INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED17-01
27 February 2024 – Online

Exposure Draft 3 feedback and amendments

Summary	This paper provides an overview of the substantive comments received from TAG members to the draft of Exposure Draft 3 and the proposed amendments to each Section to reflect these substantive comments.
Purpose/Objective of the paper	TAG members were provided with a draft of the Authoritative Guidance, Implementation Guidance, Basis for Conclusion and Supplementary Statements Guide for Exposure Draft 3 in early January 2024. Members were requested to provide any comments on the proposals to enable review of feedback and amendments to the proposals ahead of this meeting. Members provided a number of suggestions for editorial changes and more substantive comments on the draft documents. These have been reviewed by the Secretariat and amendments made to the draft of Exposure Draft 3. Extracts of these amendments are included in this paper and due to the more significant number of changes, the complete guidance for Section 36 Fund accounting.
Other supporting items	TAGED17-04
Prepared by	Philip Trotter/Karen Sanderson
Actions for this meeting	**Comment on**: • the proposed response by the Secretariat to substantive comments received from TAG members; and • amendments made to the draft Exposure Draft documents.

CIPFA The Chartered Institute of Public Finance & Accountancy

humentum

INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Technical Advisory Group

Exposure Draft 3 feedback and amendments

1. Introduction

1.1 This paper provides an overview of:

- the substantive comments received from TAG members to the draft of the Authoritative Guidance, Implementation Guidance, Basis for Conclusion and Supplementary Statements Guide for Exposure Draft 3; and
- the proposed amendments to each Section to reflect these substantive comments.

2. Background

2.1 TAG members were provided with a draft of the Authoritative Guidance, Implementation Guidance, Basis for Conclusion and Supplementary Statements Guide for Exposure Draft 3 in early January 2024. Members were requested to provide any comments on the proposals to enable review of feedback and amendments to the proposals ahead of this meeting.

2.2 Members were not provided with the following as part of these documents:

- Invitation to comment (ITC) and proposed SMCs (Outline of ITC and SMCs provided at this meeting);
- The Basis for Conclusions for the transition to INPAG (discussion to take place at this meeting)
- Full illustrative financial statements (provided at this meeting)
- Implementation guidance for Fund Accounting (provided at this meeting)
- Additional content to be exposed by the IASB relating to the IFRS for SMEs Accounting Standard (expected March 2024)

2.3 Members provided a number of suggestions for editorial changes and more substantive comments on the draft documents. These have been reviewed by the Secretariat and amendments made in track changes to the draft of Exposure Draft 3, extracts of which are provided as part of this paper.

3. Substantive comments and proposed response and amendments for INPAG Sections

3.1 For each Section the substantive comments received from TAG members, and the proposed response by the Secretariat are noted. Amendments to the draft Exposure Draft documents can be found in the extracts provided for each Section.

General comments

3.2 One TAG member raised a question about the statement that all references to the IFRS for SMEs Accounting Standard are to the draft Third edition of the *IFRS for SMEs* Accounting Standard unless otherwise stated. This is because the IASB has made tentative decisions following feedback on the exposure draft. The Secretariat do not intend to reflect these decisions unless any further material is exposed for comment. The base standard will be updated when the Third edition of the *IFRS for SMEs* Accounting Standard is issued, currently planned for the end of calendar year 2024.

3.3 One member raised a question about the use of the term "missional" in describing the objectives of NPOs and consistency with the definition of NPOs in ED1. The current exposure draft and ED2 have both referenced the mission of NPOs in various sections. Both terms are useful in describing the purpose of an NPO and the Secretariat proposes to use both in INPAG. The text in ED1 will be updated to align with the use of 'missional' in other parts of INPAG.

Presentation of expenses and related disclosures

Section 24 Part II – Classification of expenses

3.4 Clarity was requested over whether expenses are required to be aggregated in the Statement of Income and Expenses or can be aggregated in the notes. Drafting has been amended to reflect that the analysis can be in either.

G24.45 The nature of expense method provides information about expenses arising from the inputs that are consumed to accomplish an NPO's activities. Under this method of classification, expenses are aggregated in the Statement of Income and Expenses or in the notes to the financial statements according to their nature (for example employment costs, travel and subsistence, supplies and materials, external services) without reference to how expenses are allocated to functions within the NPO.

3.5 The term fruitless payment was not a familiar term to some members. A fruitless payment is a payment for which a liability should not have been incurred, for example a failure to cancel travel and accommodation in time to obtain an available refund when that travel and accommodation is no longer required. As this term is not internationally used, the Section has been amended to provide the neutral definition described in this paragraph.

Section 24 Part III – Fundraising costs

3.6 A member noted that although determining the fees of a manager specifically managing an NPO's investment account may be feasible in some instances, it becomes very difficult to do so in certain circumstances such as when investment fees are embedded in mutual funds and other such investments. They proposed the inclusion of an SMC on this area with which the Secretariat agrees.

3.7 Another member requested clarity on the requirement that fundraising costs need to be presented on a gross basis. Drafting has been updated to reflect this.

G24.78 An NPO shall present fundraising costs in each category on a gross basis. Cost must not be netted off from the income they have assisted in generating. This follows the general INPAG requirement to account for transactions gross except where explicitly permitted. Where an NPO deems that users of the general purpose financial reports would find the information useful, it may present an analysis of revenue raised alongside the costs associated with specific activities provided that the costs are presented gross.

3.8 One TAG member suggested that the Basis for Conclusions discuss the approach to investment management fees and particularly its application to investment property. The Secretariat proposes that this issue be covered in the authoritative guidance and proposed the following change in drafting: :

G24.69Where an NPO holds an investment that it relies on to generate returns to be able to carry out its missional purposes, investment management is a category of fundraising costs. Fundraising costs in the investments category include but are not limited to those costs incurred in:

a) portfolio management
b) obtaining investment advice
c) administration of the investments
d) costs of licensing intellectual property; and
e) (for investment property held at fair value) rent collection, property repairs and maintenance charges.

Section 33 – Related parties

3.9 Two TAG members raised a question about the inclusion of the reference in G33.2 (b) viii to those members of a governing body who provide oversight to an NPO's activities. Both have queried the relevance of this text to the other point being made in the paragraph and potential conflicts with other paragraphs. The Secretariat agrees that this should be deleted from this paragraph, noting that this is also covered in G33.6.

3.10 Two TAG members queried the wording in G33.4(e) which allows donations provided by a governing body member to not be considered as a related party transaction where this does not include special obligations. The Secretariat continues to consider this to be an appropriate exemption as it would not capture grant arrangements that have specific delivery obligations. This has been made clear in the application guidance. Proposed wording is as follows:

G33.4 (e)donations from a governing body member, provided the donor has not attached special obligations on the NPO to amend its normal activities, e.g. use certain suppliers or sources of inputs;

AG33.2Paragraph G33.4 (e) permits donations from a governing body member to not be included as a related party transaction, provided there are no special obligations on the NPO to amend its normal activities. Grant arrangements that include any form of obligation on the NPO to undertake to delivery specified outputs, carry out specified activities or use resources in a specified way will create a special obligation. Paragraph G33.4 (e) will therefore not apply to such arrangements.

Section 37 – Supplementary Information

3.11 A TAG member noted that text regarding the optionality of preparing a whole of entity supplementary statement using the format in the INPAG Practice Guide 1– Supplementary Statements should go somewhere near the beginning of this Section. No amendment is proposed to the location of this paragraph, but additional text has been added in G37.12 to make clear that the optionality of producing the whole of entity statement applies where the requirements of the Section are being followed. This is to distinguish from the requirement to follow Section 37 on when Supplementary Statements using INPAG Practice Guide 1 – Supplementary Statements is used.

Question 1: Do TAG members have any comments on the proposed responses to the substantive comments raised with:

i. Section 24 Part II and Part III and the additional paragraphs and amendments to paragraph wording?
ii. Section 33 and the proposed new paragraph?
iii. the proposed amendment to Section 37?

Fair value and asset measurement

Section 12

3.12 A number of comments were received on the Application Guidance for this Section. These included:

(i) confusion over requirements that suggest the valuation of social use assets using the cost approach;

(ii) whether Section 17 includes discussion of the reliability of measurement of fair value;

(iii) uncertainty over highest and best use when restrictions are in place (this also extending to discussion of this issue in the Basis for Conclusions); and

(iv) why reference to the absence of an observable market has been eliminated.

3.13 As a result of these comments a number of amendments have been made to the Application Guidance.

3.14 Firstly the Secretariat has agreed to include an introductory paragraph in the application guidance for Section 12 as follows:

> *AG12.1Fair value determinations for NPOs are substantially similar to those of other entities. Some of the special considerations for NPOs are included in this Application Guidance.*

3.15 Secondly, the Secretariat has agreed that the wording around social use assets could be improved and the new proposed wording is as follows:

> *AG12.4Heritage assets shall be valued using the principles in Section 17 Property, plant and equipment. The fair value of all other social use assets shall be determined using the cost approach. This method calculates the value based on the current cost required to replace the service capacity of an asset.*

3.16 With respect to the question about the inclusion of guidance on the reliability of fair value measurement in Section 17, the Secretariat notes that while Section 17 does not provide specific guidance on the reliability of fair value measurement within its own text, it provides cross-references to Section 12. Given the comprehensive coverage of fair value measurement within Section 12, the Secretariat recommends that no further changes be made in Section 17 for this issue.

3.17 A TAG member raised concerns with the drafting in relation to highest and best use (HBU). The current drafting suggests that legal restrictions are not a factor, which is not correct. The Secretariat has amended paragraphs

AG12.5 and AG12.8 and provided an additional paragraph to provide further guidance on the determination of the fair value of assets with restricted use as follows:

> *AG12.5 Where a restriction is placed on how an asset can be used over time, the fair value of that asset shall be evaluated based on its current usage within those restrictions. This will be the highest and best use of that asset under those circumstances. An NPO shall not determine the highest and best use as if the restriction were lifted.*
>
> *AG12.6 The fair value of an asset that is subject to a restriction shall take account of the service potential of that asset in determining its value. This should take account of the capacity needed to support the delivery of services to beneficiaries rather than, for example, the location or technical specification of the asset that is subject to a restriction.*
>
> *AG12.8 Where an asset can be freely disposed of, it shall be measured at its highest and best use. <u>As the asset can be freely disposed, the measurement will not take account any form of restriction.</u>*

3.18 Finally, the Secretariat also agrees with the member who asked why the reference to the absence of an observable market was removed, as this is also relevant to NPOs. This has now been included in paragraph AG12.9, as follows:

> *AG12.9 <u>If an observable market price is not available and obtaining a reliable measurement of fair value under AG12.6 is impracticable</u>, the fair value of donated items shall be determined as their 'replacement cost'. Replacement cost is the lowest economical cost that would be incurred in achieving the service potential created <u>for use in delivering services to beneficiaries</u>. This provides the value of an equivalent item in local use, or 'value in use'. An NPO may use the cost to the donor as the deemed fair value where this is known and is relevant.*

Question 2: Do TAG members have any comments on the proposed responses to the substantive comments raised with Section 12?

Section 17 – Property, plant and equipment

3.19 A number of comments were received on this Section. These included:

(i) whether to include investment property held for service delivery in the scope of the section,

(ii) the need to add references to Section 23 when noting how items of PPE that have been donated shall be measured, and

(iii) a suggestion to remove reference to those having a controlling interest in the NPO when discussing disclosure of distribution of balance of revaluation surplus.

3.20 The definition of investment property includes assets held primarily for rental income, capital gain, or both, rather than for service delivery purposes. To address provide clarity, the Secretariat has incorporated a reference in paragraph G17.1 to properties primarily used for service delivery, such as social housing, even if they may also yield rental income. The amended paragraph is as follows:

G17.1 This Section applies to accounting for property, plant and equipment and accounting for investment property whose fair value cannot be measured reliably without undue cost or effort on an ongoing basis. Section 16 Investment property applies to investment property whose fair value can be measured reliably without undue cost or effort. <u>This Section includes property that might otherwise be considered investment property where the primary purpose of the asset is to deliver an NPO's missional objectives (eg social housing).</u>

3.21 In the context of donated assets, the Secretariat agrees that a cross reference will be useful. Therefore, paragraph G17.15 has been amended as follows:

G17.15An NPO shall measure the cost of an item of property, plant and equipment that has been donated at initial recognition at its fair value in line with the guidance in Section 12 Fair value measurement. <u>An NPO shall account for the associated revenue in accordance with Section 23.</u>

3.22 Finally the Secretariat agrees that the paragraph relating to disclosure on revaluation surplus should be modified to reflect the fact that NPOs may also have restrictions other than "shareholder" types. Amendment has been made so that references to shareholder are removed.

Question 3: Do TAG members have any comments on:

i. the amendment to incorporate a reference in paragraph G17.1 to properties primarily used for service delivery, such as social housing, even if they may also yield rental income and
ii. other amendments proposed?

Section 18 – Intangibles other than goodwill

3.23 Members provided a number of comments on this Section, several of which concerned paragraph G18.15, which relates to the recognition of a donated intangible asset where the cost is not known. One TAG member was concerned that the paragraph appears to make the distinction between fair value and service potential with the result that the guidance may be misleading. The second TAG member felt that the paragraph did not focus sufficiently on situations where the cost is not known. The third TAG member recommended a cross-reference to Section 12 for guidance on fair value measurement. To address these issues and clarify the measurement basis, the Secretariat has reworded paragraph G18.15, as follows:

G18.15If the cost of a donated intangible asset is not known, such as in the case of a copyright of a book donated to an NPO dedicated to promoting literacy and education, the cost shall be determined by estimating the asset's service potential on the date when the donation is received or receivable, in accordance with Section 12 Fair value measurement. An NPO shall account for the associated revenue in accordance Section 23 Part I.

3.24 One TAG member also suggested that the references to the amortisation method be changed to remove 'if it provides a reliable pattern of how economic benefit or service potential are consumed' and replace it with 'in the limited circumstances'. This change would simplify the text that has already been amended to reflect the inclusion of service potential, but moves away from the original text in the *IFRS for SMEs* Accounting Standard. As this would not be a necessary departure from the *IFRS for SMEs* Accounting Standard, no change is proposed.

Section 20 – Leases

3.25 A TAG member raised the question as to whether application guidance will be provided in relation to incremental borrowing rates, noting that this is an area with which non-profits have struggled. Such guidance would not be a consequential change arising from changes made to other sections or from new sections. Also, the inclusion of additional guidance on this topic might imply a more detailed review of this section, which has not taken place. As a consequence, the Secretariat do not propose to provide any additional guidance as leases is not a priority topic for inclusion in INPAG version 1.

3.26 Consideration of this topic could be added to the Basis for Conclusions with a new paragraph as follows:

The TAG considered whether to produce additional application guidance in relation to incremental borrowing rates. Such guidance would not be a consequential change arising from changes made to other sections or from new sections. The inclusion of additional guidance on this topic might imply a more detailed review of this section, which has not taken place. As a consequence, the Secretariat do not propose to provide any additional guidance as leases is not a priority topic for inclusion in this version of INPAG.

Question 4: Do TAG members agree with the approach to the questions raised on Section 18 and Section 20?

Section 27 – Impairments

3.27 Two key issues have been raised in relation to the proposed content of Section 27.

3.28 The first relates to the adaptation proposed for the impairment of inventories held for distribution. One TAG member questioned whether it was the intention that measurement using cost adjusted for any loss of service potential or replacement cost is an accounting policy choice or whether it is a "lower of" the two requirement. Another TAG member questioned whether current replacement cost should be used instead of a 'lower of' type of approach.

3.29 The Secretariat did not intend the drafting to be an accounting policy choice and sees the benefit in moving away from a 'lower of' approach as this will reduce the burden for NPOs in having to obtain two measurements for the same asset. The Secretariat considers that impairments should refer only to cost adjusted for any loss of service potential (adjusted cost), removing references to replacement cost. Additional text has been added in G27.2 to explain that where loss of service potential is not obvious, it can be estimated by reference to replacement cost. The revised wording (extract from G27.2) is as follows:

For inventories held for distribution at no or nominal consideration, the cost adjusted for any loss of service potential (adjusted cost) shall be used instead of its selling price less costs to complete and sell. An NPO may refer to the replacement cost of an item in determining whether there has been a loss of service potential.

3.30 Taking this approach partially addresses a concern raised as to whether the proposals in G27.2 apply to each individual item of inventory or to a group of inventory items. The intention is that inventory is measured on an asset by asset basis unless it is impractical to do so. The Secretariat is of the view that this is approach clear in the G27.3.

3.31 The second issue relates to the proposal that operating unit is used to replace cash generating unit. Three TAG members commented on this adaptation. Concerns related to whether the adaptation was necessary, whether cash generating unit is defined and whether more guidance on its meaning was needed and whether the inclusion of non-cash generating units as part of the operating unit would work as a non-cash generating unit might not have cash flows and instead have service potential.

3.32 The Secretariat originally proposed 'operating unit' to replace 'cash-generating unit' where this is needed as a way of grouping an NPOs assets. This proposal was made on the basis that 'cash-generating unit' might not resonate with NPOs and this could hinder their ability to appropriately group assets to carry out impairment assessments. In considering this proposal the TAG were concerned whether 'operating unit' would have other meanings and as a consequence the Secretariat proposed that it should be clear that an operating unit can be made up of cash-generating units and/or non-cash generating units.

3.33 Operating unit or operational unit are not defined terms in the *IFRS for SMEs* Accounting Standard. However, cash-generating unit is defined in the glossary as:

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.

3.34 As with other non-priority topics this section has not been reviewed in detail and the Secretariat is keen not to infer that such a review has taken place. However, the Secretariat is keen to make clear that the requirements of Section 27 can apply to groups of assets that do not generate cash-flows.

3.35 As operating unit is not a defined term in the *IFRS for SMEs* Accounting Standard, it could be added as a new term to the glossary. If this term is adopted the sentence in the core text (paragraph 27.8) that says that an operating unit can be either a cash generating unit or non-cash generating unit of an NPO would be removed. The proposed definition of an operating unit is as follows:

The smallest identifiable group of assets that are operated largely independent from other assets or groups of assets.

3.36 Paragraph 27.8 would then be drafted as follows:

*If it is not possible to estimate the recoverable amount of the individual asset, an NPO shall estimate the recoverable amount of the **operating unit** to which the asset belongs. This may be the case because measuring recoverable amount requires forecasting cash flows and sometimes individual assets do not generate cash flows by themselves. An asset's operating unit is the smallest identifiable group of assets that includes the asset and ~~generates cash inflows~~ that are operated largely independent ~~of the cash inflows~~ from other assets or groups of assets. ~~An operating unit can be either a cash generating unit or non-cash generating unit of an NPO.~~*

3.37 This would not address the concern about lack of guidance where groups of assets do not generate cashflows. Section 27 does make reference to value in use in assessing impairment, which is described in Section 2 (paragraph G2.103). This description of value in use includes service potential and the Secretariat propose to update the text in paragraph G27.15 so that it uses the same description of value in use as in Section 2. Pending a full review of Section 27, the Secretariat do not propose to include any further additional text. The Secretariat acknowledges, as with other Sections that reference service potential through the use of some form of current value, that this is an imperfect position.

3.38 As a consequence of these amendments it is proposed to amend BC27.4, which refers to the use of operating unit and add a new paragraph (BC27.5) to explain the approach to service potential:

BC27.4 TAG members agreed that since NPOs will potentially have non-cash generating units as part of their operations it was appropriate to amend this term. The TAG were concerned that replacing the term 'cash-generating' unit with 'operating unit' might have unintended consequences. This included potential misunderstanding about the organisational level to which impairment testing is applied. The Secretariat proposed to add addition text to clarify that the term 'operating unit' applies to either a cash-generating unit or non-cash generating unit of an NPO. Following further discussion with TAG members it was proposed to add 'operating unit' to the glossary, clarifying that it relates to the smallest grouping of an NPO's assets for operational purposes, with references to whether they were cash-generating or not removed.

BC27.5In recognition that many NPOs carry out non-cash generating activities the TAG considered whether specific references to service potential in measuring the value of an asset were required. The Secretariat proposed that the full description of value of use included in Section 2 be also included in paragraph G27.15 to make the link to service potential clear. It was acknowledged that given the scope of the topics included in this phase of INPAG that there would be limitations on the guidance available to assist in applying the concept of service potential.

Question 5: Do TAG members:

i. agree with the proposed change to a single measurement method for inventories held for distribution?
ii. have any views on the proposed amendment in relation to the grouping of assets to assess impairment? and
iii. agree with the expansion of the description of value in use so that it references service potential?

Equity and equity claims

Section 2 – Concepts and pervasive principles

3.39 The proposals for Section 2 have been updated to reflect further discussion on the concepts of equity, net assets and fund accounting.

3.40 Substantive comments received from members questioned whether it was necessary to now refer to components of net assets rather than components of equity or equity claims. Amendment has been made in the area of classification of components of equity claims and funds in net assets so as to refer to net assets rather than components of equity claims.

Classification of components of ~~equity claims and funds in~~ net assets

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

3.41 A member also questioned whether it was relevant to discuss amounts recognised as a liability rather than equity claims in the Application Guidance for Section. The Secretariat proposes that this is retained in order to highlight the distinction between equity claims and liabilities in the NPO context.

Section 22 – Liabilities and equity claims

3.42 Members provided comments on some of the changes made to terminology that could have the unintended consequence of altering the intention of the Guidance in Section 22. These included the use of 'due to' instead of 'attributable to' which suggested a liability may exist rather than an equity claim, the introduction of a financial interest in rather than a pro rata share of net assets, and the use of the term contributions rather than investments in some areas.

3.43 A number of small textual changes have been made to reflect these comments including:

> *G22.3 ~~Equity is the residual interest in the **assets** of an entity after deducting all its liabilities.~~ Equity claims are the financial interest in the net assets of an NPO that is attributable ~~due~~ to holders of equity claims arising from equity claims arrangements. For the purpose of this Section, a liability is a present obligation of the NPO arising from past events, the settlement of which is expected to result in an outflow from the NPO of resources embodying economic benefits. Equity claims include~~s~~ investments by the holders of equity claims of the NPO, plus or minus changes to those investments earned through ~~profitable~~ surpluses ~~and~~ retained that are due to the holders of equity claims, minus reductions ~~to owners' investments as a result of unprofitable operations and distributions to owners~~ to those investments as a result of deficits assigned to the holders of equity claims and distributions to the holders of equity claims.*

> *G22.5 (a) (i) it entitles the holder to a pro rata share of ~~to a financial interest in~~ the NPO's net assets in the event of the NPO's liquidation or ceasing to be an NPO as set out*

in the equity claims agreement. ~~The NPO's net assets are those assets that remain after deducting all other claims on its assets.~~

3.44 One TAG member raised a question about the need to update the language in paragraph G22.13. The Secretariat have reviewed the Section and propose to replace the word shareholder with equity claim holder. This will provide consistency in use of language across the section.

G22.13A capitalisation or bonus issue (sometimes referred to as a stock dividend) is the issue of new shares to equity claim ~~share~~holders in proportion to their existing holdings. For example, an NPO may give its equity claim ~~share~~holders one dividend or bonus share for every five shares held. A share split (sometimes referred to as a stock split) is the dividing of an NPO's existing shares into multiple shares. For example, in a share split, each equity claim ~~share~~holder may receive one additional share for each share held. In some cases, the previously outstanding shares are cancelled and replaced by new shares. Capitalisation and bonus issues and share splits do not change total equity claims. An NPO shall reclassify amounts within equity claims as required by applicable laws.

Question 6: Do TAG members have any comments on the proposed amendments to Section 2 and Section 22?

Other topics

Section 14 – Investments in associates

3.45 One TAG member raised a question about consistency of terminology. In Section 9 *Consolidated and separate financial statements* the term 'beneficial interest' was proposed when referring to an investment in another entity and in particular to subsidiaries. However, when referring to associates and joint ventures, Section 9 talks about an NPO 'investing in an associate' or 'having an interest in a joint arrangement'. Their question also related to the Section name and whether it should be 'Beneficial interest in associates'

3.46 The analysis of the questions in Exposure Draft 1 are not yet complete, but some respondents have not supported the changes in terminology that were made in Section 9. Pending the complete analysis of these responses, and the continued use of 'investing in associates' in Section 9, it is proposed to retain the Section name for the purposes of ED3. This has been added an explanation in the Basis for Conclusions and addressed in the SMCs.

BC14.2No major editorial changes are proposed for accounting for associates from the IFRS for SMEs Accounting Standard. <u>A TAG member queried whether Section 14 should be retitled to 'Beneficial interest in associates' as beneficial interest is used</u>

rather than investment in Section 9 Consolidated and separate financial statements. Noting that references are made to investing in associates in Section 9 and that some respondents to Exposure Draft 1 (ED1) did not agree with the change in terminology, pending the completion of the analysis of the ED1 and discussion by the TAG, it is proposed to retain the existing section name.

3.47 Having reviewed the section again there is inconsistency in referring to either an 'investment in an associate' or a 'beneficial interest in an associate'. All references have been returned to 'investment in an associate'. The term 'beneficial interest' is used only to refer to ownership interests.

Section 15 – Joint arrangements

3.48 A member asked whether the new paragraph 15.2A of the *IFRS for SMEs* Standard doesn't apply to NPOs. On review there was a discrepancy that has now been remedied.

3.49 The use of 'interest' instead of 'beneficial interest' in this Section was also questioned. Consistent with Section 9 and the comments on the response to the feedback on Section 14, the term 'interest' will be retained rather than 'beneficial interest'.

Question 7: Do TAG members:

i. agree that the title of Section 14 is retained as Investments in associates, that references are made to investment rather than beneficial interest and with the additional paragraph in the Basis for Conclusions?
ii. have any further comments on Section 15?

Section 19 – Business combinations and goodwill

3.50 Comments were received on the inclusion of the sentence "If two NPOs combine that both have positive net assets at the date they are combined, the requirements of G19.25 do not apply."

3.51 This was proposed at the TAG meeting at the end of September 2023, with no objections. The Secretariat considered that this was an appropriate simplification and incorporated it into the text with an explanation in the Basis for Conclusions. It is agreed that the rationale for making the change needs to be strengthened and additional text has been added so that the paragraph supporting this proposal now reads as follows:

The TAG questioned whether there should be a simplification in the requirements where two NPOs both with positive net assets combine and this would otherwise result in the application of the requirements for a bargain purchase. This is because the cost of applying such requirements would be disproportionate to the benefit from applying the *procedures for NPOs. The Secretariat agreed with this concern and has removed the requirements for the additional tests set out in G19.25.*

3.52 One TAG member raised the question as to whether references to 'acquirer' should be amended to 'acquiring NPO' in a number of sections. The term 'acquiring NPO' is used in other places in this Section. For consistency the Secretariat can see the benefits in using the term 'acquiring NPO' when it is clear that the text relates to how an NPO might use the guidance. The exception to this is in paragraphs AG19.11-AG19.15, which is more generic text aimed at identifying the acquirer. Amending this to acquiring NPO may infer that such combinations only happen between NPOs, which may not be the case.

3.53 A question was raised about whether references to equity instruments should be changed to equity holdings. Such a change is consistent to the framing of equity elsewhere in INPAG and as a consequence the change has been made.

3.54 Finally, another TAG member queried whether the reference to 'earnings target' in paragraph G19.37 should be amended to 'fundraising target' to have greater resonance with NPOs. The Secretariat agreed and has made the change.

Question 8: Do TAG members have any comments on the proposed responses to the substantive comments raised with Section 19?

Fund accounting presentation

Section 36 – Fund accounting

3.55 There have been a number of comments from TAG members on this Section, mostly relating to the interaction of the criteria and whether the proposed wording would deliver what was intended. Since the TAG last met there has also been the opportunity to share the current proposals with the PAG and the DRG.

3.56 Some PAG members raised a concern that it was not clear that all NPOs will have at least one fund. Additional text has been added to provide additional clarity. Irrespective of whether an NPO has one fund or more the section is expected to be helpful for an NPO to determine whether it has more than one fund.

3.57 Those PAG and DRG members that provided feedback did not (with one exception) fundamentally disagree with the concepts behind the criteria, but raised the question as to whether step 1 and step 2 could be combined. PAG members also had the sense that step 2 happens before step 1, which was previously raised during a TAG discussion. As a consequence of this feedback the Secretariat has reconsidered the approach. The Secretariat is proposing to remove the two step process. The rationale for the existence of a fund will be expanded, with the description of a fund with restrictions retained.

3.58 The PAG member that did not agree with the concepts raised a concern about whether an NPO could identify the assets and liabilities relating to a fund. Related to this a TAG member raised a question about whether the requirement for income, expense, asset and liability information could be subject to undue cost and effort and also whether the requirements for asset and liability information in the Authoritative Guidance created a rebuttable presumption.

3.59 Another TAG member queried whether concerns about whether the requirements of Section 36 go beyond the proposed requirements for the Statement of Financial Position, ie that assets and liabilities do not need to be split in the Statement of Financial Position had been addressed.

3.60 Together these points are all concerned with the records kept about an individual fund. To deliver on the concept of fund accounting all of the transactions related to an individual fund will need to tracked in the NPO's accounting system. This is needed to ensure that the fund balance is correctly recorded as part of an NPO's accumulated funds.

3.61 The Secretariat are of the view that a rebuttable presumption or making the entire requirement subject to undue cost or effort is not appropriate. This is because failure to identify a fund for these reasons may be contradictory to a fund needing to exist for legal reasons. The Secretariat recognises that obtaining payable, receivable and cash information about an individual fund could be challenging and proposes that the practical issues in adopting this proposal are covered through a specific matter for comment.

3.62 Some PAG members queried the proposal that surpluses on restricted funds could be moved to unrestricted, citing legal limitations. The drafting has been amended to make clear that this is only where legally permissible.

3.63 The same PAG members also queried whether it is appropriate to charge costs to restricted funds in deficit and whether there should be limitations to this. The current draft of Section 36 allows costs to be charged to restricted funds in deficit to provide transparency that the resources provided are not sufficient to cover the full costs of operating the fund. This is an important part of fund accounting, but the Secretariat acknowledges that where the deficit on a fund that is permanent a transfer from unrestricted will be required to make good the shortfall.

3.64 The Secretariat proposes to include additional wording to make clear that legitimate costs of the fund can be charged to it until such time as the activity or purpose for which the fund was created has been completed and that this will be subject to an annual impairment test. The transfer of the deficit to funds without restrictions to cover the shortfall will be disclosed if it is a material transfer between restricted and unrestricted funds (required by G36.20).

3.65 There is a possibility that NPOs do not close funds when they should and artificially inflate the amount of unrestricted funds. An alternative could be to require deficits to be cleared each year, but this would most likely obscure the cumulative position (although this could be addressed in the narrative report). To mitigate this risk an additional disclosure is proposed to require an explanation of balances on funds with restrictions where the purpose of the fund has ceased. This will also assist in explaining balances on those funds with restrictions that cannot legally be transferred. Additional authoritative guidance may also assist.

3.66 PAG members were strongly supportive of implementation guidance (for example, what is meant by reasonable expectations) and illustrative examples to support this section. Specifically PAG members requested illustrative examples to show how to deal with assets that are part funded by grants that have restrictions, first time adoption of fund accounting and to cover EGAs.

3.67 There is a balance between what might be in training materials to be developed for INPAG and what should form part of the illustrative examples. The Secretariat propose to include an example that shows the separation of funds, an asset that is part funded by a grant that restricts the use of an asset and shows the movement between funds with and without restrictions. Implementation guidance will also discuss further reasonable expectations. The proposals are included in Annex A.

3.68 The redrafted Section 36, with the updated Authoritative Guidance including the Decision Tree is in Annex A. The basis for conclusions has also been updated to reflect these additional considerations.

Question 9: Do TAG members:	
i.	have views on the redrafting of the criteria for a fund and the removal of the two step process?
ii.	agree with the proposed drafting changes regarding the ability to transfer between funds and to charge expenses to a fund in deficit?
iii.	agree that any practical difficulties in identifying payables, receivables and cash be established through an SMC? and
iv.	agree with the proposed implementation guidance and illustrative examples?

Section 5 – Statement of Income and Expenses

3.69 One substantive comment was received on the Application Guidance for Section 5 and whether the text should refer to presentation requirements for income and expenses rather than disclosure requirements. Amendment has been made by the Secretariat so that this now refers to presentation and related disclosure requirements.

AG5.4 *~~Paragraph G5.3 requires that the face of the Statement of Income and Expenses to shows the~~ **~~aggregation~~** ~~of income and expenses with restrictions 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, and to the requirements of other parts of this Guidance.~~ The use of separate columns to present items in the Statement of Income and Expenses for funds with restrictions and funds without restrictions is not required. An NPO may choose to use this presentation if this provides useful information to the users of the financial statements. The presentation and related disclosure requirements for income and expenses in funds with restrictions is set out in Section 36 Fund Accounting.*

Transition to INPAG

Section 38 – Transition to INPAG

3.70 Some members expressed confusion over text related to two year compliance, noting that this paragraph seemed to state that all NPOs can only claim compliance for two years rather than just referring to the exception in the preceding text. Similarly another member noted that it is not clear whether due for completion within 12 months of the transition date meant before or after the transition date.

3.71 Since the draft was shared with the TAG, the Secretariat has done some further thinking about this question.

3.72 The Secretariat is proposing to make clearer that an NPO can assert compliance with the INPAG financial statement requirements in the first two years following adoption, so that it doesn't immediately have to comply with the narrative reporting requirements. After two years, or earlier if possible, the NPO can only assert compliance with the full requirement of INPAG. In other words compliance with the financial statements only will no longer be available.

3.73 This approach is intended to encourage NPOs to adopt the narrative reporting requirements quickly and not allow it to drift. The length of the transition period will depend on the responses to exposure drafts. The alternative would be to allow compliance with the financial statement requirements or full compliance with INPAG to remain indefinitely. Given the feedback from stakeholders an indefinite position is not supported by the Secretariat. NPO's will be able to explain where they are on the journey to full compliance with INPAG.

3.74 In addition, a TAG member raised a question about whether there should be a differentiation between government loans (as currently drafted in G38.10 f)) and other loans, when an NPO has to account for these on first time adoption. The Secretariat agrees that there should be no differentiation and has amended the drafting to refer to loans at below-market interest rate, which the Secretariat believes to be the intention in the original drafting.

3.75 Given these proposed amendments and a number of other more minor amendments, the full draft of Section 38 in attached in Annex B.

Question 10: Do TAG members:

i. agree with the proposal that the compliance with INPAG can relate to the financial statements only in the first 2 years, and that if full compliance is not achieved in the transition period that compliance is effectively revoked?; and

ii. agree that references to government loans should be amended to loans below-market rate of interest?

4. Substantive comments and proposed response and amendments for INPAG – Supplementary Statement Guide

4.1 A number of comments were received from members on the draft INPAG – Supplementary Statement Guide although these were almost entirely of an editorial rather than substantive nature.

4.2 Other than editorial amendments, a substantive change has been made to clarify who would provide the attestation. It is proposed that this would be the same individual who has signed the general purpose financial statements.

SS.16 The opening and closing balances of the funds related to a specified activity. This must be cross-referenced and reconciled to the Movement in Funds note in the general purpose financial statements. An attestation must be provided by the individual who has signed the general purpose financial statements confirming that the information in the Supplementary Statement reconciles to the note.

4.3 The prescribed format has also been updated at the request of a member to indicate that the section on inventory and capital costs is optional.

Question 11: Do TAG members agree that the individual who has signed the general purpose financial statements should be the individual who provides an attestation confirming that the information in the Supplementary Statement reconciles to the note?

5. Next steps

5.1 Following the TAG meeting amendments will be made to finalise the draft that take account of the TAG feedback.

5.2 Should there be any issues that require further discussion, on an exceptions basis these issues will be dealt with either through bi-lateral discussion or by email.

5.3 The documents will be reviewed as part of the copy/edit process to address typos and format. This process will commence in March to allow publication around the end of May.

February 2024

Annex A

Section 36 – Fund Accounting

Scope of this Section

G36.1 Fund accounting is one of the key concepts in this Guidance. All NPOs will have at least one fund. This fund can be known by a variety of terms, such as the accumulated fund, general fund or general reserve, and unless other funds exist will contain all of the historic surpluses and deficits of an NPO.

G36.2 This section sets out the characteristics of a fund for the purposes of INPAG and how each fund must be presented in the general purpose financial statements.

Characteristics of a fund

G36.3 A pre-requisite for fund accounting is an understanding by an NPO of the different funds it holds. A fund may exist for a variety of reasons. Most commonly it will be:

a) an operating choice by an NPO about how it manages itself;
b) a requirement as a result of jurisdictional law relating to NPOs;
c) a legal or equivalent requirement arising from arrangements with grantors or donors; or
d) as a result of the publicly communicated actions by the NPO that have created reasonable expectations that resources will be used for a specific purpose.

G36.4 For the purposes of INPAG a separate fund will exist where the following criteria are met:

a) there is a legal or equivalent requirement to separately track resources and the use of those resources or there are reasonable expectations by an individual stakeholder or a group of stakeholders that resources used for a specific set of activities will be tracked; and
b) separate accounting records are kept for that specific set of activities comprising all its income, expenses, assets and liabilities.

G36.5 An NPO shall determine whether it has only one fund or multiple funds. An NPO that does not identify any additional funds after applying G36.4 will have one fund which will be a fund without restrictions.

G36.6 The income, expenses, assets and liabilities recorded against each fund must only relate to the activities undertaken to further the specific purposes of the fund. These can include direct costs, indirect costs and support costs as defined in Section 24 Part II.

G36.7 Where a fund exists in accordance with G36.4 it must be presented as either part of funds with restrictions or funds without restrictions. An assessment must be carried out at each reporting date to determine whether each individually identified fund shall be presented as part of funds with restrictions (see paragraphs G36.x-G36.xx) or part of funds without restrictions (see paragraphs G36.xx-G36.xx).

Funds with restrictions

G36.8 A fund shall be presented as a fund with restrictions when one of the following criteria are met:

a) use of the resources in a fund is limited to a specific purpose or activity as a consequence of externally imposed legal or equivalent arrangements. This includes the acceptance of privately communicated terms by the grantor or donor that limit the use of resources to a specific purpose or activity; or
b) an NPO has made an externally communicated public commitment at or before the launch of a fundraising campaign that resources obtained through the campaign will be used for a specific purpose creating a valid expectation on the use of resources.

G36.9 It is possible that an NPO has many individual funds that have restrictions. The number of funds will be determined by the operational requirements of each NPO. Figure AG36.1 sets out the key decision points.

G36.10 A reasonable allocation of support costs associated with managing the fund may be charged to the fund, where this is permitted under the terms of the arrangement that has resulted in the creation of a fund.

G36.11 A restricted fund must show all of the transactions related to its specific purpose. The legitimate expenses attributable to a restricted fund shall be charged to the fund even if there is an insufficient balance on that fund at the time to fund all the expenses. Such expenses shall only be charged to the fund if the specific purpose for which the fund was created is not yet complete. Negative balances shall be reviewed at the reporting date to determine if it is a temporary shortfall that will be addressed in a future reporting period or whether it is a permanent shortfall that needs to be addressed by the NPO transferring funds from funds without restrictions .

G36.12 When a fund that was previously presented as with restrictions is no longer required because the reason it was established no longer exists (eg purpose achieved), any balance on the fund whether positive or negative shall be transferred to funds without restrictions and the fund closed where this is legally permissible. Where not currently legally permissible the balance on the fund will be maintained until it can be closed.

Funds without restrictions

G36.13 Funds without restrictions are those funds that can be used at the discretion of the governing body of an NPO to further its missional purposes.

G36.14 An NPO's governing body can designate funds for specific internal purposes. This can include setting aside funds for a future project or commitment, such as investment in new equipment to deliver the NPO's missional objectives. These internally designated funds shall be presented as funds without restrictions as the NPO's governing body has the discretion to alter any such allocations.

G36.15 Funds without restriction shall include:

a) any fund that has been created by internal designation by an NPO's governance body;
b) all revaluation reserves except where the revaluation relates to an asset that is included in a fund with restrictions; and
c) any other fund that is not presented as a fund with restrictions.

Transfers between funds

G36.16 A transfer between funds with restrictions and funds without restrictions may be made for several reasons, including:

a) to make good the shortfall on a fund with restrictions;
b) to transfer a non-current asset purchased from a fund with restrictions that is now held for a general and not a restricted purpose;
c) where the balance on a fund with restrictions has been released by the grantor or donor and can be used for any purpose; or
d) where the balance on a fund with restrictions can be used for an alternative purpose without legal or regulatory consequence.

G36.17 The total transfers recorded between funds with restrictions and funds without restrictions in the reporting period must always net to nil.

G36.18 A transfer between funds may only be made where this is legally permissible.

Disclosures

G36.19 The notes to the financial statements must disclose:

a) information on individual fund balances, including the purpose of each fund;
b) details of the movements on funds in the reporting period, showing as a minimum total income, total expenses, total other charges and movements between funds disaggregated by each fund required in G36.19a), reconciling the opening and closing fund balance;
c) details of the reasons for any transfers between funds with restrictions and funds without restrictions;
d) an explanation of balances on any fund with restrictions where the purpose of the fund has ceased and the balance has not or cannot be transferred to funds without restrictions; and
e) details of the planned use of any designated funds (where disclosed), explaining the purpose of the designation.

G36.20 Small funds that are individually immaterial may be aggregated where they have a similar purpose. If it is not possible to aggregate small funds they shall be shown individually.

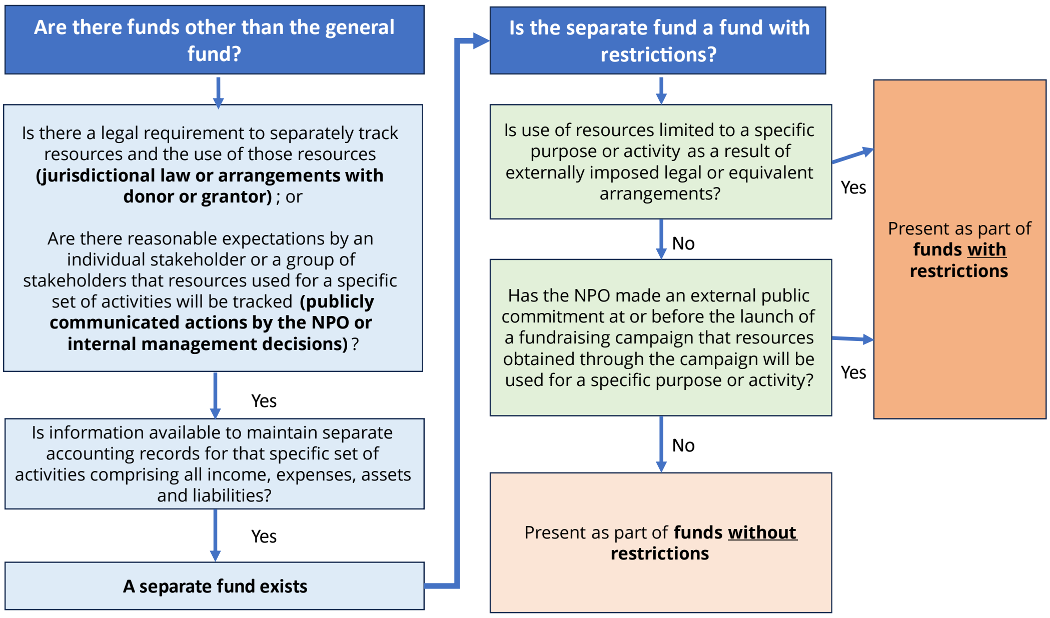
G36.21 In deciding on the most suitable form of presentation, consideration must be given to the volume and complexity of the funds held by the NPO.

Application guidance: Section 36 – Fund accounting

Scope of the section

AG36.1 An NPO needs to determine the funds that it has other than the general fund and whether or not any of the funds it has identified are a fund with restrictions. Fig AG36.1 describes these considerations.

Figure AG36.1: Decision tree illustrating the existence of a fund with restrictions



Characteristics of a fund

AG36.2 Although each fund is not a separate reporting entity, separate accounting records must be kept within an NPO's accounting system in order for it to be disclosed as a separate fund. An NPO must be able to present each fund separately, even if it takes advantage of the ability to aggregate small funds as set out in G36.20. An NPO will be able to demonstrate its tracking of the use of resources in a fund through regular management reporting.

AG36.3 Many grant arrangements may meet the criteria to be a fund. Where a grant does meet the criteria to be accounted for as a separate fund, it is expected that an NPO is able to identify non-current assets, work in-progress and other grant specific assets and liabilities associated with each grant. Payables, receivables and cash should also be tracked. At the end of the grant arrangement any remaining cash balance must be identified as it is possible it will need to be returned to the grantor or available for other purposes.

AG36.4 A fund may exist where stakeholders have a reasonable expectation about how specific resources will be used. An external stakeholder will have a reasonable expectation that the use of resources will be separately accounted for where there is legal or equivalent requirement or where such an expectation can be derived from a specific public commitment. An internal stakeholder (those with authority within the NPO such as the governing body) will have a reasonable expectation on the use of resources when it decides to designate funds for a specific purpose.

Funds with restrictions

AG36.5 INPAG Section 2 defines funds with restrictions as:

> *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 or equivalent arrangements placed on the NPO by a resource provider, or arising from an external public commitment in relation to a specific fundraising campaign.*

AG36.6 As a consequence a restriction arises where resources can only be lawfully used for a specific purpose or a grantor or donor requires that the resources it provides are applied to specific purposes, activities, assets or resources. These requirements limit in varying degrees the choices an NPO has about how to achieve its missional objectives. Enforceable grant arrangements (EGAs) that limit the use of resources and other funding arrangements (OFAs) may include limitations that reduce an NPO's operational choices.

AG36.7 Transactions with constraints that are not EGAs can result in a separate fund that is assessed as being a fund with restrictions. It is the substance of a transaction rather than legal form that will determine whether it is presented as with restrictions. The presentation requirement is independent of the accounting treatment which is dependent on the existence of a present obligation.

AG36.8 Where an NPO makes an external public commitment about the use of resources at or before fundraising commences, the campaign shall be shown as a fund with restrictions. This commitment creates a valid/reasonable expectation and places a specific moral and/or ethical obligation on the NPO to treat these resources as funds with restrictions. In some jurisdictions it may also result in a regulatory obligation. Where an external public commitment is not made at or before fundraising commences it is not likely to create a fund with restrictions.

AG36.9 The existence of an external public commitment to use resources generated through a fundraising campaign for a specific purpose shall not on its own create a contingent liability. For a contingent liability to exist, the criteria for the creation of a contingent liability as set out in Section 21 *Provisions and contingent liabilities* must be met.

AG36.10 The costs recorded against each fund can include direct, indirect and support costs associated with the activities undertaken. The allocation of costs may be subject to the eligibility requirements of the fund. The allocation of indirect costs and support costs must follow the principles set out in Section 24 Part II *Classification of expenses.*

AG36.11 A fund may exist with resources contributed from more than one source. This could include grants that have constraints and grants that have no constraints and from the NPO's own resources (funds without restrictions). Any fund that meets the criteria in G36.8 shall be treated as a fund with restrictions.

AG36.12 There may be circumstances where there is a difference between revenue and expenses recognised against is a fund. Where there is a realistic expectation that future income will be received to cover a shortfall the balance shall be carried forward.

AG36.13 If additional expenses beyond the original resources provided are required to complete the specific purpose for which the fund was established, these must be charged to the fund. At each reporting date the balance on the fund must be assessed to determine whether there is a permanent or temporary shortfall. Where future income is not likely to be received to cover the shortfall, the NPOs will need to make good the shortfall from its own resources and disclose the reasons for this shortfall in line with G36.19c).

AG36.14 A non-current asset may be funded through a fundraising campaign, or through a grant or donation. In determining whether the asset is part of a fund with or without restrictions, any terms attached to the acquisition of the asset must be considered. This includes whether the terms require an asset to be held on an on-going basis for a specific purpose, or whether the restrictions are met once the specified asset is acquired. Where the terms are met once the asset is acquired and it can subsequently be used for any purpose, the asset will be transferred from a fund with restrictions to a fund without restrictions.

Funds without restrictions

AG36.15 An NPO may receive a grant or donation where the grantor expresses a form of non-binding preference as to the use of the funds, which falls short of imposing a legal restriction. When this does not create a reasonable expectation on the use of the resources by the stakeholder, the funds shall be included as part of funds without restrictions.

AG36.16 A decision by an NPO's governing body to designate some of its unrestricted resources for a specific purpose shall not create a fund with restrictions. The designation of resources can be used to explain how the NPO's funds without restrictions are intended to be used. Clarity over the extent of funds without restrictions is important in understanding the resilience of an NPO to external factors.

Transfers between funds

AG36.17 In some jurisdictions, legislation or regulations may prevent the transfer of any surplus or deficit on a fund to with restrictions to funds without restrictions. Where this is the case any balance on the fund must not be transferred until the NPO can legally make such a transfer.

Disclosures relating to EGAs

AG36.18 An EGA that meets the criteria to be a fund is expected to be presented as part of funds with restrictions because of the obligations in the grant arrangement. Transactions associated with EGOs that are yet to be satisfied will be included within assets and liabilities.

AG36.19 Disclosure of the income and expenses relating to an EGA in the movement on funds note provides transparency over the enforceable grant obligations (EGOs) met in the reporting period. Information about material EGOs is required to be disclosed in accordance with Section 23 Part I *Revenue from grants and donations.*

AG36.20 The disclosure of funds with restrictions that are not EGAs will enable the explanation of timing differences between the recognition of revenue and expenses. NPOs are encouraged to use these disclosures to explain an NPOs surplus or deficit for the period.

Implementation Guidance - Section 36 – Fund accounting

Reasonable expectations

IG36.1 Determining whether a fund should be presented as with restrictions when there is no legal or equivalent arrangement will in most cases rest on management's view about whether stakeholders have a reasonable expectation that resources will be separately tracked and presented.

IG36.2 Factors to consider in assessing whether a stakeholder has a reasonable expectation in relation to a grant or donation made will include:

a) the extent of the commitments or intention by the NPO to act in a particular way and the way in which it is communicated;
b) whether external communication of commitments or intentions to act occur before or after resources have been provided or promised by a stakeholder;
c) the nature of any preferences expressed by a grantor and previous experience of working with specific grantors;
d) past practice by an NPO for similar transactions;
e) the level of discretion that the NPO has about the use of the resources.

IG36.3 For example, in certain circumstances a grantor may express a form of non-binding preference as to the use of the funds. As these are preferences rather than requirements, they are not likely to create a reasonable expectation on the use of the resources by the stakeholder. In this case the funds shall be included as part of funds without restrictions. The NPO's governing body may designate the funds internally to reflect the donors preferences. If, however, previous experience with this grantor is such that in substance the preferences are requirements, it may be appropriate to separately track the resources and show them as part of funds with restriction.

Internal designation of funds

IG36.4 An NPO's governing body may decide to designate its funds without restrictions for specific purposes. Such designation may be helpful when explaining how funds without restrictions are intended to be used. It can also be useful to explain the levels of funds without restrictions held, particularly if funds are being accumulated for a specific purpose. It can also be useful to explain the policy for holding funds without restrictions and the degree to which they act as a buffer against, or are sensitive to external factors.

Illustrative examples

Example 1 – grantor funds the purchase of a truck

NPO A enters into an other funding arrangement for a specific outreach programme. It is given a grant of CU10,000 to purchase a truck, which it does at the end of year 0. The grantor requires that the truck is used only on a programme which is due to last for 5 years. At the end of the programme the NPO can use the truck on other activity. The truck is depreciated on a straight line basis and has an expected life of 10 years. The grantor's right to require the asset to be used on a specific outreach programme mean that the truck is presented as with restrictions. This shows that the truck is not available for general usage.

The NPO has no other activity other than the outreach programme.

Accounting

	Asset	Depreciation	Revenue
On acquisition	10,000		(10,000)
Year 1	(1,000)	1,000	
Year 2	(1,000)	1,000	
Year 3	(1,000)	1,000	
Year 4	(1,000)	1,000	
Year 5	(1,000)	1,000	

Presentation

	Opening balance	Income	Expenses	Other charges	Transfers	Closing balance
Funds with restrictions – Truck						
Year 0		10,000				10,000
Year 1	10,000		(1,000)			9,000

Year 2	9,000		(1,000)			8,000
Year 3	8,000		(1,000)			7,000
Year 4	7,000		(1,000)			6,000
Year 5	6,000		(1,000)		(5,000)	0
Funds without restrictions – General fund						
Year 5	1,000,000				5,000	1,005,000

The asset is transferred from funds with restrictions to funds without restrictions at the end of the programme as permitted under the agreement.

Example 2 – grantor part funds the purchase of a truck

The scenario is the same as example 1 except that the grantor only provides half of value of the truck ie the grantor provides CU5,000 and the NPO makes up the balance.

The asset is shown as part of funds with restrictions even though it has been part funded by the NPO. This is because of the grantor's right for how the asset is used during the programme. Similarly, all of the depreciation is charged to the fund with restriction as the NPO is not freely able to use the truck and there may be no value in the truck at the end of the outreach programme.

The NPO's contribution will be shown clearly in year 1.

Accounting

	Asset	Depreciation	Revenue	Cash
On acquisition	10,000		(5,000)	(5,000)
Year 1	(1,000)	1,000		
Year 2	(1,000)	1,000		
Year 3	(1,000)	1,000		
Year 4	(1,000)	1,000		
Year 5	(1,000)	1,000		

Presentation

	Opening balance	Income	Expenses	Other charges	Transfers	Closing balance
Funds with restrictions – truck						
Year 0		5,000			5,000	5,000
Year 1	10,000		(1,000)			9,000
Year 2	9,000		(1,000)			8,000
Year 3	8,000		(1,000)			7,000
Year 4	7,000		(1,000)			6,000
Year 5	6,000		(1,000)		(5,000)	0
Funds without restrictions – General fund						
Year 0	1,000,000				(5,000)	995,000
Year 1	995,000					995,000

Year 2	995,000					995,000
Year 3	995,000					995,000
Year 4	995,000					995,000
Year 5	995,000				5,000	1,000,000

Example 3 – grantor fully funds a truck with a right of return (NPO controls the truck)

The scenario is the same as example 1 except that the grantor is able to decide whether the truck can be retained by the NPO for use on other programmes or if it must be disposed of, with the proceeds returned to the grantor. At the end of year 5 the grantor decides that the NPO can keep the truck.

The NPO determines that it controls the truck and treats the truck as its own asset. The NPO depreciates the truck over the life of the agreement, which is the period that the NPO is certain that it will control the truck, even if its working life might be expected to be longer. At the end of the agreement the truck is transferred to the NPO's general fund at its remaining book value.

Accounting

	Asset	Depreciation	Revenue
On acquisition	10,000		(10,000)
Year 1	(2,000)	2,000	
Year 2	(2,000)	2,000	
Year 3	(2,000)	2,000	
Year 4	(2,000)	2,000	
Year 5	(2,000)	2,000	

Presentation

	Opening balance	Income	Expenses	Other charges	Transfers	Closing balance
Funds with restrictions – Truck						
Year 0		10,000				10,000
Year 1	10,000		(2,000)			8,000
Year 2	8,000		(2,000)			6,000
Year 3	6,000		(2,000)			4,000
Year 4	4,000		(2,000)			2,000
Year 5	2,000		(2,000)		0*	0
Funds without restrictions – General fund						
Year 5					0*	0

During year 5 the NPO, once the grantor has confirmed that the NPO can retain the truck, is likely to consider the remaining life of the truck and any residual value. If it determines that the life of the truck is longer then there will be a lower depreciation charge in year 5. This will result in a balance on the asset, which would be transferred out of the fund for the truck into the general fund.

If the grantor had required the truck to be sold, any gain or loss would have been shown in other changes.

Example 4 – grantor fully funds a truck with a right of return (NPO does not control the truck)

The scenario is the same as example 3 except that the NPO determines that it does not control the truck. It therefore treats as a leased asset. The NPO records an expense and a revenue in each final year such that the full cost of the truck is expensed over the period of the programme. At the end of the agreement the truck is transferred to the NPO at the fair value of the truck at that date. The fair value of the truck at the end of the agreement is CU4,000. The truck will be treated as a donation at the date it is transferred.

Accounting

	Income	Expense	Cash	Deferred revenue	Asset	Income
On acquisition			10,000	(10,000)		
Year 1	(2,000)	2,000		2,000		
Year 2	(2,000)	2,000		2,000		
Year 3	(2,000)	2,000		2,000		
Year 4	(2,000)	2,000		2,000		
Year 5	(2,000)	2,000		2,000	4,000	(4,000)

Presentation

	Opening balance	Income	Expenses	Other charges	Transfers	Closing balance
Funds with restrictions – Truck						
Year 0						
Year 1		2,000	(2,000)			0
Year 2		2,000	(2,000)			0
Year 3		2,000	(2,000)			0
Year 4		2,000	(2,000)			0
Year 5		6,000	(2,000)		(4,000)	0
Funds without restrictions – General fund						
Year 5	1,000,000				4,000	1,004,000

There will be no fund balances for the truck if the NPO does not control the truck as it has no asset.

Example 5 – Operating grant for outreach programme

NPO A enters into an other funding arrangement for an outreach programme. The NPO receives an operating grant of CU100,000 in each year to fund the programme. Expenses are not even and have a profile of CU50,000, CU 80,000, CU125,000, CU135,000 and CU110,000.

Accounting

	Revenue	Expenses
On acquisition	(10,000)	
Year 1	(100,000)	50,000
Year 2	(100,000)	80,000
Year 3	(100,000)	125,000
Year 4	(100,000)	135,000
Year 5	(100,000)	110,000

Presentation

	Opening balance	Income	Expenses	Other charges	Transfers	Closing balance
Funds with restrictions – Outreach programme						
Year 0						
Year 1		100,000	(50,000)			50,000
Year 2	50,000	100,000	(80,000)			70,000
Year 3	70,000	100,000	(125,000)			45,000
Year 4	45,000	100,000	(135,000)			10,000
Year 5	10,000	100,000	(110,000)			0

Example 6 – Operating grant and truck for the outreach programme are presented together

The scenario is a combination of example 1 and example, where as part of the same other funding arrangement there is a truck and a grant, which the NPO decides to present a one fund with restrictions

Accounting for the truck and operational grant

	Asset	Depreciation	Revenue	Expenses
On acquisition	10,000		(10,000)	
Year 1	(2,000)	2,000	(100,000)	50,000
Year 2	(2,000)	2,000	(100,000)	80,000
Year 3	(2,000)	2,000	(100,000)	125,000
Year 4	(2,000)	2,000	(100,000)	135,000
Year 5	(2,000)	2,000	(100,000)	110,000

Presentation

	Opening balance	Income	Expenses	Other charges	Transfers	Closing balance
Funds with restrictions – outreach programme						
Year 0		10,000				10,000
Year 1	10,000	100,000	(51,000)			59,000
Year 2	59,000	100,000	(81,000)			78,000
Year 3	78,000	100,000	(126,000)			52,000
Year 4	52,000	100,000	(136,000)			16,000
Year 5	16,000	100,000	(111,000)		(5,000)	0
Funds without restrictions – general fund						
Year 0	1,000,000					995,000
Year 1	995,000					995,000

Year 2	995,000					995,000
Year 3	995,000					995,000
Year 4	995,000					995,000
Year 5	995,000				5,000	1,000,000

The NPO is able to choose whether to present both parts of the grant (operating and asset together) or to separate the assets into a separate fund. Separation of the truck from the operational activity may allow an NPO to explain what is happening in operational terms distinct from the related assets. Separating the assets may also allow the NPO to show how much of its property, plant and equipment or other assets are subject to restrictions.

Annex B: Extracts from Section 38 *Transition to INPAG*

G38.1 This section applies to a **first-time adopter of this Guidance**, regardless of whether its previous accounting framework was **IFRS** or **IPSAS** based **accounting standards** or another set of generally accepted accounting principles (GAAP) such as its national accounting standards or another framework such as the local income tax basis.

G38.2 An entity that has applied INPAG in a previous **reporting period**, but whose most recent previous annual **financial statements** did not contain an explicit and unreserved statement of compliance with INPAG, must either apply this section or apply INPAG retrospectively in accordance with Section 10 *Accounting policies, estimates and errors* as if the NPO had never stopped applying INPAG. When such an NPO does not elect to apply this section, it is still required to apply the disclosure requirements in paragraph G38.13 in addition to the disclosure requirements in Section 10.

G38.3 A first-time adopting NPO shall apply this Section in its first financial report that conforms to this Guidance.

G38.4 An NPO's first financial report that conforms to this Guidance is the first annual financial report in which the NPO makes an explicit and unreserved statement in that financial report of compliance with INPAG. A financial report prepared in accordance with this Guidance is an NPO's first such financial report if, for example, the NPO:

(a) did not present a financial report for previous periods;

(b) presented its most recent previous financial statements under national requirements that are not consistent with this Guidance in all respects; or

(c) presented its most recent previous financial statements in conformity with ~~full~~ **IFRS Accounting Standards**.

G38.5 As part of transitional arrangements, for the first two years following the adoption of INPAG an NPO may make an explicit and unreserved statement in its financial report of compliance with the INPAG requirements for the financial statements only rather than a statement of compliance with the full requirements of INPAG. Where an NPO makes an explicit and unreserved statement in its financial report of compliance with INPAG it must meet all of the requirements of paragraphs G38.7 to G38.19.

G38.6 After two years an NPO must make an explicit and unreserved statement compliance with all of the requirements of INPAG. If the full requirements are not met within the two year period, the NPO must explain that it has not met the full requirements of INPAG and is unable to make an explicit and unreserved statement of compliance. This shall be the case even if the financial statements comply with INPAG. In these circumstances the NPO shall follow the requirements of G38.2. It may also make the attestation permitted by G38.20.

G38.7 Paragraph G3.18 defines a complete set of financial statements and Section 35 describes the narrative reporting requirement.

G38.11 On first-time adoption of this Guidance, an NPO shall not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following transactions:

(a) **derecognition** of **financial assets** and **financial liabilities**. Financial assets and liabilities derecognised under an NPO's previous accounting framework before the date of transition shall not be recognised upon adoption of INPAG. Conversely, for financial assets and liabilities that would have been derecognised under INPAG in a transaction that took place before the date of transition, but that were not derecognised under an NPO's previous accounting framework, an NPO may choose (a) to derecognise them on adoption of INPAG or (b) to continue to recognise them until disposed of or settled.

(b) hedge accounting. An NPO shall not change its hedge accounting before the date of transition to INPAG for hedging relationships that no longer exist at the date of transition. For hedging relationships that exist at the date of transition, the NPO shall follow the hedge accounting requirements of Part II of Section 11 *Other financial instrument issues*, including the requirements for discontinuing hedge accounting for hedging relationships that do not meet the conditions of Part II of Section 11.

(c) accounting estimates.

(d) **discontinued operations**.

(e) measuring **non-controlling interests**. The requirements of paragraph G5.8 to allocate **surplus or deficit** ~~and~~ ~~**total comprehensive income**~~ between non-controlling interest and **equity claims** shall be applied prospectively from the date of transition to INPAG (or from such earlier date as this Guidance is applied to restate **business combinations**—see paragraph G38.12(a)).

(f) ~~government~~ loans at below-market rate of interest. A first-time adopting NPO shall apply the requirements in Section 11 *Financial instruments* ~~and Section 24~~ ~~*Government Grants*~~ prospectively to ~~government~~ loans existing at the date of transition to this Guidance. Consequently, if a first-time adopting NPO did not, under its previous GAAP, recognise and measure a ~~government~~ loan on a basis that is consistent with this Guidance, it shall use its previous GAAP **carrying amount** of the loan at the date of transition to this Guidance as the carrying amount of the loan at that date and shall not recognise the benefit of any ~~government~~ loan at a below-market rate of interest as a ~~**government**~~ **grant**.

(g) completed contracts with customers. An NPO shall not restate contracts that were completed before the date of transition to INPAG. A completed contract is a contract for which the NPO has transferred all of the goods or services identified in accordance with its previous GAAP.

(h) enforceable grant arrangements (EGAs) that are complete or are due to complete no more than 12 months after the transition date. An NPO shall not restate EGAs that were completed before the date of transition to INPAG or were due to be completed within 12 months of the transition date. A completed EGA is a grant arrangement where the NPO has completed all of the specified outcomes, activities or use of resource requirements.

G38.15 An NPO that has applied INPAG in a previous period, as described in paragraph G38.2, shall disclose:

(a) the reason it stopped applying INPAG or was unable to meet the full requirements of INPAG;
(b) the reason it is resuming the application of INPAG; and
(c) whether it has applied this section or has applied INPAG retrospectively in accordance with Section 10.

G38.19 An NPO must meet the minimum narrative reporting requirements set out in Section 35 *Narrative Reporting* to make an explicit and unreserved statement of compliance with INPAG narrative reporting. Information in respect of the previous comparable period for amounts and descriptive information that forms the narrative report shall be provided. An NPO may present comparative information in respect of more than one comparable prior period. If it is impracticable for an NPO to provide comparative information due to undue cost or effort, the omission shall be disclosed

G38.20 An NPO that is not able to express compliance with the full requirements of INPAG shall include an attestation that is it working towards compliance with INPAG. The attestation shall include the Sections of INPAG yet to be fully implemented.