



**International  
Non-Profit  
Accounting  
Guidance  
Part 1**

**Invitation to  
comment**

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## INPAG

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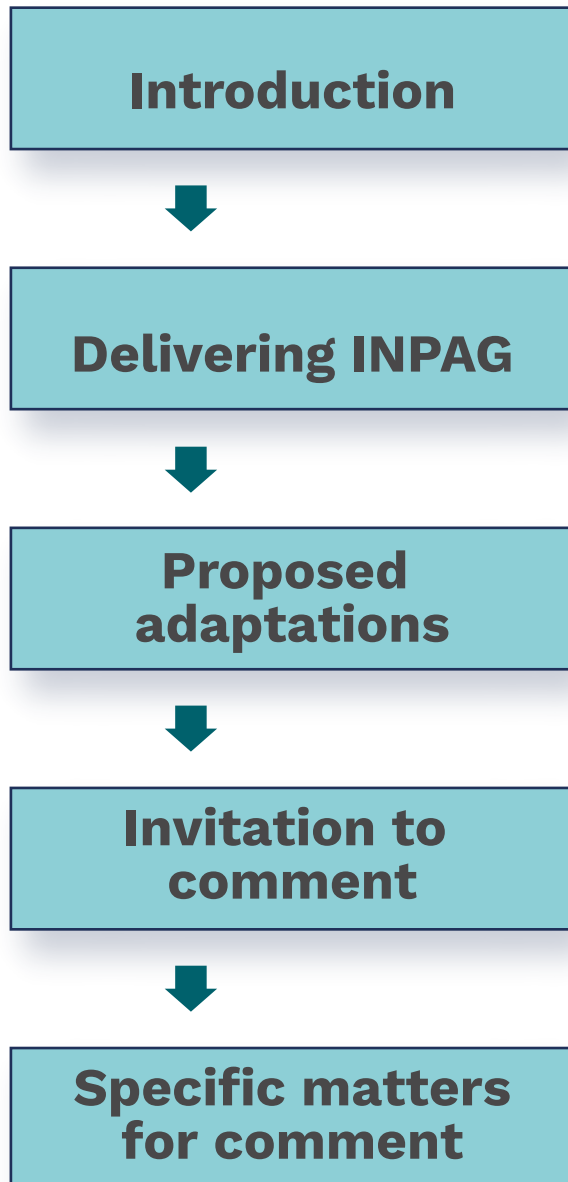
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## Summary

### 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

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ED1 – Authoritative Guidance

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ED1 – Basis for Conclusions

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ED1 – Implementation Guidance

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## 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:



## 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.

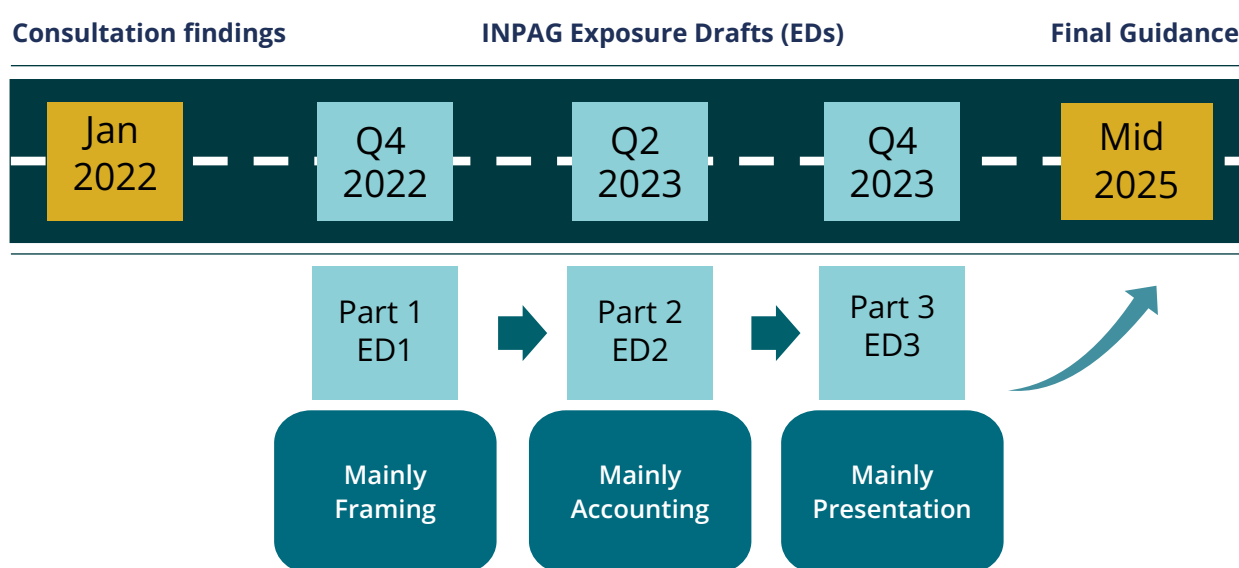
## Delivering INPAG

### 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.

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.

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.



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 <i>IFRS for SMEs</i> 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.



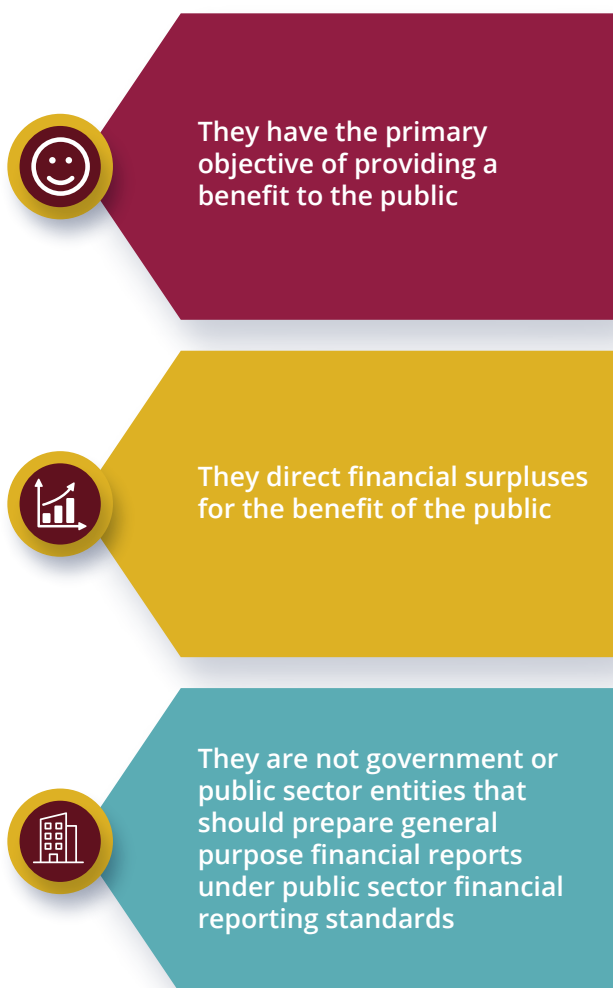
## Proposed Adaptations

### 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:



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?

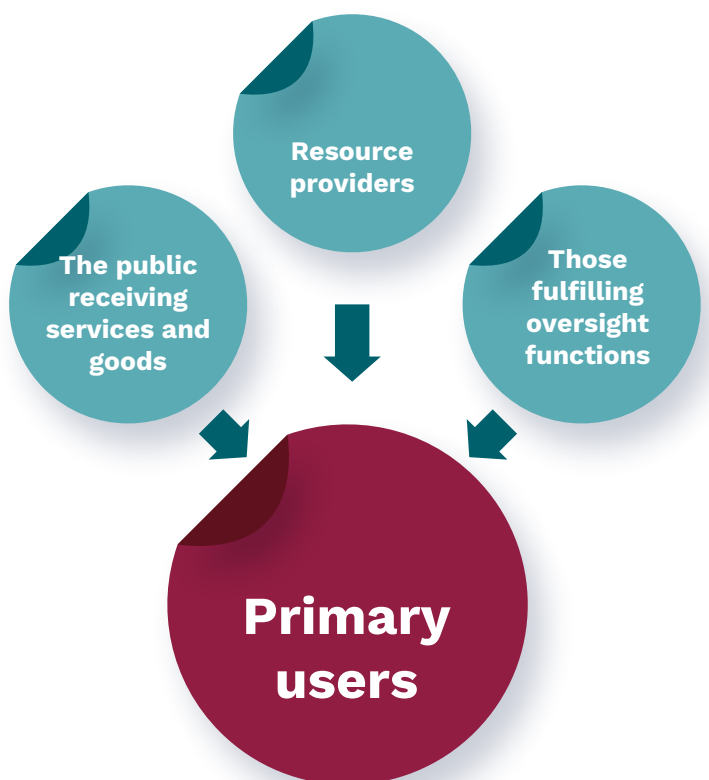
It is important to be clear about which entities are NPOs, so that the financial reporting guidance meets the needs of users of NPO general purpose financial reports.

- 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?

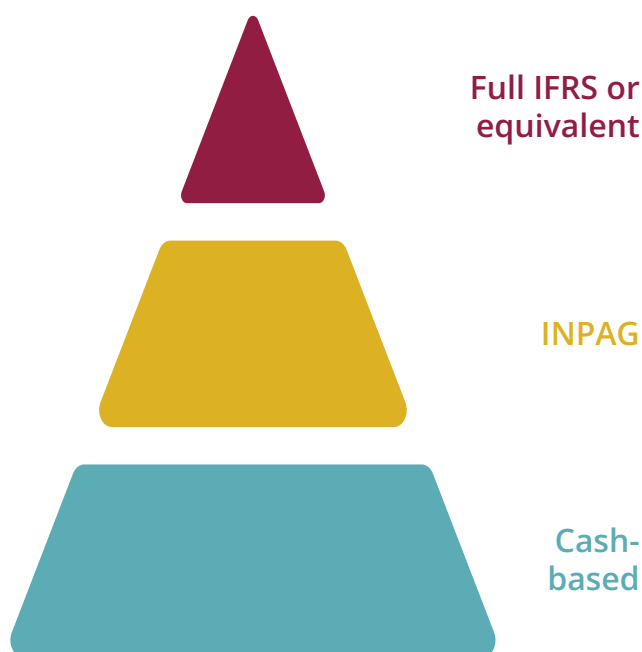
While donors, regulators and other stakeholders with authority will continue to require the reporting of tailored information to them, INPAG can support a reduction in the reporting burden on NPOs through greater consistency in reporting requirements.

- 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**)

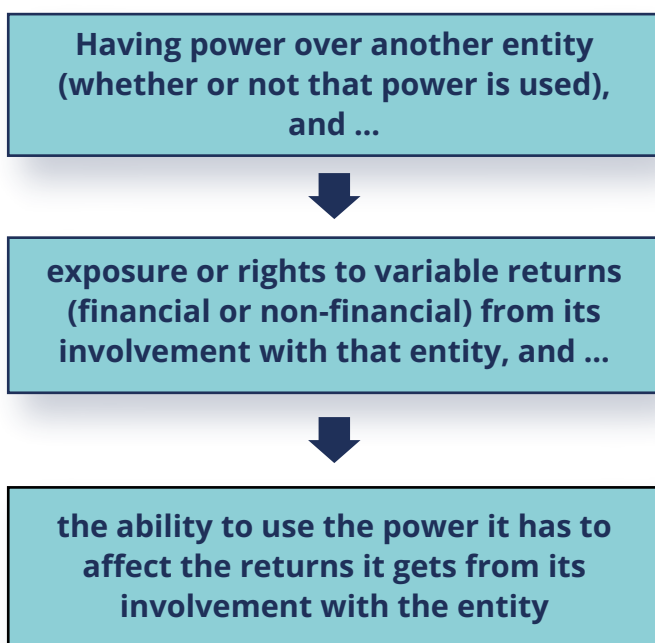
## 4. The reporting NPO and its boundary

### 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:



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:



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?

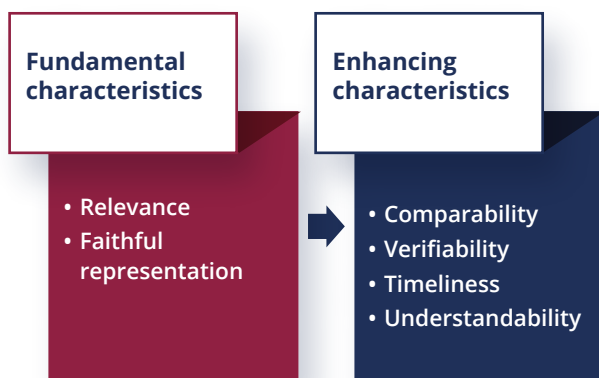
The INPAG elements are essentially the same as the *IFRS for SMEs Accounting Standard*, with a description of equity in the NPO context.

- 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.

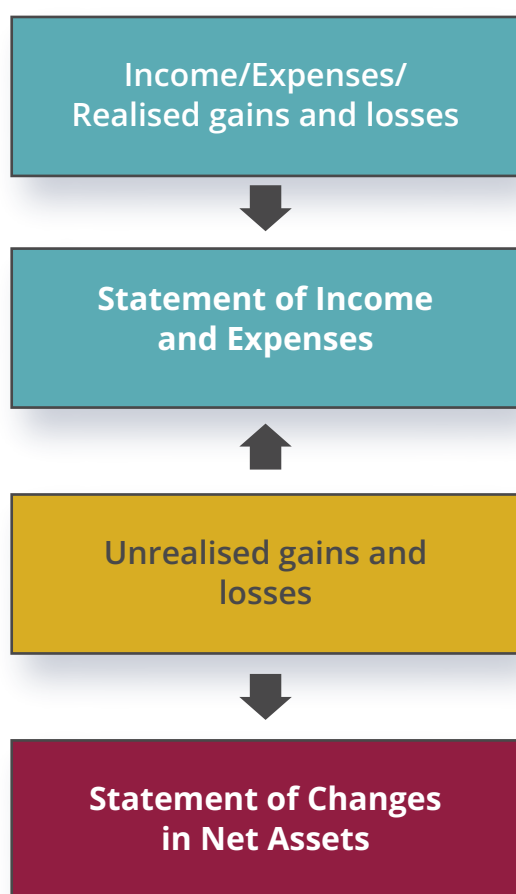
- Do you agree with separating funds with and without restrictions? **(Question 3e)**
- Is the separation of the aggregates of transactions and balances with and without restrictions on the Statement of Financial Position, Statement of Income and Expenses and Statement of Changes in Net Assets sufficient?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

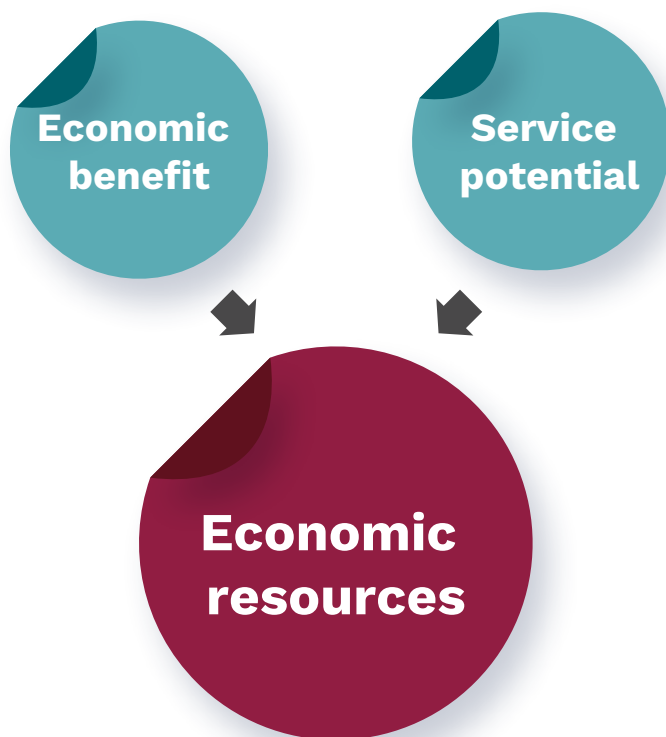
Existing international financial reporting frameworks include recommended guidelines rather than mandatory requirements. Only a few jurisdictions mandate narrative information.

- 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 as an important concept for NPOs by stakeholders.

### What should I comment on?

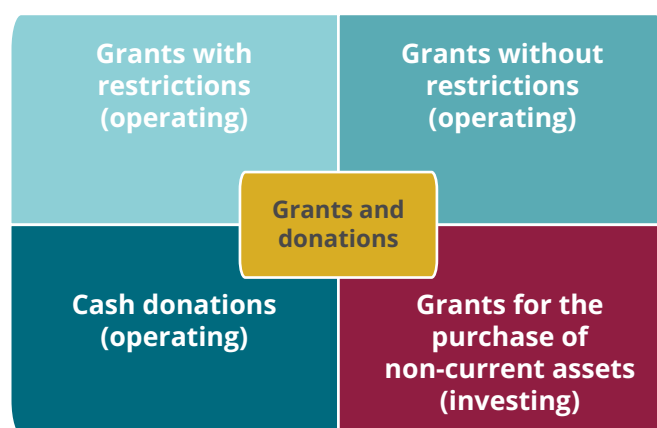
Service potential may not be a concept that is familiar to many NPOs and the users of their general purpose financial reports. There are also practical considerations about how to measure service potential that will need to be developed in future editions of INPAG.

- 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](http://www.ifr4npo.org/have-your-say) and must be received by **31 March 2023**.

Responses can be submitted to [ifr4npo@cipfa.org](mailto:ifr4npo@cipfa.org) or through the website at [www.ifr4npo.org/have-your-say](http://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 <i>IFRS for SMEs</i> 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.

<b>Question 4: Principles to enable comparability of financial statements</b>	<b>References</b>
a) Do you agree with the proposed changes to terminology from the <i>IFRS for SMEs</i> 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
<b>Question 5: Scope and presentation of the Statement of Financial Position</b>	<b>References</b>
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
<b>Question 6: Scope and presentation of the Statement of Income and Expenses</b>	<b>References</b>
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
<b>Question 7: Scope and presentation of the Statement of Changes in Net Assets</b>	<b>References</b>
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



<b>Question 8: Scope and presentation of the Statement of Cash Flows</b>	<b>References</b>
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
<hr/>	
<b>Question 9: Principles underpinning the notes to the financial statements</b>	
a) Do you agree that there are no NPO specific considerations for this Section? If not, what changes would you propose and why?	
<hr/>	
<b>Question 10: Approach to consolidated and separate financial statements</b>	<b>References</b>
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
<hr/>	
<b>Question 11: Approach to accounting policies, construction of estimates and accounting for errors</b>	
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?	
<hr/>	
<b>Question 12: Scope and content of narrative reporting</b>	<b>References</b>
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

### 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.

### Submit your comments

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

- Online: [www.ifr4npo.org/have-your-say](http://www.ifr4npo.org/have-your-say)
- By email: [ifr4npo@cipfa.org](mailto: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](http://www.ifr4npo.org)

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

## Annex A – ED1 at a glance

Section	Summary of content	Change from the <i>IFRS for SMEs</i> Accounting Standard	Comment Questions
<b>Preface</b>	The Guidance is split into Sections that mirror the structure of the <i>IFRS for SMEs</i> Accounting Standard. Additional information is provided so that those familiar with the <i>IFRS for SMEs</i> Accounting Standard can understand the key changes.	Modified – Major change to reflect the source of the guidance	Question 1
<b>Section 1 – NPOs</b>	<p>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.</p> <p>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.</p>	Modified – Major changes to reflect NPO context	Question 2
<b>Section 2 – Concepts and pervasive principles</b>	<p>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.</p> <p>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.</p> <p>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 <i>IFRS for SMEs</i>, but it recognises that concerns have been raised about the application of these provisions in practice.</p> <p>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.</p>	Modified – Major as new content for NPO specific issues, and new terminology	Question 3

Section	Summary of content	Change from the <i>IFRS for SMEs</i> Accounting Standard	Comment Questions
<b>Section 3 – Financial statements</b>	<p>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 <i>IFRS for SMEs</i> Accounting Standard.</p> <p>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.</p>	Updated – Minor changes to key presentational requirement and introduces the changes to statements	Question 4
<b>Section 4 – Statement of Financial Position</b>	<p>This statement is in substance unchanged for the <i>IFRS for SMEs</i> Accounting Standard including to the classification of assets and liabilities, but there are changes to terminology.</p> <p>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.</p>	Modified – Major changes to reflect NPO context	Question 5
<b>Section 5 – Statement of Income and Expenses</b>	<p>This Section is retitled from the equivalent Section in the <i>IFRS for SMEs</i> 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.</p> <p>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.</p> <p>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.</p>	Modified – Major changes to reflect a single statement without most aspects of other comprehensive income	Question 6
<b>Section 6 – Statement of Changes in Net Assets</b>	<p>This statement is derived from the Statement of Changes in Equity included in the <i>IFRS for SMEs</i> Accounting Standard.</p> <p>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 <i>IFRS for SMEs</i> Accounting Standard would be part of Other Comprehensive income.</p>	Modified – Major changes to reflect NPO context	Question 7

Section	Summary of content	Change from the <i>IFRS for SMEs</i> Accounting Standard	Comment Questions
<b>Section 7 – Statement of Cash Flows</b>	<p>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.</p> <p>There are no changes to the fundamentals of the cash flow from the <i>IFRS for SMEs</i> Accounting Standard, with both the direct and indirect methods of producing a Statement of cash flows permitted.</p>	Updated – Minor changes to align with changes to other statements and to include NPO appropriate terminology	Question 8
<b>Section 8 – Note to the financial statements</b>	<p>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.</p>	Updated – Editorial changes to align to new terminology and financial statements	Question 9
<b>Section 9 – Consolidated and separate financial statements</b>	<p>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.</p> <p>It also provides guidance on less common situations when consolidation might not be appropriate.</p> <p>The Section replaces terminology used in the <i>IFRS for SMEs</i> Accounting Standard, to be more appropriate for NPOs.</p>	Updated – Minor changes to include NPO appropriate terminology and the extension of the rebuttable presumption	Question 10
<b>Section 10 – Accounting policies, estimates and errors</b>	<p>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.</p>	Updated – Editorial changes to align to new terminology and financial statements	Question 11
<b>Section 35 – Narrative reporting</b>	<p>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.</p> <p>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.</p> <p>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.</p>	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
<b>ED</b>	Exposure Draft	A document published by the INPAG Secretariat to solicit public comment on proposed reporting guidance.
<b>IASB</b>	International Accounting Standards Board	An independent group of experts with responsibility for the development and publication of IFRS Accounting Standards, including the <i>IFRS for SMEs</i> Accounting Standards.
<b>GPFR</b>	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.
<b>IFR4NPO</b>	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).
<b>IFRS Accounting Standards</b>	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.
<b>IFRS for SMEs Accounting Standard</b>	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).
<b>INPAG</b>	International Non-Profit Accounting Guidance	High quality, trusted, internationally recognised financial reporting guidance for NPOs being developed as part of IFR4NPO.
<b>IPSAS</b>	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.
<b>IPSASB</b>	International Public Sector Accounting Standards Board	The International Public Sector Accounting Standards Board develops accounting standards and guidance for use by public sector entities.
<b>NPOs</b>	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.



[www.ifr4npo.org](http://www.ifr4npo.org)

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