



April 2, 2024

**Ms. Samantha Musoke**  
Project Director, IFR4NPO

Dear Madam,

Namaste!

**Sub: Comments of the Institute of Chartered Accountants of India (ICAI) on the Exposure Draft International Non-Profit Accounting Guidance (INPAG)- Part 2**

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) acknowledges the opportunity to comment on the Exposure Draft *International Non-Profit Accounting Guidance (INPAG)- Part 2* issued by Chartered Institute of Public Finance and Accountancy (CIPFA) and Humentum.

We may mention that in order to formulate comments on the aforesaid Exposure draft, following activities were undertaken by the ASB of ICAI:

- Exposure Draft hosted on ICAI website inviting comments from Indian stakeholders.
- Constituted and conducted meetings of the Study Group to consider the proposals given in the Exposure Draft and formulated views.
- ASB considered the proposals of the Exposure Draft and comments formulated by the Study group

On the basis of above, it may be noted that in general, we agree with the proposals of the Exposure Draft. However, the specific concerns are included as responses/comments to the relevant questions asked in the Exposure Draft which are provided in **Annexure 'A'**.

Yours sincerely,

CA. Pramod Jain  
Chairman,  
Accounting Standards Board

## Annexure A

### Question 2: Inventories

- a) Do you agree with the expansion of Section 13 Inventories to specifically include inventory held for use internally, for fundraising or distribution? If not, why not?
- 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?
- c) Do you agree that fair value should be used to value donated inventory? If not, what would you propose instead?
- 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?
- 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?

**Response:** a) We agree with the expansion of Section 13 to specifically include inventory held for use internally, for fundraising or distribution.

b) While we 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 to be recognized as inventory, we have following comments:

- Guidance may be given with respect to low value items prescribed in paragraph G13.5(a) similar to the guidance provided in context of leases of low value assets under the Bases for Conclusions (Paragraphs BC100) of IFRS 16, *Leases*. BC100 states that “the IASB intended the exemption to apply to leases for which the underlying asset, when new, is of low value (such as leases of tablet and personal computers, small items of office furniture and telephones). At the time of reaching decisions about the exemption in 2015, the IASB had in mind leases of underlying assets with a value, when new, in the order of magnitude of US\$5,000 or less. The IASB also decided that the outcome of the assessment of whether an underlying asset is of low value should not be affected by the size, nature, or circumstances of the lessee—ie the exemption is based on the value, when new, of the asset being leased; it is not based on the size or nature of the entity that leases the asset”. Similar indicative guidance about low value items will be useful in context of Section 13.

- The permitted exception provided in paragraph G13.5(a) is with respect to low value items. If the intention in paragraph G13.5(b) is also concerning low value items, it would be better to use the term 'low-value items' in paragraph G13.5(b) instead of 'items (other than non-current assets or high-value items)' to avoid any interpretational issues due to use of different terminologies. Moreover, the reference of 'items (other than non-current assets or high-value items)' in paragraph G13.5(b) seems confusing because inventories are current assets and while reading of paragraph G13.5(b), it may be interpreted that inventories can be non-current assets also.

c) We agree that fair value should be used to value donated inventory.

d) We agree with the alternative measurement principle laid down in paragraph G13.8 for inventories held for distribution at no or nominal consideration or for use by the NPO in meeting its objectives, according to which, impairment of inventories held for distribution or use by the NPO in delivering its objectives are assessed by measuring the same at lower of cost adjusted for any loss of service potential or replacement cost. However, for better clarity, we suggest that the paragraph may be redrafted on the following lines:

“G13.8 Inventories 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:

- a) cost (or deemed cost for donated inventories in accordance with paragraph G13.7) adjusted for any loss of service potential; and
- b) replacement cost.”

Further, Section 27, *Impairment of Assets* requires inventories to be impaired when the carrying amount will not be fully recoverable. For this purpose, a comparison between the carrying amount and the selling price less costs to complete and sell is done when determining whether inventories are impaired. Section 13 (paragraph G13.8) has introduced a specific measurement principle for inventories held for distribution at no or nominal consideration or for use by the NPO to meet its objectives. Consequently, the impairment requirement in Section 13 has been amended to take into account such specific measurement principle. However, the definition of 'impairment (loss)' provided in the glossary of terms does not take into account adjustment of loss of service potential of inventories held for distribution at no or nominal consideration or for use. It is therefore suggested that the definition may be suitably amended in this regard.

e) We agree with the proposed disclosure requirements.

#### **Question 4: Revenue**

- a) Section 23 Part I and Section 24 Part 1 introduce new terminology relating to grant arrangements. 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?
- 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?

- 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?
- 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?
- 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 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?
- 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?
- 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.
- 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?
- 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?
- 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

**Response:**

(a), (b) and (c):

Section 23 specifies that the type of grant arrangement, i.e., Enforceable Grant Arrangement (EGA) or Other Funding Arrangement (OFA), which determine the recognition and measurement of revenue. Enforceable Grant Arrangement has been explained in paragraph G23.24 as a grant arrangement where **both the donor and the grant recipient have both rights and obligations**, enforceable through legal or equivalent means. An EGA includes at least one Enforceable Grant Obligation (EGO). OFA has been explained in paragraph G23.30 as an arrangement with a grant provider that is not enforceable through legal or equivalent means and does not give **both parties** both rights and obligations.

We are of the view that the proposed structure of Section 23 is not appropriate because of the following reasons:

i) There may be cases where the grant recipient has the obligation but no enforceable rights whereas the donor has both rights and obligations, enforceable through legal or equivalent means. For example, in India, Government grants are assistance by government in cash or kind to an enterprise for past or future compliance with certain conditions. Enterprise, in such a case, may not have explicit legally enforceable rights to receive the grant, whereas, the obligation for compliance with the conditions may still exist. Such grants will not fulfil the conditions of both EGA and OFA due to following:

- Enforceable Grant Arrangement has been explained in paragraph G23.24 as a grant arrangement where **both the donor and the grant recipient have both rights and obligations**, enforceable through legal or equivalent means. Such an arrangement is not an EGA because for an arrangement to be an EGA, both the parties should **have both rights and obligations**. In the above-cited example, one of the parties to the arrangement (i.e., the donee) does not have the enforceable rights.
- OFA has been explained in paragraph G23.30 as an arrangement with a grant provider that is not enforceable through legal or equivalent means and does not give **both parties both rights and obligations**. Such an arrangement is also not an OFA because for an arrangement to be an OFA, **neither of the parties should have both rights and obligations**. In the above-cited example, one of the parties to the arrangement (i.e., the donee) does not have the explicit enforceable rights but have enforceable obligation.

If the intention behind the definition of OFA is to exclude such arrangements, then accounting for such type of arrangements which are neither covered in the definition of OFA nor EGA may also be prescribed.

If the intention is to include such kind of grant arrangements also in the definition of OFA, then definition of OFA may be suitably amended to clarify the same.

ii) It is a very complex accounting approach. Therefore, a simpler guidance similar to IAS 20 applicable to all kinds of grant arrangements may be specified because of the following reasons:

- There seems to be a discrepancy between Paragraph G23.8 and the definition of an Enforceable Grant Arrangement (EGA) because paragraph G23.8 mentions the presence of enforceable grant obligations only as the principle for recognizing revenue, while the definition of an EGA includes both rights and obligations. This inconsistency, particularly the inclusion of the term "rights," adds unnecessary complexity and ambiguity to the framework. In this regard, it has been felt that guidance similar to IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*; would offer a straightforward approach where revenue

recognition depends on the donee meeting the obligations without specifically requiring determination of enforceability on the part of the government or donor. Simplifying grants into two categories, viz., grants without any obligations and grants having obligations, could streamline the process, making revenue recognition clearer for Non-Profit Organizations (NPOs).

- Section 23 prescribes revenue recognition model based on 5 step model for revenue from grants and donations with EGAs which could be complex for NPOs. The approach suggested above would be simpler.
- Different accounting principles have been prescribed for revenue from grants and donations from OFAs. This multiplicity of guidance could be confusing for NPOs.

(d) Refer comments on questions 4(a), 4(b) and 4(c) above.

(e) Refer our comments on question 2(b) regarding low value assets.

(f) We are of the view that services in-kind should not be recognised irrespective of the fact that they are mission critical because in most of the cases, the value of the services-in-kind received by the NPO cannot be measured reliably. However, disclosure of the description and quantitative information pertaining to services received in kind should be required to be disclosed as proposed under paragraph G23.63.

(g) We agree that donations in-kind should be measured at fair value.

(h) We agree that administrative tasks are generally not separate or individually enforceable obligations but a means to identify or report on resources in an EGA.

(i) We agree that the proposals for disclosure of grant revenue provide an appropriate level of transparency subject to comment on question 4(f) above.

(j) Refer comments on questions 4(a), 4(b) and 4(c) above.

(k) We do not have any other comments on the proposals in Section 23.

#### **Question 5: Expenses on grants and donations**

- a) Section 24 Part I and Section 23 Part 1 introduce new terminology relating to grant arrangements. 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?
- 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?
- 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?

- 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?
- 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?
- 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?
- 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?
- 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.

**Response:** (a) & (b) Refer comments on Question 4(a), 4(b) and 4(c)above.

(c) We agree that regulatory oversight and customary practices can be sufficient to create an enforceable grant arrangement.

(d) We 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.

(e) We agree that grants for capital purposes are expensed by the grantor using the same principles as other grants.

(f) We acknowledge the importance of including a sensitive information exemption. However, it is imperative to ensure that such an exemption is subject to the laws and regulations of the relevant jurisdictions (Example, Prevention of Money Laundering Act, 2002). This will ensure compliance with the jurisdictional laws of recipient, donor and the country where the expenditure is incurred.

(g) Refer comments on Question 4(a), 4(b) and 4(c)above.

(h) We do not have any other comments on the proposals in Section 24.

**Question 6: Borrowing costs**

- 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.

**Response:**

As per Section 25, an NPO shall recognise all borrowing costs as an expense in surplus or deficit in the period in which they are incurred. However, recognising immediately as an expense borrowing costs relating to qualifying assets does not give a faithful representation of the cost of the asset. This is because borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are part of the cost of that asset. Other borrowing costs should be expensed in the period in which incurred.