**International Non-profit Accounting Guidance (INPAG)**

**Exposure Draft 2**

**Response template**

Please use this form to record your responses to the Specific Matters for Comment relating to [INPAG Exposure Draft 2](http://www.ifr4npo.org/exposure-draft-2)

Comments are most helpful if they:

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

The text boxes will expand as required. There is no size limit. There are 12 question areas, according to the various sections in INPAG. You do not need to answer all questions and can choose to answer as many or as few as you wish.

You may comment on any aspect of Exposure Draft, not just the specific matters identified. General comments should be added at the end of this document.

Responses must be received by **15 March 2024 and must be in English**.

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

**Respondent information:**

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| **First name:** | Mark | **Organisation:** (who do you work for) | Self-employed |
| **Last name:** | Jerome | **Response:** Are you submitting your response   * on behalf of my organisation * as an individual | As an individual |
| **Email:** | [Markjerome1959@gmail.com](mailto:Markjerome1959@gmail.com) | **Country:** (this should be the country in which you are based) | Vietnam |
| **Position:** | Self-employed / conmsultant | **Professional interest:** please choose from:   * NPO, ie preparer of financial statements, * auditor, * accounting standard setter, * professional accounting organisation, * regulator of NPOs, * donor, * academic, * civil society, * user of NPO services, * other (please state) | Auditor / advisor |

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| Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided. | **Tick boxes**  **Agree**  ~~Disagree~~ |

This document has been designed purely to enable feedback to Exposure Draft 2.  Participation is undertaken on an entirely voluntary basis. The responses will be used to shape the development of INPAG and not for any other purpose.  We ask for your name and contact information to enable us to contact you if we should have any clarifications regarding your responses. Responses will be public, but personal contact information will not be disclosed.  Personal information will only be held for the purposes of developing INPAG.  You may withdraw your consent for us to hold any of your personal information at any time by contacting us at [ifr4npo@cipfa.org](mailto:IFR4NPO@cipfa.org)

**Specific Matters for Comment**

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| **Question 1: Financial instruments**  **INPAG Section 11** provides guidance on the treatment of financial assets and financial liabilities. It has two parts, Part I that addresses simpler financial instruments and Part II that addresses more complex financial instruments. There are no significant changes other than alignment with other sections. | | |
|  | **References** | **Response** |
| 1. 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. | Section 11 | **I agree. However, I have a number of comments on the details of Section 11, as follows:**   1. **In Section G11.8(a)(iii), I recommend replacing “is equal to” with “is equal to or has a fixed relationship with”. This should make it clear that rates such as SONIA+1/2% are covered.** 2. **In Section G11.26, I recommend replacing “includes observable data” with “includes, but is not limited to, observable data”.** 3. **In Section G11.27, I suggest replacing “debtor or creditor” with “debtor, creditor or NPO”. Given the variety of financing mechanisms for the non-profit sector, it is quite possible that the debtor and creditor may be operating in different environments from the NPO.** 4. **In Section G11.30, I suggest replacing “shall reverse” with shall wholly or partially reverse”.** 5. **In Section G11.73, is there any indication as to the limit of a change in fair values or cash flows before a hedge is no longer effective?** 6. **I note that references to share-based payments have been removed and agree they are not expected to be relevant to NPOs. However, it is possible that an NPO could have such payments and I therefore recommend we include a statement that, if share-based payments are made, the relevant provisions of the IFRS for SMEs Accounting Standard shall apply.** |

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| **Question 2: Inventories**  **INPAG Section 13** provides guidance on the recognition, measurement and disclosure of inventories. Major changes have been made to broaden the scope of this section to include NPO specific inventory and set out their measurement, where inventories held for use or distribution to be measured at the lower of cost adjusted for any loss of service potential and replacement cost. It has been modified to allow the use of permitted exceptions where certain donated items are not recognised in inventories. It has also been amended to allow NPOs to expense services to be provided to service recipients for no or nominal amounts as incurred rather than as work in progress within inventories. Disclosures have been updated to address the use of permitted exceptions and where donated inventories cannot be reliably measured. | | |
|  | **References** | **Response** |
| 1. 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? | G13.1 | **I agree.** |
| 1. 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/. | G13.2, G13.5 (a)-(c) | **I agree.** |
| 1. Do you agree that fair value should be used to value donated inventory? If not, what would you propose instead? | G13.7 | **I agree. However, I may want to reconsider this after reviewing Section 12 (Fair Value Measurement) in ED3.** |
| 1. 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? | G13.8 | **I agree. The concept and implications of loss of service potential are explored in detail by IPSAS 21 (Impairment of non-cash generating assets). Should this be referred to in the Application Guidance?** |
| 1. 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? | G13.26 (e), G13.27 | **I agree.** |

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| **Question 3: Provisions and contingencies**  **INPAG Section 21** provides guidance on the recognition, measurement and disclosure of provisions (being liabilities of uncertain timing or amount), contingent assets and contingent liabilities. All examples are located in the Implementation Guidance and have been updated to be more relevant to NPOs, including an example relating to onerous grant agreements. | | |
|  | **References** | **Response** |
| 1. 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? | Section 21, Illustrative example 3 | **I agree.** |

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| **Question 4: Revenue**  **INPAG Section 23** has been expanded to specifically cover revenue from grants and donations. It comprises two parts with a preface that contains content that is common to both.  Part I is new material that has been written specifically for NPOs that sets out the requirements for the recognition, measurement and disclosure of revenue from grants and donations. The timing of revenue recognition is dependent on the existence of an enforceable grant arrangement (EGA), which must have at least one enforceable grant obligation (EGO). It follows the concepts in the 5 step model for revenue recognition used in international standards. Part I also describes permitted exceptions for the recognition of gifts in-kind and services in-kind.  Part II reflects the *IFRS for SMEs* Accounting Standard material for contracts with customers provides It provides simplified guidance for less complex contracts. | | |
|  | **References** | **Response** |
| 1. Section 23 Part I and Section 24 Part 1 introduce new terminology relating to grant arrangements[[1]](#footnote-2). 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? | G23.23-G23.30, G24.3-G24.4 | **I agree with the terms and their definitions, except for the following:**   * **In Section G23.26, the “or” at the end of the second bullet should be “and/or”.** |
| 1. 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? | Section 23 | **I agree.** |
| 1. 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? | G23.27, G23.41-G23.59 | **I agree.**  **I have two comments/questions on Section G23.46:**   * **I assume that “and” at the end of G23.46(c) should be “and/or”; and** * **Can different EGOs be defined using different sub-paragraphs? For example, could one be defined by a specified outcome (G23.46(a)) and another by a distinct internal good (G23.46(d))?** |
| 1. 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? | G23.53-G23.56, G23.125-G23.138, AG23.52-AG23.59 | **I agree.** |
| 1. 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? | G23.36, G23.37 | **I agree.** |
| 1. 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? | G23.36, G23.38, G23.63, AG23.35-AG23.36 | **I agree.** |
| 1. 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 proposed instead? | G23.31-G23.32, G23.35-G23.38 | **I agree. But I may want to revisit this depending on the provisions on fair value measurement (ED3).** |
| 1. 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. | G23.49 | **I agree with this in general, but it should be clear that exceptions may be possible. For example, I have audited projects in Mongolia and Laos funded by the IFC, where the beneficiaries (state-owned companies) were required (among other things) to develop the internal systems and processes that would enable them to prepare financial statements in accordance with IFRS. Preparing such financial statements (and getting a clean audit opinion) was the KPI for this condition.** |
| 1. 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? | G23.61-G23.70 | **I agree, except that I would make the disclosure of gifts-in-kind and services-in-kind (G23.64) obligatory. In particular, I have come across projects where the services in-kind represent forced labour; transparent reporting of such services is essential.** |
| 1. 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? | G23.42-G23.59, G23.73, AG23.37-AG23.40, AG23.62 | **I agree that these proposals should remove duplication, and help understandability and the ability to implement. However, there will always be judgement in assessing how to treat some grant arrangements, and the guidance may need to be supplemented based on experience. In addition:**   * **I recommend that guidance for auditing such grant arrangements be developed, to help ensure consistent treatment; and** * **It may be possible for the donor and recipient to have different opinions on the treatment of a grant (i.e. one considers it an EGA, the other an OFA). Will this be acceptable? If not, how can it be prevented?**   + **If the donor and recipient are subject to different legal jurisdictions, this may be a difference of fact, not interpretation. (i.e. the grant arrangements may be enforceable under one jurisdiction, but not the other.)** |
| 1. 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. |  | **In G23.8, I assume that bullet (c) only applies to bullet (b). (I do not see how it can apply to bullet (a).) Is this correct? If so, could this be made explicit?** |

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| **Question 5: Expenses on grants and donations**  **INPAG Section 24** is new and covers accounting for expenses. Part 1of this Section covers Expenses on grants and donations. Guidance covers the recognition, measurement and disclosure of grants that an NPO makes to other entities or individuals. As with Section 23 Part I, it has a model for recognising expenses on grants and donations that depends on the existence of an EGA. | | |
|  | **References** | **Response** |
| 1. Section 24 Part I and Section 23 Part 1 introduce new terminology relating to grant arrangements[[2]](#footnote-3). Do you agree with the terms enforceable grant arrangement and enforceable grant obligations and theirdefinitions? 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? | G24.3-G24.4, G23.23-G23.30, | **I agree.** |
| 1. 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? | G24.3-G24.6 | **I agree. However, as noted in response to question 4j) above, it may be possible for the donor and recipient to have different opinions on the treatment of a grant (i.e. one considers it an EGA, the other an OFA). Will this be acceptable? If not, how can it be prevented?**  **If the donor and recipient are subject to different legal jurisdictions, this may be a difference of fact, not interpretation. (i.e. the grant arrangements may be enforceable under one jurisdiction, but not the other.)** |
| 1. 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? | G24.3, AG24.9, AG24.13-AG24.15 | **I agree, subject to my comments above.** |
| 1. 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? | G24.17-G24.18, AG24.24-AG24.27 | **I agree.** |
| 1. 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? | AG24.30-AG24.35 | **I agree.** |
| 1. 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? | G24.32-G24.41 | **I agree with the proposed approach.** |
| 1. 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? | G24.11 | **I agree.** |
| 1. 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. | Section 24  IG24.21 | * **I note that IG24.26 provides guidance for cases when a grant recipient is not satisfying its obligations in an EGA. However, this does not include cases where the grant provider has the option of stepping in and assuming direct responsibility for the required activities. Could the IG provide guidance on how to account for this?** * **There is a typo in the last Illustrative Example. In the 4th paragraph, “their” should be “there”.** |

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| **Question 6: Borrowing costs**  **INPAG Section 25** specifies the accounting for borrowing costs. There are no significant changes with modifications made to align with other sections. | | |
|  | **References** | **Response** |
| 1. 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. | Section 25 | **I agree.** |

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| **Question 7: Share-based payments**  **INPAG Section 26** specifies the accounting for share-based payments. As share-based payment transactions are considered highly unlikely for NPOs this section has been removed and a paragraph included to explain why it is not part of INPAG. | | |
|  | **References** | **Responses** |
| 1. 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. | Not applicable | **I agree it is highly unlikely that share-based payments will be relevant to NPOs. However, it is possible that an NPO could have such payments and I therefore recommend we include a statement that, if share-based payments are made, the relevant provisions of the IFRS for SMEs Accounting Standard shall apply.** |

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| **Question 8: Employee benefits**  **INPAG Section 28** covers all forms of consideration given by an employing NPO to its employees. Changes have been made to this Section to remove references to share-based payments and to profit-sharing arrangements as these are not expected to be part of NPO remunerations structures. Amendments describe how a controlling NPO providing benefits to employees of controlled entities in the group can apply its provisions. | | |
|  | **References** | **Responses** |
| 1. Do you agree that profit sharing and share-based payments are removed from Section 28 *Employee benefits* 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. | G28.3, G28.27 | **I agree it is highly unlikely that profit sharing and share-based payments will be relevant to NPOs. However, it is possible that an NPO could have such arrangements and I therefore recommend we include a statement that, if profit sharing or share-based payments are made, the relevant provisions of the IFRS for SMEs Accounting Standard shall apply.** |
| 1. 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? | G28.21 | **I agree.** |

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| **Question 9: Income tax**  **INPAG Section 29** addresses the accounting for income tax including current and deferred tax. Minor editorial amendments have been made to align with other Sections. Amendments include the removal of the exclusion relating to government grants as this is now replaced, and to allow the tax expenses to be shown in the Statement of Income and Expenses or Statement of Changes in Net Assets as appropriate. | | |
|  | **References** | **Responses** |
| 1. 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. | Section 29 | **Some elements may be less common than for commercial organisations; however, I agree that there are none which will not be required.** |

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| **Question 10: Foreign currency translation**  **INPAG Section 30** describes how to include foreign currency transactions and foreign operations in the financial statements. This Section has been amended to require that the exchange rate gains or losses on monetary items are presented consistently with the transaction to which they relate.  This Section also requires that deficits or surpluses arising as a consequence of changes in exchange rates for grant arrangements that are included as part of funds with restrictions are disclosed. This is to provide transparency of exchange rate exposures relating to grant arrangements. | | |
|  | References | **Response** |
| 1. Do you agree that grants and donations should be considered when setting the functional currency? If not, why not? | G30.3 ©, G30.5 (b), G30.5 (d) | **I agree.** |
| 1. 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? | G30.12, G30.20 © | **I agree.** |
| 1. 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? | G30.30 | **I agree.** |
| 1. 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. | Section 30 | **One very small point: there is a typo in the second sentence of BC30.6 (“This was to show that an NPO may have to fund a loss on from its unrestricted resources.”)** |

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| **Question 11: Hyperinflation**  **INPAG Section 31** describes the requirements where an NPO is operating in a hyperinflationary economy. Minor editorial changes, including those relating to the structure and names of the financial statements have been made. | | |
|  | **References** | **Responses** |
| 1. 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. | Section 31 | **I agree.** |

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| **Question 12: Events after the end of the reporting period**  **INPAG Section 32** sets out the principles for recognising, measuring and disclosing events that happen after the end of the reporting period. Minor amendments have been made to include grant providers as a source of bankruptcy, to remove some references including to profit sharing and dividends. Those with the power to amend the financial statements after they have been issued has also been widened given the nature of NPOs. | | |
|  | **References** | **Responses** |
| 1. 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. | Section 32 | **I agree.** |

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| **General Feedback** | |
| Please share any other comments that you wish to raise on Exposure Draft 2.  When providing additional feedback please reference the paragraph numbers, where possible and provide a short explanation to support your comments. | * **Section 13,**    + **There is a typo in G13.8: there needs to be a comma added after “service potential”.**   + **I am disappointed that we are not grasping the nettle of First Expired First Out valuation of inventory (BC13.21-23 and Illustrative Example 1 for Section 13).**     - **I note the arguments presented in BC13 22-23. However,**        * **As an auditor I have seen too many cases of inventory passing its expiry date because the warehouse management was following accounting rules (i.e. managing inventory on a FIFO basis). This indicates a problem with IFRS that we have an opportunity to address.**       * **Moreover, I disagree with the comment that the issue is “unlikely to be NPO specific” (BC13.22). The imbalance in power between donors and recipients is often very large, with recipients taking whatever they are given. Again, I have seen too many abuses of this, with donors giving food or medicines that are about to expire. The use of FEFO would not solve this problem but would help address it.**   + **Illustrative Example 1 does not seem realistic to me. In my experience, donated medicines have a range of shelf lives and recipient NPOs have to identify which (if any) are due to expire soon. I would also recommend that NPOs need to consider a provision against the consequences of using expired inventory by mistake; I am not sure whether this should be part of Section 13 or Section 21.** |

1. Both sections include the following question, which you can answer under either section, or cover the grantor and grantee perspectives separately. [↑](#footnote-ref-2)
2. Both sections include the following question, which you can answer under either section, or cover the grantor and grantee perspectives separately. [↑](#footnote-ref-3)