

Submission by Ersu Tri Wahyuuni and Ken Paramitha Aryana
Comments to ED INPAG 2

Entity : Universitas Padjadjaran, Indonesia, INPAG Country Champion for Indonesia

Date of Submission : 15th of March 2024

Dear IFR4NPO Committees,

Attached is my submission to the ED INPAG 2. I appreciate the opportunity to provide comments on the ED INPAG 2. Hopefully the comments below will improve the ED.

The comments below do not represent the view of Universitas Padjadjaran. The comments express views of the writers only.

Regards,

Ersa Tri Wahyuuni, PhD
Ken Paramitha Aryana, SE, M.Ak

<p>Question 1: Financial Instruments</p> <p>a) Do you agree that there are no significant alignment changes required to Section 11, other than those that have already been made? If not, set out the alignment changes you believe are required</p> <p>Comments :</p> <p>We strongly believe that Expected Credit Loss required by INPAG (G11.32) would be too difficult for NPO in Indonesia. We suggest that the impairment method should follow IAS 39 the incurred credit loss model without consideration of the future economic outlook. NPO in Indonesia would not have capabilities to provide sophisticated ECL model and its cost may outweigh the benefit.</p> <p>Many NPO in Indonesia operates under Islamic/shari'ah law, for example is charity organization. They may have financial assets (debt instruments) which fall under category of amortised cost. The concept of time value of money in calculating ECL may not be suitable for Islamic principles. We suggest that there is a sentence in INPAG mentioning about financial instruments under shariah law, should follow local standard requirements or AAOIFI standards.</p>	<p>References</p> <p>Section 11</p>
<p>Question 2: Inventories</p> <p>a) Do you agree with the expansion of Section 13 <i>Inventories</i> to specifically include inventory held for use internally, for fundraising or distribution? If not, why not?</p> <p>b) Do you agree with the permitted exceptions that allow for certain donated inventories and work in-progress that comprises services to be provided for no or nominal consideration to not be recognised as inventory? If not, what would you propose instead?</p> <p>c) Do you agree that fair value should be used to value donated inventory? If not, what would you propose instead?</p> <p>d) Do you agree that inventories that are held for distribution at no or nominal consideration or for use by the NPO in meeting its objectives shall be measured at the lower of cost adjusted for any loss of service potential, and replacement cost? If not, what would you propose instead?</p> <p>e) Do you agree with the proposed disclosure requirements, particularly regarding the use of permitted exceptions and where donated inventories are not recognised because they cannot be reliably measured? If not, what would you propose instead?</p>	<p>References</p> <p>G13.1</p> <p>G13.2, G13.5(a)-(c)</p> <p>G13.7</p> <p>G13.8</p> <p>G13.26(e), G13.27</p>

<p>Comments :</p> <p>a. Yes we agree for the expansion of inventories, as they are relevant for NPO</p> <p>b. We agree with the permitted exceptions although more clarification may be needed for the wording. Can a NPO choose all exceptions or only can choose one?</p> <p>c. How if the fair value is very difficult to attain? Who should bear the cost to measure the fair value? For example, an art gallery may receive donation of an art piece (painting or sculpture) with a strong historical value and artistic value. Can the art gallery choose to value with the nominal of CU 1?</p> <p>d. Although we agree with the standard, however this may bring more risk to the NPO. This can be problematic if the donated goods have volatile price such as rice or cooking oil in many countries. Does this mean that NPO is exposed to the price volatility risk in their financial statements? The concept of “lower cost</p> <p>e. We agree with the disclosures. We also would like to add for the use of “fair value” in inventories, which hierarchy in Section 12 is used.</p>	
<p>Questions 3 : Provisions and Contingencies</p> <p>a) Do you agree that an illustrative example on warranties is removed from the Implementation Guidance, and a new example on onerous contracts is added? If not, why not?</p> <p>Comments :</p> <p>Yes we agree that example of warranties is removed. We have suggestions for example No.2</p> <p>Illustrative examples no 2 need additional sentences</p> <p><i>An NPO may be contractually required under an operating lease to make payments to lease an asset for which it no longer has any use. There is a present obligation as a result of past events – the NPO is contractually required to pay out resources for which it will not receive commensurate benefits thus provision should be established.</i></p>	<p>References</p> <p>Section 21, Illustrative Example 3</p>
<p>Question 4: Revenue</p> <p>a) Section 23 Part I and Section 24 Part 1 introduce new terminology relating to grant arrangements¹. Do you agree with the terms enforceable grant</p>	<p>References</p>

<p>arrangement and enforceable grant obligations and their definitions? If not, what alternative terms would you propose to achieve the same meaning? What are the practical or other considerations arising from these definitions, if any?</p>	<p>G23.23- G23.30,G24.3- G24.4</p>
<p>We have concerns of the translated word “arrangements” in Indonesian language maybe quite difficult to understand. We suggest the word “contract” should be used instead of arrangements because the translated word in is much cleared.</p>	<p>Section 23</p>
<p>b) Do you agree with the structure of Section 23, with Part I focused on grants and donations, Part II focused on contracts with customers and a preface that brings together the key principles and information about how to navigate the guidance? If not, what changes would you make and why?</p>	<p>G23.27,G23.41- G23.59</p>
<p>Yes we agree</p>	<p>G23.53- G23.56,G23.125- G23.138,AG23.52- AG23.59</p>
<p>c) Do you agree that revenue is only deferred where the grant recipient has a present obligation in relation to the revenue received? If not, in what other circumstances could revenue be deferred and what is the conceptual basis for this proposal?</p>	
<p>Yes we agree</p>	
<p>d) The revenue recognition model for enforceable grant arrangements requires that revenue is allocated where there is more than one enforceable grant obligation. Do you agree with the allocation methods identified? If not, what methods would you propose? What are the practical considerations?</p>	
<p>It can be difficult if the grant is services with more than one performance obligation. For exampe in a few cases, NPO may received a grant from the government in the term of consultancy service provided by the government partner of international consulting firm. For example, an NPO receives a grant of USD 1 million from the Government in a form of consultancy service to build a hospital. The consultancy service included financial analysis, technical analysis, and assistance in gaining investors. The consultancy service is 3 months and the three output is done in parallel. If the NPO closes its accounting book at the end of second month, how much revenue should the NPO recognised? As the NPO does not have to do anything significant except provide the consultant data and came to the meetings, can it recognised all the grant in the beginning?</p>	
<p>e) Do you agree with the permitted exceptions that allow the recognition of some gifts in-kind, either when sold, used or distributed, and that these permitted exceptions cannot be used where donations are received as part</p>	

of an enforceable grant arrangement? If not, what would you propose instead and what is the rationale?

- f) Do you agree that services in-kind are not required to be recognised unless they are mission critical? If not, on what basis should services in-kind be recognised and what is the rationale?

To determine one is mission critical and not would requires a professional judgement. This may create a wide interpretation in the practices. We would suggest that services in-kind, such as human resources like in the example AG2.35 should not be recognised.

- g) Do you agree that donations in-kind (both gifts in-kind and services in-kind) should be measured at fair value? If not, what would you propose instead?

This could be very challenging for services in-kind, especially if INPAG asks the NPO to follow the hierarchy of fair value in section 12.

- h) Do you agree that administrative tasks are generally not separate individually enforceable obligations, but a means to identify or report on resources in an enforceable grant arrangement? If not, provide examples of where administrative tasks are an enforceable obligation.

What is a definition of administrative tasks? There could be a wide interpretation for this. For example an NPO received grant from international donor to distribute scholarships. To select the candidate, they may need an extra administrative works such as CV sorting, interview arrangements, etc. They may not add more employee just to do this but give extra hours to the current employee to do the job.

- i) Do the proposals for disclosure of grant revenue provide an appropriate level of transparency? If not, what would you propose and what is the rationale for your proposal?

We believe that disclosure for multi-years grant should be required. NPO should disclose if the original plan of revenue recognition for multi-years grants is still in place. Information should be provided for the reader to understand the sustainability of multi-years grant.

- j) Part I is written for simpler grant arrangements and Part II includes a paragraph for simpler contracts with customers. For more complex grant arrangements, additional guidance is provided about how to apply Part II in the NPO context. Do these proposals successfully remove duplication, help understandability and the ability to implement? If not, what would you change and why?

<p>Yes, it is useful.</p> <p>k) Do you have any other comments on the proposals in Section 23, including whether the full content of the IFRS for SMEs section on revenue from contracts with customers in Part II is necessary for NPOs? If so, provide the rationale for the comment and cross reference to the relevant paragraphs.</p> <p>Yes the part II is necessary because many NPOs in Indonesia also has “business-like” operation.</p>	
<p>Question 5: Expenses on grants and donations</p> <p>a) Section 24 Part I and Section 23 Part 1 introduce new terminology relating to grant arrangements². Do you agree with the terms enforceable grant arrangement and enforceable grant obligations and their definitions? If not, what alternative terms would you propose to achieve the same meaning? What are the practical or other considerations arising from these definitions, if any?</p> <p>b) Do you agree that all expenses on grants and donations can be classified as an enforceable grant arrangement or as an other funding arrangement? If not, provide examples of which expenses on grants or donations would not fit in either of these classes, and why not?</p> <p>Some expenses can be distinguished clearly in accordance to which grants. Bu sometime this is not the case and it can be challenging. Some NPO has shared expenses when they perform either EGA and OFA. Do NPO then need to distinguish these shared expenses using a rational way? For an example the two staff in NPO may perform tasks which involved EGA and OFA simultaneously, how the NPO split their monthly salary?</p> <p>c) Enforceable grant arrangements are required to be enforceable through legal or equivalent means. Do you agree that regulatory oversight and customary practices can be sufficient to create an enforceable grant arrangement? If not, why not? What weight should be applied to these mechanisms?</p> <p>EGA requires a written agreement. It has to be a written contract which stipulates clearly the performance obligation.</p> <p>d) Do you agree that the full amount of the grant (including where it covers multiple years) should be recognised as an expense if the grant-provider has no realistic means to avoid the expense? If not, under what circumstances should a grant- provider not recognise the full expense and what is the rationale?</p>	<p>References</p> <p>G24.3-G24.4, G23.23-G23.30,</p> <p>G24.3-G24.6</p> <p>G24.3,AG24.9, AG24.13-AG24.1</p> <p>G24.17-G24.18, AG24.24-AG24.27</p> <p>AG24.30-AG24.35</p> <p>G24.32-G24.41</p> <p>G24.11</p>

<p>e) Do you agree that grants for capital purposes are expensed by the grantor using the same principles as other grants? If not, why not? What would you propose instead?</p> <p>f) Do the proposals for disclosure of grant expenses, which include a sensitive information exemption, provide an appropriate level of transparency? If not, what would you propose and what is the rationale for your proposal?</p> <p>g) Do you agree that a grant-providing NPO with an OFA can only recognise an asset at the point that a grant recipient has not complied with a constraint on the use of funds provided? If not, what would you propose instead?</p> <p>h) Do you have any other comments on the proposals in Section 24, including that administrative tasks in an enforceable grant arrangement are generally not an enforceable grant obligation but a means to identify or report on resources? If so, provide the rationale for any comments and cross reference to the relevant paragraph.</p> <p>Comments :</p> <p>The NPO may receive a grant to distribute a scholarship. The amount of grant should be depended on the number of recipients selected by the NPO who can satisfy several requirements. The NPO incurred expenses to select the candidate of recipient, long before the agreement of how much grant is signed. The NPO may want to defer these expenses to the future when they can recognise the grant. Is this practice permissible in INPAG?</p>	<p>Section 24 IG24.21</p>
<p>Question 6: Borrowing Costs</p> <p>a) Do you agree that there are no significant alignment changes required to Section 25, other than the terminology changes that have been made? If not, set out the alignment changes you believe are required.</p> <p>Comments :</p> <p>Yes we agree</p>	<p>References</p> <p>Section 25</p>
<p>Question 7: Share-based Payment</p> <p>a) Given the characteristics of NPOs, do you agree that guidance on share-based payments is not required? If not, provide examples of share-based payments and explain how they are used.</p> <p>Comments :</p> <p>Yes we agree</p>	<p>References</p> <p>Not applicable</p>

<p>Question 8: Employee Benefits</p> <p>a) Do you agree that profit sharing and share-based payments are removed from Section 28 <i>Employee benefits</i> to reflect that employees of NPOs are very unlikely to be incentivised by sharing in the surpluses made by an NPO? If not, provide examples of such arrangements used by NPOs.</p> <p>b) Do you agree that in-year changes to the value of post-employment benefits can be shown on either the Statement of Income and Expenses or Statement of Changes in Net Assets? If not, why not?</p> <p>Comments :</p> <p>A. We agree B. We agree</p>	<p>References</p> <p>G28.3, G28.27</p> <p>G28.21</p>
<p>Question 9: Income Tax</p> <p>a) Are there any elements of Section 29 Income taxes that are not required by NPOs? If so, explain which elements are not needed and why.</p> <p>Comments :</p> <p>We don't have any suggestions. Although we agree with Section 29, we would like to express our concerns that the concept of DTA and DTL is quite complicated and NPOs may need to have extra training to understand and apply the requirements. Most of NPO in Indonesia who are using the Indonesian SME GAAP do not have to calculate future tax, only current income tax.</p>	<p>References</p> <p>Section 29</p>
<p>Question 10: Foreign Currency Translation</p> <p>a) Do you agree that grants and donations should be considered when setting the functional currency? If not, why not?</p> <p>b) Do you agree with the principle that exchange gains and losses are shown as part of funds without restrictions unless they relate to a transaction that is to be shown as restricted? If not, why not?</p> <p>c) Do you agree with the proposal to require exchange gains and losses that contribute to a surplus or deficit on grant arrangements presented as funds with restrictions to be disclosed? If not, why not? What would you propose instead?</p> <p>d) Do you have any other comments on Section 30, including whether there are any NPO-specific recognition and measurement issues associated with foreign currency translation? If so, explain your comments and the NPO-specific recognition and measurement issues.</p> <p>Comments :</p>	<p>References</p> <p>G30.3 (c), G30.5 (b), G30.5 (d)</p> <p>G30.12, G30.20 (c)</p> <p>G30.30</p> <p>Section 30</p>

<ul style="list-style-type: none"> a. Yes we agree b. We agree c. We agree d. Have you considered If NPO has Property Plant and Equipment at the foreign country and choose revaluation model, where the exchange gains and losses should be reported? 	
<p>Question 11: Hyperinflation</p> <p>a) Do you agree that there are no significant alignment changes required to Section 31, other than the terminology changes that have already been made? If not, describe any further alignment changes required.</p> <p>Comments :</p> <p>Yes we agree</p>	<p>References</p> <p>Section 31</p>
<p>Question 12: Events after the end of the reporting period</p> <p>a) Do you agree that there are no significant changes required to Section 32, other than those that have already been made for alignment purposes? If not, describe any further alignment changes required.</p> <p>Comments : Yes we agree</p>	<p>References</p> <p>Section 32</p>