or concise, concentrating on the key information;
d) consistent with other information presented in the general purpose financial report; and
e) cross-referenced to any external information.

What information is relevant to providing an overview of the NPO?

IG35.14 An overview of the NPO provides users with an understanding of the purpose of the NPO, how it is governed, its activities and how its relationships with other entities and the environment in which it operates affects its performance and financial statements.

IG35.15 To provide users with this contextual information, it is suggested that NPOs look to answer three questions.

Who are we? – where it is expected that an NPO will discuss areas like:

a) **legal form** – is the NPO, a company, a trust, a co-operative membership organisation, registered with a regulator (eg charity)? Is it registered in more than one jurisdiction?
b) **operational structure** – is the NPO part of a group, does it control other entities, is it part of a consortium, does it have a large number of staff, does it operate in more than one jurisdiction?
c) **governance arrangements** – is there an executive board, non-executive oversight, trustees?

What do we exist for? – where it is expected that an NPO would discuss areas like:

a) **its purpose** – what is the mission and vision of the NPO, what are its values?
b) **its key objectives** – what are the key things that the NPO is looking to do?
c) **who is the NPO** is seeking to help?
d) **the outcomes and impact it is looking to achieve** – what changes in the world is the NPO looking to make?

What do we do? – where it is expected that an NPO would discuss areas like:

a) the **environment in which it operates** – what jurisdiction(s) or communities does the NPO operate in, what is the legal, economic, political situation in which it operates?
b) its **main activities** – does it deliver goods and services itself directly to the public, does it make grants to individuals or organisations, does it lobby on behalf of others?
c) what **goods and services** it provides – what are the specific goods and services that it delivers?
d) how it **works with other entities to do so** – is it reliant on donors to provide funding, does it deliver services to the public with another organisation?

IG35.16 The information needed to provide this overview should be readily available to most NPOs from documents like the founding constitution, grant proposals and reports to goods and service users.

How should performance measures and descriptions be selected?

IG35.17 The performance measures and descriptions that an NPO selects will depend on its performance objectives, the nature of its activities and whether it wants to focus on inputs, outputs, outcomes and/or impact.

Inputs – this will be relevant where performance is best measured by the quantity of resources used to deliver an NPO's mission, for example the number of employees, volunteers, or amount of donations.

Outputs – this will be relevant where performance is best measured by what an NPO produces in terms of good or services delivered, for example the number of free meals, trees planted, vaccinations given.

Outcomes – this will be relevant where performance is best measured by the impact that an NPO is having on those that it intends to benefit, for example longevity, air quality, literacy.

In selecting performance measures and descriptions, NPOs may have a mix of input, output and outcome measures depending on their activities. Some may already be used in reporting to donors, reporting to management or those providing oversight of the NPO, those to whom the NPO is providing goods and services, as well as other stakeholders.

How should the principal risks and uncertainties be described?

IG35.18 Principal risks and uncertainties are those that could significantly disrupt the ability of the NPO to achieve its performance objectives and its financial objectives and strategies. This will include but is not limited to:

- how the NPO works with others to deliver its main activities;
- changes to the political environment;
- changes to the legal or regulatory environment;
- changes to the physical environment;
- changes to the economic environment;
- reliance on volunteers;
- reliance on certain donors;
- capacity and capability of NPO resources; and
- the NPO's ability to generate and manage financial resources, or its operations and governance.

In describing the key risks and uncertainties any changes from previous periods should be disclosed, and users should also be given information on how the NPO manages their risks and uncertainties.

IG35.19 For example, a key risk could be reliance on donations from the public to fund services, which have historically fallen significantly during periods of economic recession. An economic recession might mean the NPO is unable to generate the required level of donations and lead to a reduction in the services it provides. This would impact both its financial and performance objectives. Mitigations to manage the impact of this risk could include levels of reserves or a longer-term plan to diversify income sources.

What is an effective means of presenting performance information and financial statement commentary?

IG35.20 The narrative report should be written using clear and simple language and sector-specific jargon should be avoided where possible. Where the use of technical terms is necessary to communicate clearly, prior knowledge should not be assumed, and these should be defined for users and used consistently throughout the narrative report.

IG35.21 In addition to the use of clear and simple language, how information is presented can significantly affect understandability. The nature of the information will determine the most appropriate method of presentation, but tabular, graphical or pictorial methods can be effective ways of explaining concepts to users and highlighting key information. They should, however, serve a clear purpose, be accessible for all users, and be supported by appropriate narrative text.

IG35.22 NPOs may also wish to consider the use of case studies and feedback from those that provide financial and other support to it and those that benefit from the goods and services it provides. Case studies and feedback can enable the NPO to provide more in-depth information about individual activities and personal insights that will enable users to more readily engage with the report.

IG35.23 Globally there are a number of awards that celebrate excellence in non-profit organisation financial reporting. Examples of recent award-winning reports that highlight the use of clear and simple language, excellent presentation of information supported by narrative text and the effective use of case studies and feedback include:

- **Age UK annual report 2021**
- **Zealandia Te Māra a Tāne wildlife sanctuary annual report 2019/2020**
- **Children's Rights Alliance directors' report 2019**
- **National Sea Rescue Institute integrated annual report 2021**

What additional material and guidance is available?

IG35.24 Additional material and guidance to support NPOs looking to other reporting frameworks for additional ideas in meeting narrative reporting requirements is available at:

- **IASB Practice Statement 1: Management Commentary**
- **IPSASB Recommended Practice Guideline 2: Financial Statement Discussion and Analysis**
- **IPSASB Recommended Practice Guideline 3: Reporting Service Performance Information**
- **New Zealand PBE FRS 48: Service Performance Reporting**
- **Value Reporting Foundation – Integrated Reporting Framework**
- **International Sustainability Standards Board**
- **GRI Standards**

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Annex 1 Illustrative financial statements

Statement of Income and Expenses (Format 1)

	Notes	20X2			20X1		
		With restrictions	**Without restrictions**	**Total**	**With restrictions**	**Without restrictions**	**Total**
Income							
Grants and donations – general							
Grants for and donations of non-current assets							
Sales of services and goods							
Interest income							
Other income							
Total income							
Expenses							
[Analysis of expenses to be determined]							
Depreciation and amortisation expenses							
Impairment expenses							
Interest expenses							
Other expenses							
Total expenses							
Surplus or deficit from operating activities							
Share of surplus of associates							
Gain or loss on disposal of assets							
Unrealised gains or losses on foreign exchange differences							
Unrealised gains or losses from fair value adjustments:							
Defined benefit plans							
Financial instruments							
Investment property							
Surplus or deficit for the period							

Statement of Income and Expenses (Format 2)

	Notes	20X2			20X1		
		With restrictions	**Without restrictions**	**Total**	**With restrictions**	**Without restrictions**	**Total**
Expenses							
[Analysis of expenses to be determined]							
Depreciation and amortisation expenses							
Impairment expenses							
Interest expenses							
Other expenses							
Total expenses							
Funded by:							
Grants and donations – general							
Grants for and donations of non-current assets							
Sales of services and goods							
Interest income							
Other income							
Total income							
Surplus or deficit from operating activities							
Share of surplus of associates							
Gain or loss on disposal of assets							
Unrealised gains or losses on foreign exchange differences							
Unrealised gains or losses from fair value adjustments:							
Defined benefit plans							
Financial instruments							
Investment property							
Surplus or deficit for the period							

Statement of Financial Position (vertical presentation)

	Notes	20X2	20X1	20X0
Assets				
Current assets				
Cash				
Receivables				
Inventories				
Total current assets				
Non-current assets				
Investment in associate				
Property, plant and equipment				
Intangible assets				
Deferred tax asset				
Total non-current assets				
Total assets				
Liabilities				
Current liabilities				
Bank overdraft				
Payables				
Liability for deferred revenue (income with restrictions)				
Interest payable				
Current tax liability				
Current portion of employee benefit obligations				
Current portion of obligations under finance leases				
Total current liabilities				
Non-current liabilities				
Loans				
Long-term employee benefit obligations				
Obligations under finance leases				
Total non-current liabilities				
Total liabilities				
Net assets				
Funds with restrictions				
Endowment funds with restrictions				
Funds without restrictions				
Equity				
Non-controlling interests				
Total net assets				

Statement of Financial Position (horizontal presentation)

	Notes	20X2	20X1	20X0
Assets				
Current assets				
Cash				
Receivables				
Inventories				
Total current assets				
Non-current assets				
Investment in associate				
Property, plant and equipment				
Intangible assets				
Deferred tax asset				
Total non-current assets				
Total assets				

	Notes	20X2	20X1	20X0
Liabilities				
Current liabilities				
Bank overdraft				
Payables				
Interest payable				
Liability for deferred revenue (income with restrictions)				
Current tax liability				
Current portion of employee benefit obligations				
Current portion of obligations under finance leases				
Total current liabilities				
Non-current liabilities				
Loans				
Long-term employee benefit obligations				
Obligations under finance leases				
Total non-current liabilities				
Total liabilities				
Net assets				
Net assets				
Funds with restrictions				
Funds without restrictions				
Equity				
Total net assets				

Statement of Changes in Net Assets

	Notes	Funds with restrictions	Funds without restrictions	Equity	Non-controlling interest
Balance at 31 December 20X0					
Restatements of opening balance					
Changes in accounting policy					
Correction of errors					
Restated balance at 31 December 20X0					
Surplus or deficit					
Income and expenses recognised directly in net assets:					
Gain or loss on property revaluations					
Gain or loss on revaluation of investments					
Total income and expenses for the period					
Transfers between funds [detail required]					
Equity					
Contributions from holders of equity claims					
Distributions to holders of equity claims					
Total equity					
Other changes in net assets					
Balance at 31 December 20X1					

	Notes	Funds with restrictions	Funds without restrictions	Equity	Non-controlling interest
Balance at 31 December 20X1					
Restatements of opening balance					
Changes in accounting policy					
Correction of errors					
Restated balance at 31 December 20X1					
Surplus or deficit					
Income and expenses recognised directly in net assets:					
• Gain or loss on property revaluations					
• Gain or loss on revaluation of investments					
Total income and expenses for the period					
Transfers between funds [detail required]					
Equity					
Contributions from holders of equity claims					
Distributions to holders of equity claims					
Total equity					
Other changes in net assets					
Balance at 31 December 20X2					

Statement of Cash Flows (direct method)

	Notes	20X2	20X1
Cash flows from operating activities			
Receipts			
Grants and donations – income with restrictions			
Grants and donations – income without restrictions			
Sales of services and goods			
Interest receipts			
Other receipts			
Payments			
[Analysis of expenses to be determined]			
Interest payments			
Income taxes paid			
Other payments			
Net cash from operating activities			
Cash flows from investing activities			
Grants for non-current assets			
Proceeds from sale of equipment			
Purchases of equipment			
Net cash used in investing activities			
Cash flows from financing activities			
Receipts from or payments to holders of equity claims			
Payment of finance lease liabilities			
Repayment of borrowings			
Net cash used in financing activities			
Net increase (decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year			
Cash and cash equivalents at the end of the year			

Statement of Cash Flows (indirect method)

	Notes	20X2	20X1
Cash flows from operating activities			
Surplus for the year			
Adjustments for non-cash income and expenses:			
Non-cash finance costs (income)			
Non-cash tax expense			
Non-cash donations			
Depreciation of property, plant and equipment			
Impairment losses			
Amortisation of intangible assets			
Cash flows included in investing activities:			
Gain on sale of equipment			
Changes in operating assets and liabilities			
Decrease (increase) in receivables			
Decrease (increase) in inventory			
Increase (decrease) in payables			
Increase (decrease) in liability for deferred revenue			
Increase in current and long-term employee benefit payable			
Net cash from operating activities			
Cash flows from investing activities			
Grants for non-current assets			
Proceeds from sale of equipment			
Purchases of equipment			
Net cash used in investing activities			
Cash flows from financing activities			
Receipts from or payments to holders of equity claims			
Payment of finance lease liabilities			
Repayment of borrowings			
Net cash used in financing activities			
Net increase (decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year			
Cash and cash equivalents at the end of the year			

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