



**International
Non-Profit
Accounting
Guidance
Part 2**

**Exposure
Draft**

DRAFT

INPAG

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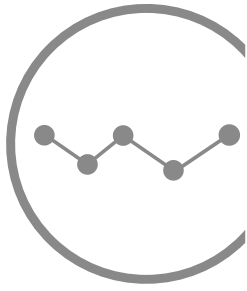
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**Invitation to
comment**

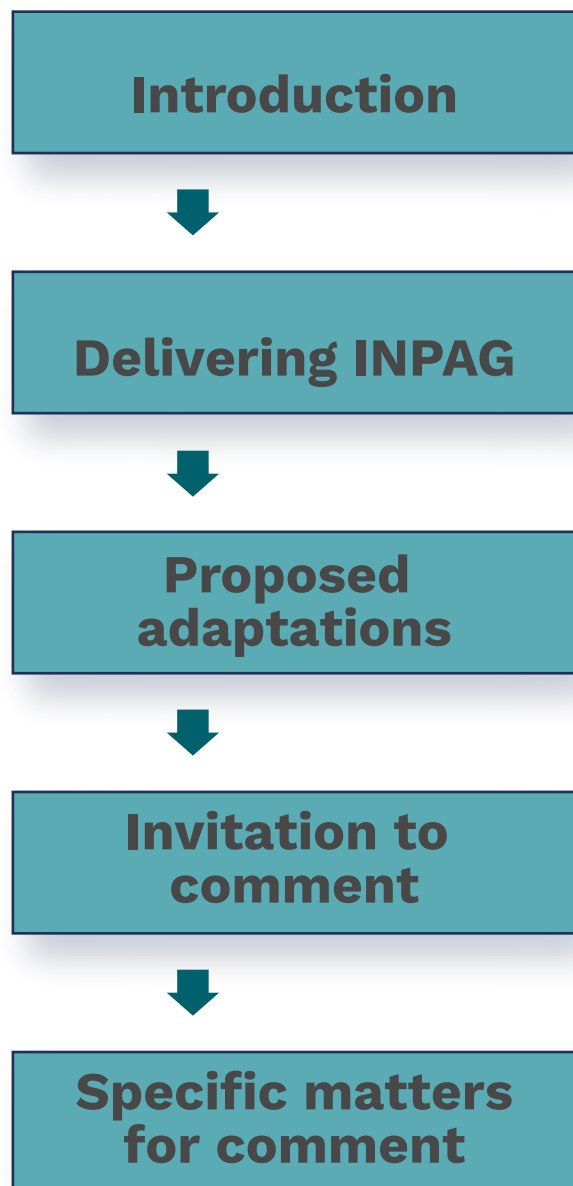
Comments to be received by 15 March 2024
Issued 26 September 2023

INPAG ED/2023/2

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Summary

Overview



Objective: Develop the first ever international financial reporting guidance for non-profit organisations (NPOs).

Proposals: The IFR4NPO project sought views, via a Consultation Paper issued in January 2021, on the proposal that the *IFRS for SMEs* Accounting Standard be used as the basis for a single set of authoritative guidance for NPOs.

Having taken account of the feedback from the consultation, adaptations to the *IFRS for SMEs* Accounting Standard are being proposed to create International Non-Profit Accounting Guidance (INPAG) as NPO specific financial reporting guidance.

The first Exposure Draft was focused on the overarching framework for NPO financial reporting and was issued in November 2022. The INPAG Secretariat is currently considering the feedback provided by respondents.

Next steps: The INPAG Secretariat will consider feedback on this Exposure Draft, together with the feedback on the first and the third Exposure Drafts in the development of the final proposals, that collectively will comprise INPAG.

Comment deadline: 15 March 2024

Documents to be reviewed

ED2 - Authoritative Guidance

ED2 - Basis for Conclusions

ED2 - Implementation Guidance

Introduction

In many countries, Non-Profit Organisations (NPOs) have no guidance or frameworks to support the preparation of financial statements. These are crucial for transparency, accountability and decision making. Funding organisations have filled this void by developing their own reporting requirements for NPOs. While all have their merits, the variety of different requirements can create a heavy burden on the very organisations they want to support.

Private and public sector entities and their stakeholders have benefited greatly from the development and use of international standards since the 1970s. In a 2014 **international survey**, which had more than 600 responses from 179 countries, the majority of respondents agreed or strongly agreed that an international accounting standard or guidance specifically for NPOs would be useful.

A **Consultation Paper** was issued in January 2021, setting out proposals to develop high quality, trusted, internationally recognised financial reporting guidance for NPOs (now called INPAG). It sought feedback on a number of proposals including priority topics. There was overwhelming support for the development of INPAG and the proposals set out in the document.

Objectives

The credibility of NPOs to stakeholders, and particularly those who contribute funds, is dependent on creating and maintaining trust. To strengthen the governance and financial management of NPOs, INPAG is being developed to meet the following three objectives:

Quality

To improve the quality, transparency and credibility of NPO financial reports.

Trust

To support the provision of NPO financial information that is useful for decision-making and accountability, balancing the needs of preparers and users.

Comparability

To address specific NPO issues, which will promote the comparability of NPO financial reports.

INPAG development

INPAG is accrual-based financial reporting guidance that is being developed to provide a comprehensive view of an NPO's financial position and activity. Accrual information is accepted as the basis of high-quality financial reporting standards. It can improve the quality and transparency of financial reports to enhance accountability and decision-making.

Non-financial information is an essential part of the general purpose financial reports being developed for INPAG. It allows the presentation of management commentary and other narrative reporting alongside the financial information contained in general purpose financial statements. Non-financial information provide users with information to allow a meaningful understanding of an NPO's nature, objectives, strategy, risks and performance.

To complete the development of NPO-specific, accrual-based financial reporting guidance by 2025, within the resources available, stakeholders were asked for their views on the priority topics to be addressed in the first version of INPAG.



To enable INPAG to be developed the following are required:

- a description of the entities to whom INPAG will apply;
- the concepts and principles that are to underpin the accounting proposals;
- a description of the financial statements; and
- identification of narrative reporting requirements.

The proposals for each of these were set out in **Exposure Draft 1** and are contained in Sections 1-10 and Section 35 of INPAG. Each of the Sections that comprise INPAG will be developed using the final guidance contained in these Sections.

Delivering INPAG

Approach

INPAG is divided into sections. In most cases, these sections have the same purpose as the equivalent section in the *IFRS for SMEs* Accounting Standard. However, sections may be renumbered in the final guidance if this is helpful to prospective users of INPAG.

To make it easier to understand the level of change to each section from the *IFRS for SMEs* Accounting Standard, a status indicator has been added.

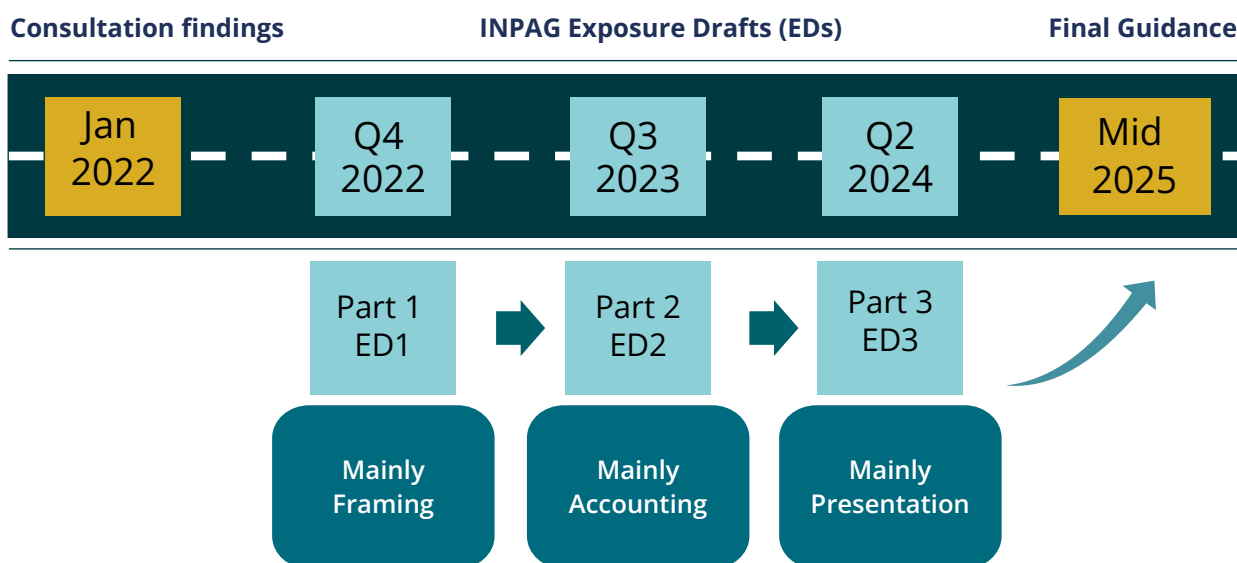
References to the *IFRS for SMEs* Accounting Standard are to the draft Third edition of the *IFRS for SMEs* Accounting Standard unless otherwise stated.

Status	Description
Modified	The Section has been fully reviewed and updated to reflect NPO requirements.
Updated	The Section has been reviewed and updated to align with Sections that have been modified.
Editorial	The Section has been updated for terminology changes but is otherwise unamended.
New	The Section does not exist in the <i>IFRS for SMEs</i> Accounting Standard and has been developed specifically for NPOs.
Removed	The Section is not required in INPAG as it does not include requirements relevant to NPOs.

This Exposure Draft (ED) is the second of three Exposure Drafts that will be published and taken together will comprise the full INPAG.

Publishing the draft guidance through three Exposure Drafts is intended to make it easier for stakeholders to comment on the proposals, to influence the development of subsequent Exposure Drafts, and to enable consequential amendments to be made based on respondent feedback and conceptual developments to earlier Exposure Drafts.

In the time available it has not been possible to incorporate the feedback from Exposure Draft 1 into Exposure Draft 2. Some of the original proposals in Exposure Draft 1 are likely to be refined in the third Exposure Draft. Changes made following stakeholder feedback will be clearly identified.



Exposure Draft 1 (ED1)

ED1 was focused on the overarching framework for NPO financial reporting. This included a description of NPOs and the reporting entity, the concepts and pervasive principles that underpin financial reporting, and the proposals for financial statement presentation and narrative reporting.

Exposure Draft 2 (ED2)

The focus of ED2 is on some of the key accounting transactions that are relevant for NPO financial reporting. It includes:

ED2 is built on the equivalent sections from the *IFRS for SMEs* Accounting Standard where these exist, but has required the development of some new sections for NPO specific transactions too. The contents are listed at the front of ED2. ED2 also includes a number of sections that have been updated for alignment or terminology purposes. However, it proposes that the section on share-based payment in the *IFRS for SMEs* Accounting Standard is not relevant to NPOs and therefore it is not proposed to be included in INPAG. The Preface, Sections 1–10 and a new Section 35 (narrative reporting) were published in **Exposure Draft 1** (ED1). The remaining sections will be published in Exposure Draft 3 (ED3).

Exposure Draft 3 (ED3)

ED3 will focus on fund accounting, the classification of expenses, fundraising costs, and the transition to INPAG. As with ED2 it will include a number of Sections that are updated for terminology or alignment changes but are not updated for other reasons. It will also reflect considerations relating to proposals for a supplementary statement to support donor reporting requirements.

Annex B shows the NPO specific content in each Exposure Draft and the expected level of change, together with those sections that are not expected to be changed other than for terminology changes.

Expenses on grants and donations

Recognition, measurement, disclosure

INPAG Section 24 Part I

Revenue

Recognition, measurement, disclosure

INPAG Section 23 Part I and Part II

Inventories

Exemptions, measurement, disclosure

INPAG Sections 13

Foreign currency translation

Presentation and disclosure

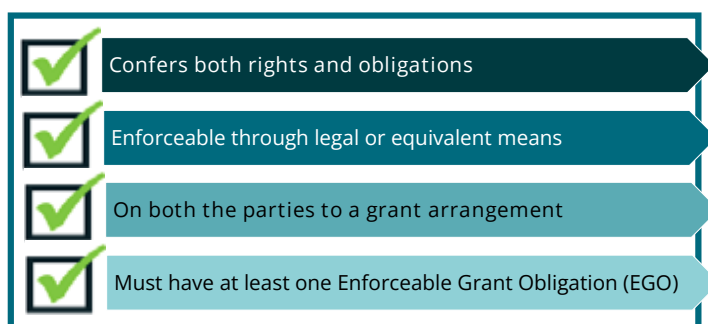
INPAG Section 30

Proposed Adaptations

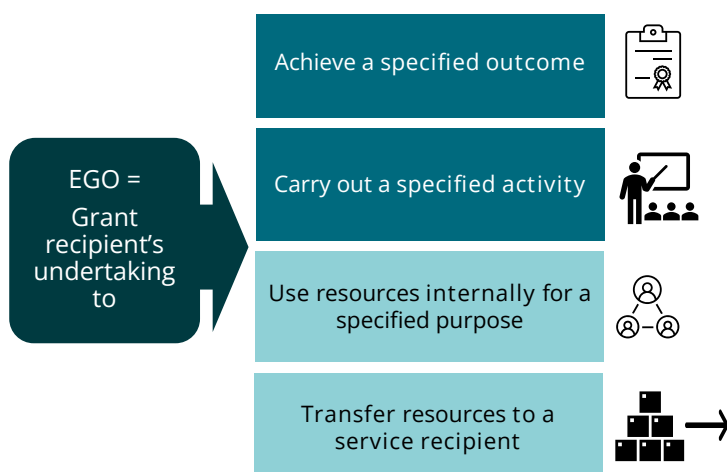
1. New terminology—grants and donations

The term grant is used to include grants, donations and other similar transactions. Grant arrangements that provide grant revenue for a recipient (Section 23 Part I) and/or create an expense for a grant-providing NPO (Section 24 Part I) are either an enforceable grant arrangement or an other funding arrangement. These terms have been adapted for the NPO context from the terms 'binding arrangement' and 'non-binding arrangement' that are used IPSAS 47 *Revenue* and IPSAS 48 *Transfer Expenses*.

An enforceable grant arrangement (EGA) is a grant arrangement that:



An EGO creates a present obligation for the grant recipient and a grant fulfilment right for the grant provider.



An other funding arrangement (OFA) can be any arrangement that results in a grant or donation being provided by a grant-providing NPO or received by an NPO that is not an EGA. A grant provider may constrain the use of the resources it has provided, but these constraints are usually not specific enough to create a present obligation for the grant recipient.

Proposal development—what else was considered?

Adapting Section 24 of the *IFRS for SMEs* Accounting Standard was considered, but while the principles were appropriate for INPAG and were consistent with IPSAS 47, there was insufficient detail to provide the required level of guidance. The *IFRS for SMEs* Accounting Standard contains no specific guidance on grant expenses.

References to legal enforceability were discussed given in practice legal rights might not be exercised. INPAG confirms that it is the ability to legally enforce a grant arrangement, and not the exercise of those rights that is important. Agreements may also be enforceable because of possible intervention by the regulator in some jurisdictions.

What should I comment on?

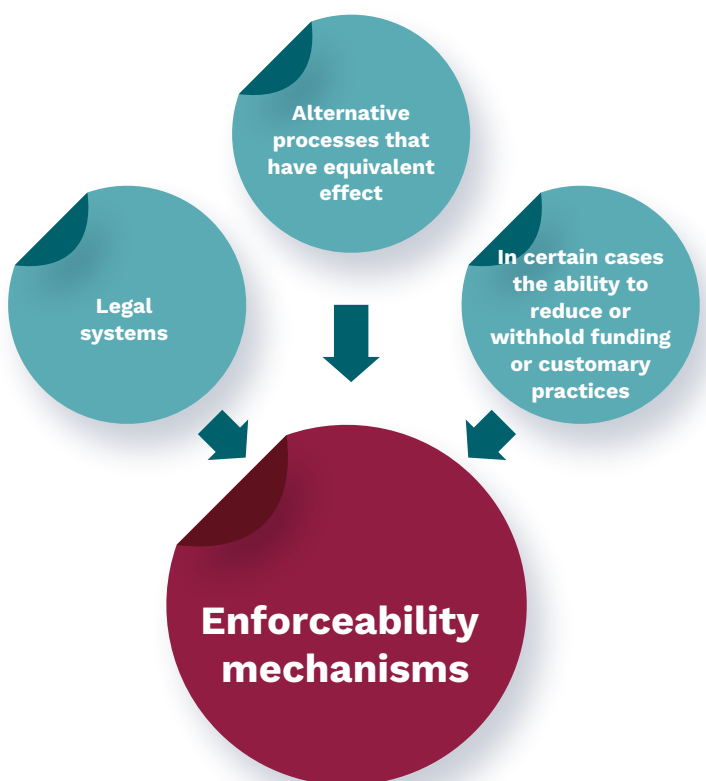
These terms and the implications may be unfamiliar given a variety of practices used by jurisdictions.

- Do you agree that all revenues from grants and donations and all expenses on grants and donations can be classified as an EGA or an OFA? **(Question 5b and Question 4k)**
- Do you agree with the definitions proposed for EGA and EGO and their requirements from a grantor/donor perspective? **(Questions 4a and 5a)**

2. Rights and obligations in enforceable grant arrangements

An EGA must have at least one grant fulfilment right held by the grant-providing NPO and one EGO required of the grant recipient.

Enforceability can arise from various mechanisms.



A grant fulfilment right is a distinct right that can be enforced separately from other rights in the EGA by the grant provider. A grant-providing NPO may aggregate related rights until this produces a distinct grant fulfilment right that can be enforced separately. This also applies to EGOs required of a grant recipient.

When there is only one grant fulfilment right and one EGO the entire grant payment amount will be allocated to that grant fulfilment right or EGO. Where an EGA involves multiple distinct grant fulfilment rights, and EGOs the grant amount will need to be allocated between each distinct grant fulfilment right and EGO to reflect each stand-alone amount. INPAG describes possible allocation methods.

Proposal development – what else was considered?

A key question was when the use resources would create an EGO. The consensus view was that requirements that relate to the purpose of an NPO, can constrain the use of transferred resources by the grant recipient. However, these constraints are not sufficiently specific to create a present obligation for the grant recipient and are therefore not an EGO.

What should I comment on?

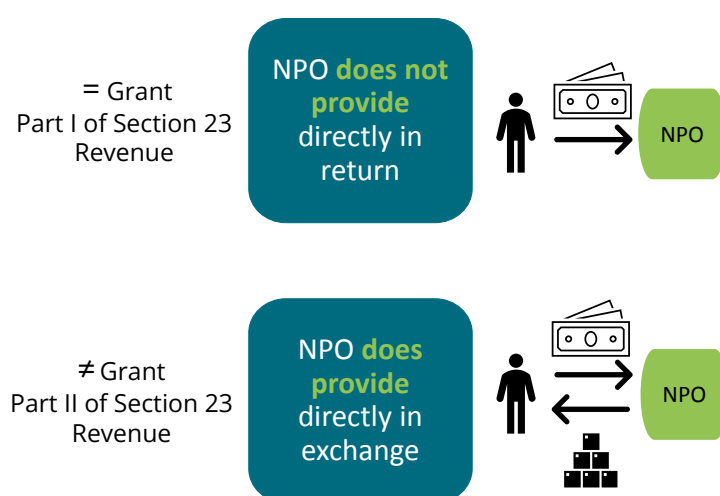
The enforceability of an arrangement by both parties, especially if not by legal means, is key to determining if an EGA exists, particularly given the power imbalance that can often exist between grant providers and grant recipients.

- Do you agree that regulatory oversight and customary practices can be sufficient to create an EGA? **(Question 5c)**
- Do you agree with the allocation methods identified? If not, what methods would you propose? What are the practical considerations? **(Question 4d)**

3. Revenue - Determining which guidance to apply

As the *IFRS for SMEs* Accounting Standard provides only limited guidance on grants and donations, Section 24 *Government grants* has been replaced with guidance based on IPSAS 47 *Revenue* to cover all revenue from grants and donations. This guidance is included in an expanded Section 23 *Revenue* which also includes revenue from contracts with customers.

A preface to Section 23 assists NPOs in determining whether a transaction should be accounted as revenue from grants and donations (Part I) or revenue from contracts with customers (Part II).



Guidance in the preface assists NPOs to identify which part to apply, particularly where it may be necessary to apply both Parts of Section 23 to an individual transaction.

Proposal development – what else was considered?

Some advisory group members were of the view that covering all types of revenue in one section would be preferable. Others felt that separate sections with a distinction between 'self-generated' revenue and 'grants and donations' would align better with how the sector thinks and talks about revenue. In the light of these views, a third approach was adopted to include revenue in a single section with two Parts, with a preface to assist NPOs in determining which Part to apply.

What should I comment on?

It is important that NPOs are able to determine whether they should be applying the guidance for revenue from grants and donations or revenue from contracts with customers to reflect the economic substance of a revenue transaction.

- Do you agree with the structure of Section 23, with Part I for grants and donations, Part II for contracts with customers and a preface that provides key principles as well as information about how to navigate the guidance? **(Question 4b)**

4. Revenue recognition for grants and donations

The existence or otherwise of rights and obligations is used as the basis for recognising revenue from grants and donations.

Where there is an EGA, revenue will be recognised as an NPO meets each distinct EGO. The same 5 step approach used in *IFRS for SMEs* Accounting Standard and *IPSAS 47 Revenue* is being used to recognise revenue from EGAs. They all have the same conceptual basis, with revenue recognised when obligations/promises have been met.

EGOs met prior to the transfer of resources

Recognise revenue and an asset.

Asset is the NPO's entitlement to those resources before they are due.

EGOs met after the transfer of resources

Recognise a liability.

Liability is the NPO's present obligation to achieve EGOs after receiving resources.

Revenue from an OFA will usually be recognised at the same time as resources are received. This is consistent with *IPSAS 47* and also Section 24 of the *IFRS for SMEs* Accounting Standard on government grants. Revenue is likely to be recognised before the related expenses. If the grant recipient subsequently fails to satisfy any constraint in the OFA there will be an obligation, which will require the creation of a liability.

Proposal development – what else was considered?

International standards have a common approach to revenue recognition. Recognition of revenue needs to reflect the substance of the arrangement between the grant-provider and grant recipient. The difference between a requirement that is distinct and separable from other activities and that has to be met to create an entitlement to revenue and more general requirements was considered.

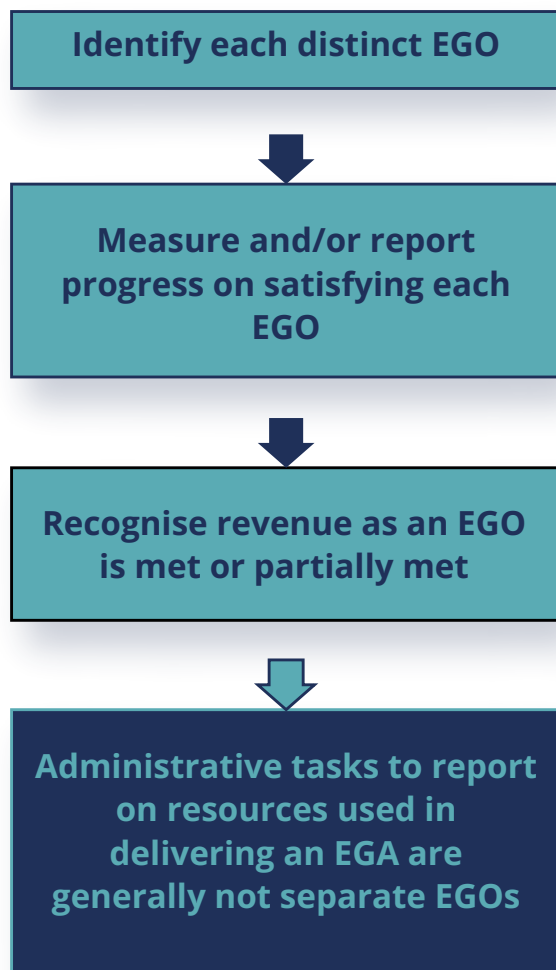
What should I comment on?

The EGA model is key to the recognition and measurement of revenue by grant recipients as well as any associated assets and liabilities. Recognition of revenue on receipt of resources where there is no EGA, rather than deferring it to match associated expenditure, may differ from the approach of some jurisdictions.

- Do you agree that revenue is only deferred if the grant recipient has a present obligation in relation to the revenue received? (**Question 4c**)

5. Revenue from grants and donations – application issues

The approach to revenue from EGAs will be new to many NPOs. To assist NPOs in applying the revenue recognition model, tailored guidance has been developed. This includes a simplified approach where there is a single EGO in an EGA.



Capital grants to construct or purchase a non-current asset can be more complex. However, there is likely to be detail about the capital project that can provide a basis for identifying the EGOs. This information can also assist in determining appropriate measures of progress. Where an EGA provides resources both for the purchase of an asset and its subsequent use, this will always create separate EGOs.

Multi-year arrangements, which can create challenges about when to recognise revenue, are also covered in the guidance. It states that where an OFA covers multiple years, revenue will be recognised when the resources are transferred to the grant recipient. So, if all the resources are transferred at the beginning of the agreement, the grant recipient will need to recognise them all on receipt. This will not be the case for an EGA, where revenue recognition is dependent on the satisfaction of an EGO.

Proposal development – what else was considered?

Once IPSAS 47 was determined to be the appropriate base for revenue from grants and donations, the focus was on adapting the principles in the standard to ensure it could be applied in the NPO context. The focus has been on ease of use and being consistent with the concepts in Section 2 *Concepts and pervasive principles*.

What should I comment on?

Identifying whether there is an EGA and the distinct and separate EGOs within that arrangement is important to the application of the revenue recognition model.

- Do you agree that administrative tasks are generally not separate individually enforceable obligations, but a means to identify or report on resources in an EGA? **(Question 4h)**

6. Gifts in-kind

The general recognition principles applicable to revenue from grants and donations also apply to gifts in-kind. Given there can be practical difficulties in recognising and measuring some gifts in-kind, INPAG proposes that NPOs can apply a limited number of permitted exceptions. These are:



Non-current assets and high value items – recognise revenue on receipt, measured at fair value



Exception

Items for own use or distribution – option to recognise revenue and expense only when used or distributed, measured at fair value



Exception

Low value items for resale – option to recognise revenue and asset when sold, measured at sale amount

These exceptions are provided as the costs of reliably measuring such items on receipt may exceed the value of the information to users of the financial statements, particularly if the donated items have a short life or the NPO is not able to use them. Where a gift in-kind cannot be measured reliably, it should not be recorded.

Proposal development – what else was considered?

There was broad acceptance that exceptions for low value high volume donated items is pragmatic given costs to maintain systems to record such items and the likely usefulness of information. Not recognising revenue at all for donated inventory for distribution to service recipients, was proposed. However, permitting a broader exception was not considered appropriate where the gift in-kind can be reliably measured and would undermine transparency over the activities of the NPO.

What should I comment on?

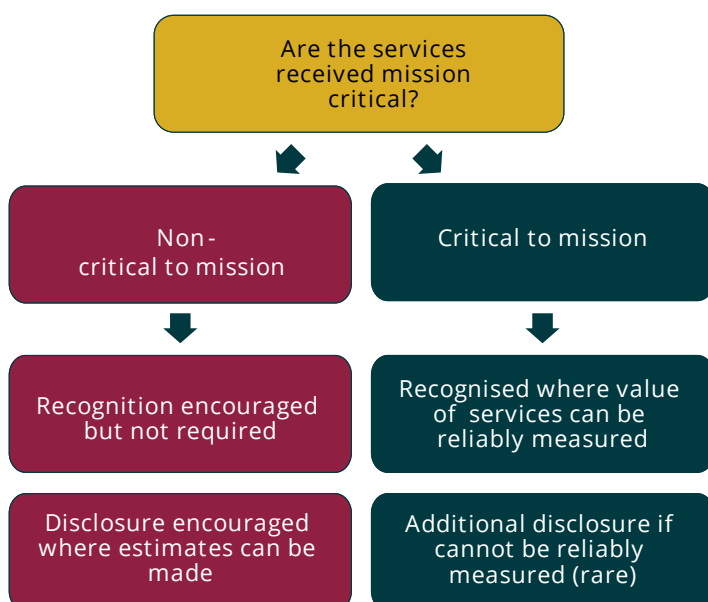
Recognising gifts in-kind where possible is important for transparency, although brings practical issues and costs for NPOs. INPAG aims to balance the needs of users of general purpose financial reports and preparers.

- Do you agree with the permitted exceptions that allow the recognition of some gifts in-kind either when sold, used or distributed and do you agree that these exceptions cannot be used where donations are received as part of an EGA? **(Question 4e)**
- Do you agree that donations in-kind (both gifts in-kind and services in-kind) should be measured at fair value? **(Question 4g)**

7. Services in-kind

As with gifts in-kind, the general recognition principles applicable to revenue from grants and donations should apply to services in-kind. However, there can be significant practical difficulties in identifying and/or measuring services in-kind.

It is therefore proposed that NPOs are not required to recognise revenue, expenses or assets for any services in-kind, except those that are critical to the NPO's mission. To be mission critical, an NPO would not be able to deliver its services, or it would have to materially reduce the level of its activities if it did not have access to the services in-kind being provided.



Proposal developed – what else was considered?

There were very mixed views about both the practicality of recognising services in-kind and the usefulness of the information. Some advisory group members noted the practical difficulties, while others were of the view that recognising and measuring services in-kind was important to understanding the operating model of an NPO. Consideration was given to extending the exception to not recognise revenue to all services in-kind. However, particularly where an NPO is dependent on services in-kind, it was considered important for these to be recognised for transparency.

What should I comment on?

Recognising services in-kind is important for transparency, particularly where the donation of services is critical to the operating model of an NPO. However, recognising services in-kind are likely to bring practical issues and costs for NPOs. INPAG aims to balance the needs of users of general purpose financial reports and preparers.

- Do you agree services in-kind are not required to be recognised unless they are mission critical? **(Question 4f)**
- Do you agree that donations in-kind (both gifts in-kind and services in-kind) should be measured at fair value? **(Question 4g)**

8. Grant expense recognition

Where an EGA exists, a grant expense is recognised by the grant-providing NPO when a grant fulfilment right is met. A grant fulfilment right is each right that the grant-provider has in the enforceable grant agreement. This right will be met when the grant recipient has satisfied an EGO. The grant expense will be measured at the amount assessed as due for each grant fulfilment rights that has been met. A grant-providing NPO will need to agree appropriate measures of progress with the grant recipient to assist in determining when each grant fulfilment right has been met.



EGOs met after the transfer of resources

De-recognise resources transferred and recognise a prepayment asset.

Asset is the grant provider's right in the EGA for the grant recipient to achieve EGOs.

EGOs met prior to the transfer of resources

Recognise grant expense and liability.

Liability is the NPO's grant payment obligation for those resources before they are due.

Grant-providing NPOs will need to consider whether there are requirements attached to its rights that enable it to realistically avoid the transfer of resources. If not, a grant expense measured at the amount related to the associated grant fulfilment right is recognised.

Where there is an OFA, the recognition and measurement will depend on the grant-providing NPO's obligation to transfer resources. A legal obligation to transfer resources will result in the recognition of a liability and a grant expense, whereas a constructive obligation will require the recognition of a provision and a grant expense. Where a grant-providing NPO does not have an obligation to transfer resources to the grant recipient, a grant expense will be recognised when the resources are transferred to the grant recipient.

Proposal development – what else was considered?

There is no existing guidance in the *IFRS for SMEs* Accounting Standard for expenditure on grants and donations. *IPSAS 48 Transfer Expenses* was agreed to be an appropriate base for recognition and measurement of grant expenses.

What should I comment on?

Existing practices on the recognition of grant expenses may differ, particularly where expense recognition is linked to an EGA, rather than the transfer of resources. These proposals may differ from the approach of some jurisdictions.

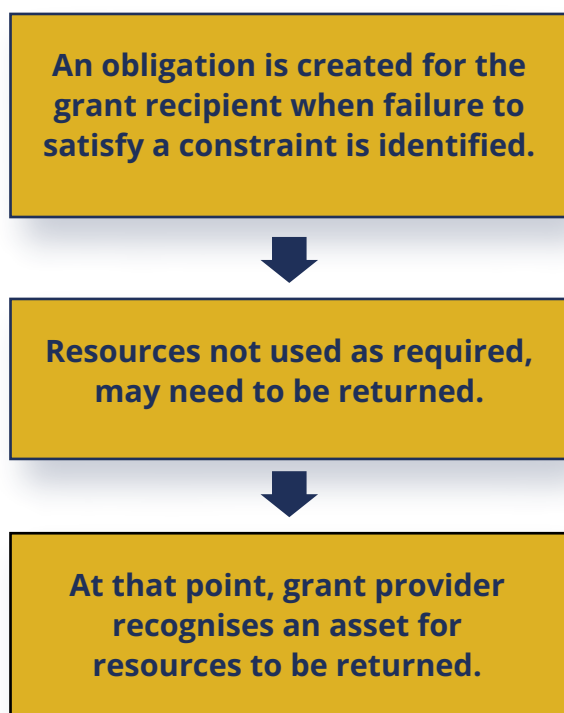
- Do you agree that all expenses on grants and donations can be classified as an EGA or as an OFA? **(Question 5b)**
- Do you agree that the full amount of the grant (including where it covers multiple years) should be recognised as an expense if the grant-provider has no realistic means to avoid the expense? **(Question 5d)**

9. Expenses on grants and donations—application issues

Grant arrangements can be diverse, ranging from almost contractual to informal verbal discussions and include promises that create a constructive obligation. All such arrangements will create a grant expense.

A grant provider may constrain the use of the resources it provides, but the existence of a constraint does not create a grant fulfilment right for the grant provider if it does not create a present obligation for the grant recipient. Only where there is a present obligation on the grant recipient, will the rights and obligations in the arrangement be relevant in determining if the grant provider has an EGA.

Where there is a constraint but no present obligation on the grant recipient, it is only if the grant recipient subsequently fails to satisfy the constraint that the grant recipient has an obligation:



Grants for capital purposes (where a grant-providing NPO provides resources to a grant recipient to construct or purchase a non-current asset) can create similar challenges for the grant provider as the grant recipient. However, the same principles for grant expense recognition apply. So, an expense is recognised as the grant recipient satisfies its EGOs or if there is no EGA, when resources are transferred/transferable. This is also the case where the grant provider makes a grant covering multiple years.

Proposal development – what else was considered?

The extent to which a constructive obligation could exist for NPOs was debated extensively. The consensus was that a constructive obligation to transfer resources that results in the recognition of a provision would require the recognition of a grant expense by the grant-providing NPO. It was noted that additional guidance was necessary around general statements of intent to provide resources and how this interacts with EGAs.

What should I comment on?

The difference between a constraint in an OFA and an EGO in an EGA has important consequences for the recognition of an asset by the grant-providing NPO when it provides resources to a grant recipient.

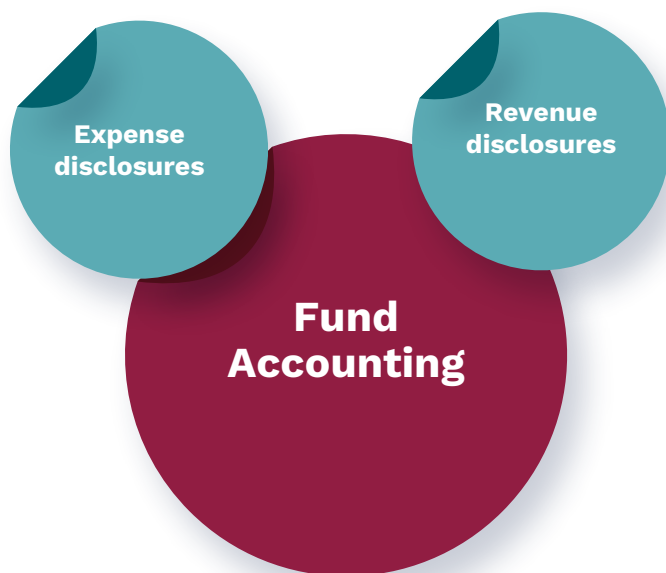
- Do you agree that a grant-providing NPO with an OFA will only recognise an asset where the failure to meet the constraint creates a present obligation for the grant recipient? (**Question 5g**)
- Do you agree that grants for capital purposes are expensed by the grantor using the same principles as other grants? (**Question 5e**)

10. Disclosures—grants and donations

Disclosures in Section 23 *Revenue* Part I have been based on the requirements in the *IFRS for SMEs* Accounting Standard. They focus on material grant arrangements, significant payment terms and the extent of an NPO's compliance obligations. Disclosures are also included for donations in-kind.

Disclosures in Section 24 Part I *Expenses on grants and donations* have been adapted from IPSAS 48. They aim to provide users of the general purpose financial reports with sufficient information to understand the nature, amount, timing and uncertainty arising from grant expenses.

NPOs are permitted to not disclose sensitive information about grant expenses. A disclosure is sensitive if it would compromise the safety or wellbeing of individuals working/volunteering for and with the grant-providing NPO, or those to whom it provides cash, goods, services and other assets and/or could prejudice the ability of the grant-providing NPO or grant recipient to deliver its mission or purpose.



Exposure Draft 3 will include proposals for fund accounting, which will set out how income and expenses are to be presented in the financial statements and notes to the accounts. These presentational requirements will consider how surpluses and deficits on grant arrangements impact the overall operating result.

Proposal development – what else was considered?

The disclosure requirements in IPSAS 47 are drawn from IFRS 15 *Contracts with customers*. They were considered to be too onerous for NPOs. As a consequence, the scaled back requirements in the *IFRS for SMEs* Accounting Standard have been used for Section 23 Part I instead.

The appropriateness of extending the sensitive information exemption already proposed in Exposure Draft 1 for Section 35 *Narrative Reporting* for grant expenses was considered. Advisory groups supported inclusion of the exemption but not to avoid disclosures that might identify failures in organisational governance, performance or financial management.

What should I comment on?

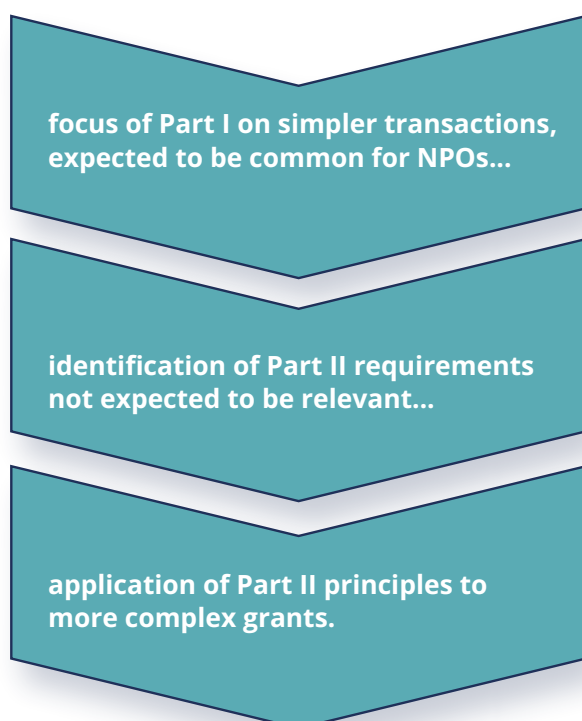
- Do the proposals for disclosure of grant revenue and of grant expenses (which for grant expenses includes a sensitive information exemption) provide an appropriate level of transparency? **(Questions 4i and 5f)**

11. Revenue from contracts with customers

Where an NPO transfers services, goods or other assets to another entity or individual in direct exchange for the consideration, Section 23 Part II *Revenue from contracts with customers* applies. No NPO-specific issues were identified in respect of this type of revenue, but the requirements in the Third edition of the *IFRS for SMEs Accounting Standard* are based on a standard (*IFRS 15 Revenue from contracts with customers*) that is more complex than some NPOs will previously have had to apply.

Authoritative guidance has been added to assist with simpler transactions, which are expected to be common for NPOs. This guidance identifies which of the requirements in Section 23 Part II are not relevant. This is intended to improve the ease of use, of what might otherwise, be seen as a relatively complex section. Amendments to change terminology for the NPO context have been made.

Whilst Part I focuses exclusively on revenue from grants and donations, it addresses only the most common transactions. Reliance is being placed on the guidance in Part II for more complex transactions. Additional guidance shows how the principles in Part II can be applied to revenue from grants and donations.



Proposal development – what else was considered?

The new IPSAS 47 and proposed amendments to the *IFRS for SMEs Accounting Standard* mean that the 5 step model for revenue recognition, with some adaptations, will be consistent across existing international accounting frameworks. As the underlying set of principles is consistent it was deemed appropriate that INPAG should use these principles. Consideration was given to including guidance for more complex grants in Part I, recognising that this would result in significant duplication impacting ease of use. Given that complex grants are expected to be less common it was decided to rely on Part II with additional application guidance.

What should I comment on?

NPOs need to be able to apply the principles of INPAG. Where the *IFRS for SMEs Accounting Standard* principles are appropriate for NPOs but are complex to apply, INPAG aims to improve ease of use.

- Does the inclusion of additional guidance for simpler contracts with customers and additional guidance about how to apply Part II in the NPO context for complex grants successfully remove duplication, help understandability and the ability to implement? (**Question 4j**)
- Is the full content of the *IFRS for SMEs* section on revenue from contracts with customers that is in Section 23 Part II needed for NPOs (**Question 4k**)

12. Inventories—recognition, measurement and impairment

The recognition and the initial and subsequent measurement of donated inventories and inventories specific to NPOs were identified by those responding to the Consultation Paper as important to NPOs.

Proposals in Section 23 *Revenue* permit NPOs not to recognise revenue for many donated items. The *IFRS for SMEs* Accounting Standard has been amended so that:

permitted exceptions to not recognise inventories in respect of certain donated items can be used.

work-in-progress on services being provided to service recipients for no or nominal amounts can be expensed.

inventories held for use or distribution are measured at the lower of cost adjusted for any loss of service potential and replacement cost.

The measurement proposals allow NPOs to reliably measure inventories that may be impaired even if a replacement cost is not available. INPAG is therefore based on the premise that donated inventories can be measured reliably, but recognises that there may be rare circumstances where this is not possible. INPAG requires a narrative description of inventories that cannot be reliably measured and disclosure about where a permitted exception has been used.

Proposal development – what else was considered?

The need for additional guidance on determining fair value was discussed. NPOs are permitted to use the cost to the donor where there are no observable inputs and this value is known. A section on fair value will be included in Exposure Draft 3.

The addition of a third cost formula, first expired first out (FEFO), was also considered for NPOs that receive donations of perishable items such as food or medical supplies. However, as valuing perishable items is not unique to NPOs this was not progressed.

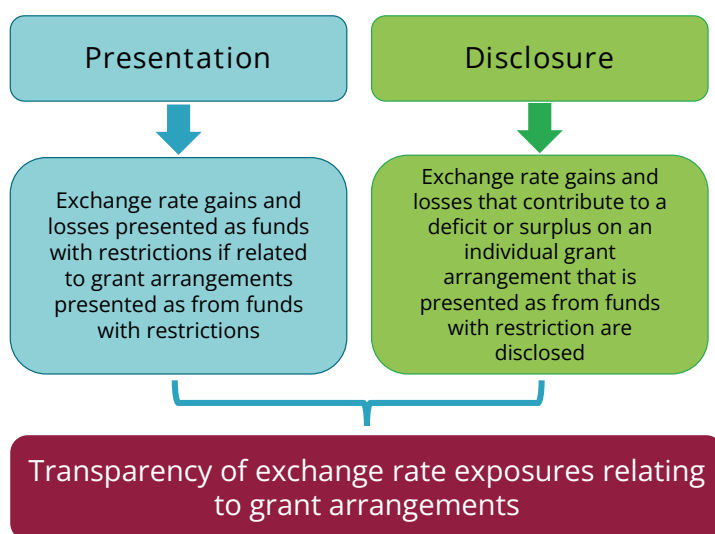
What should I comment on?

The recognition and measurement of inventories, which are often provided to and then distributed by NPOs at little or no cost, can have significant operational implications.

- Do you agree with the permitted exceptions that allow for certain donated inventory and work in-progress to not be recognised as inventory? **(Question 2b)**
- Do you agree that fair value should be used to value donated inventory? **(Question 2c)**
- Do you agree with the new measurement of the lower of cost adjusted for any loss of service potential and replacement cost for certain inventory? **(Question 2d)**
- Do you agree with the proposed disclosure where inventory has not been recognised? **(Question 2e)**

13. Foreign currency translation—presentation and disclosure

Whilst the recognition and measurement of foreign currency is not an NPO-specific issue, its presentation and disclosure, particularly for foreign currency gains and losses associated with grant funding is a significant issue. INPAG establishes the principle that exchange rate gains or losses on monetary items, such as grant receivables, cash held in foreign currency and grant payables follow the presentation of the transaction to which they relate.



Implementation Guidance and illustrative examples show exchange gains and losses on a range of grant arrangements. It includes the need to create a provision for an onerous arrangement if an NPO is obliged to expend more than the resources it was provided with because of adverse movements on exchange rates. Clarification is provided that the EGOs of an NPO who has received a grant in advance (grant arrangement liabilities), are non-monetary liabilities and do not need to be retranslated at each reporting date.

Proposal development – what else was considered?

Consideration was given to presenting all exchange gains or losses as from funds without restrictions, as an NPO may have to fund exchange losses on grant arrangements from its unrestricted resources. Despite some benefits, it was considered that this also had the potential to hinder the transparency being sought.

Consideration was also given to whether additional spend to cover exchange rate losses in grant arrangements should be classified as a new or additional EGA liability. This was also not considered appropriate as the initial revenue recognised or related EGOs did not change.

What should I comment on?

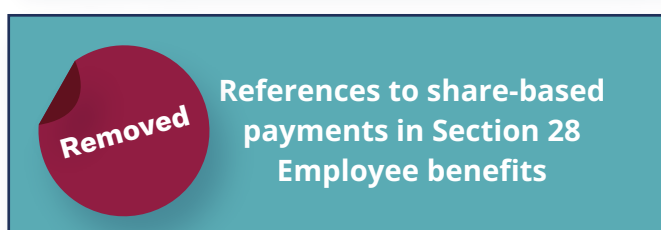
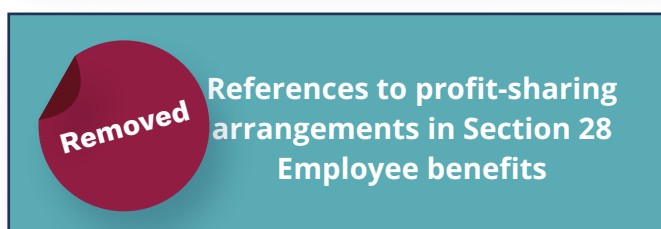
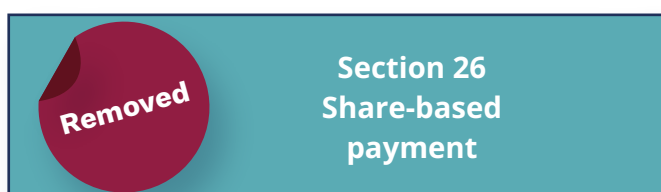
NPOs can bear significant risk through exchange rate movements. Transparency is important for the sector.

- Do you agree with the principle that exchange gains and losses are shown as without restrictions unless they relate to a transaction that is to be shown as restricted? **(Question 10b)**
- Do you agree with the proposal to require disclosure of exchange gains and losses that contribute to a surplus or deficit on grant arrangements presented within funds with restrictions? **(Question 10c)**

14. Removal of profit-sharing and share-based payment guidance

It is proposed to remove Section 26 on share-based payments from INPAG as it is not expected that NPOs will have traded equity or equity with a value relevant to employees and suppliers.

The characteristics of an NPO require that any surpluses (including profits from commercial activities that contribute to the purposes of the NPO) are used for the benefit of service recipients. Profit-sharing is therefore generally not an appropriate form of remuneration for NPO staff and all references to profit sharing arrangements have been removed from Section 28 *Employee benefits* of INPAG. However, references to bonuses have been retained as this might be part of a remuneration structure. The proposed removal of Section 26 *Share-based payment* from INPAG also means that references to share-based payment included in relation to employee benefits have also been removed.



Further amendments to Section 28 have been made to align with the INPAG financial statements formats and to require that the allocation of employee benefit expense can only be made if the controlling NPO is following INPAG.

Proposal development – what else was considered?

To simplify requirements, the possibility of removing the accounting policy choice for the presentation of in-year changes to the amounts to be recognised for defined benefit pension schemes was considered. TAG members were, however, of the view that removing a policy choice was effectively introducing a rebuttable presumption. Based on the expectation that few NPOs will have defined benefit pension schemes and those that do may have more complex stakeholder requirements, it was deemed appropriate to maintain the policy choice.

What should I comment on?

Removing aspects of the *IFRS for SMEs* Accounting Standard that are not relevant to NPOs is important in ensuring INPAG's relevance and usability.

- Given the characteristics of NPOs, do you agree that guidance on share-based payment is not required? **(Question 7a)**
- Do you agree that profit sharing and share-based payment are removed from Section 28 *Employee benefits* to reflect that employees of NPOs are not incentivised by sharing in the surpluses made by an NPO? **(Question 8a)**
- 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? **(Question 8b)**

Specific matters for comment

Question 1: Financial instruments	References
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.	Section 11
Question 2: Inventories	References
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?	G13.1
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?	G13.2, G13.5 (a)-(c)
c) Do you agree that fair value should be used to value donated inventory? If not, what would you propose instead?	G13.7
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?	G13.8
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?	G13.26 (e), G13.27
Question 3: Provisions and contingencies	References
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?	Section 21, Illustrative example 3
Question 4: Revenue	References
a) Section 23 Part I and Section 24 Part 1 introduce new terminology relating to grant arrangements ¹ . 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
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?	Section 23
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?	G23.27, G23.41-G23.59
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?	G23.53-G23.56, G23.125-G23.138, AG23.52-AG23.59

¹ Both sections include this question, which you can answer under either section, or cover the grantor and grantee perspectives separately.

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?	G23.36, G23.37
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?	G23.36, G23.38, G23.63, AG23.35-AG23.36
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?	G23.31-G23.32, G23.35-G23.38
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.	G23.49
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?	G23.61-G23.70
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?	G23.42-G23.59, G23.73, AG23.37-AG23.40, AG23.62
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.	

Question 5: Expenses on grants and donations	References
a) Section 24 Part I and Section 23 Part 1 introduce new terminology relating to grant arrangements 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?	G24.3-G24.4, G23.23-G23.30,
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?	G24.3-G24.6
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?	G24.3, AG24.9, AG24.13-AG24.15
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?	G24.17-G24.18, AG24.24-AG24.27

² Both sections include this question, which you can answer under either section, or cover the grantor and grantee perspectives separately.

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?	AG24.30-AG24.35
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?	G24.32-G24.41
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?	G24.11
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.	Section 24 IG24.21

Question 6: Borrowing costs	References
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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.	Section 25
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Question 6: Borrowing costs	References
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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.	Section 25
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Question 7: Share-based payments	References
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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.	Not applicable
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Question 8: Employee benefits	References
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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.	G28.3, G28.27
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?	G28.21

Question 9: Income tax	References
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a) Are there any elements of Section 29 <i>Income taxes</i> that are not required by NPOs? If so, explain which elements are not needed and why.	Section 29
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Question 10: Foreign currency translation	References
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a) Do you agree that grants and donations should be considered when setting the functional currency? If not, why not?	G30.3 (c), G30.5 (b), G30.5 (d)
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?	G30.12, G30.20 (c)
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?	G30.30

- 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. Section 30

Question 11: Hyperinflation

References

- 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. Section 31

Question 12: Events after the end of the reporting period

References

- 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. Section 32

Information for respondents to the consultation

Who should respond?

ED2 is relevant to a range of NPO stakeholders. Responses would be particularly welcomed from:

- Regulators
- Standard setters
- NPOs
- Auditors
- Professional accounting bodies
- Public interest groups
- Finance ministries
- Tax authorities
- Academics
- Funders/donors

Exposure Draft documents

The Exposure Draft includes:

- **Authoritative Guidance** for the Sections in INPAG that will create the underpinning framework for the development of all other sections
- The **Basis for Conclusions** on the Exposure Draft, which includes:
 - considerations in developing the proposals
 - the potential effects of the proposals
- **Implementation Guidance** with illustrative examples.

Submit your comments

Please submit your comments electronically by **15 March 2024**:

- Online: www.ifr4npo.org/have-your-say
- By email: ifr4npo@cipfa.org

Stay informed: To stay up-to-date with the latest developments and to sign up for email alerts, please visit www.ifr4npo.org

Get in touch: If you would like to discuss the information in this Summary, please contact info@ifr4npo.org

Annex A—ED2 at a glance

Section	Summary of content	Changes from the IFRS for SMEs Accounting Standard	Comment Questions
Section 11 – Financial instruments	This Section 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.	Editorial – Changes to align with other sections.	Question 1
Section 13 – Inventories	<p>This Section describes the scope of inventories, when they should be recognised, how they should be measured and related disclosures. This Section has been amended to broaden the scope of inventories to include those that are held for distribution to service recipients and/or use by the NPO for volunteers or fundraising.</p> <p>Section 13 has been modified to allow the use of the permitted exceptions in Section 23 Part 1 <i>Revenue from grants and donations</i> 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.</p> <p>A further adaptation has been made to require inventories held for use or distribution to be measured at the lower of cost adjusted for any loss of service potential and replacement cost.</p> <p>Disclosures have been updated to address the use of permitted exceptions and where donated inventories cannot be reliably measured.</p>	Modified – Major changes have been made to broaden the scope to include NPO-specific inventory and set out their measurement and introduce permitted exceptions to not recognise certain donated inventory.	Question 2
Sections 21 – Provisions and contingencies	<p>This Section provides guidance on the recognition, measurement and disclosure of provisions (being liabilities of uncertain timing or amount), contingent assets and contingent liabilities.</p> <p>The examples are now located in the Implementation Guidance and updated to be more relevant to NPOs, including an example relating to onerous grant agreements.</p>	Editorial – Changes to align to other sections and provide more relevant examples.	Question 3
Section 23 – Revenue	Section 23 comprises two parts with a preface that explains the structure of the section and contains content that is common to both parts. It also describes when Part I and Part II should be used.		Question 4

Section	Summary of content	Changes from the <i>IFRS for SMEs Accounting Standard</i>	Comment Questions
<p>Section 23 – Part I – Revenue from grants and donations</p> <p>Section 23 – Part II – Revenue from contracts with customers</p>	<p>Part I is new material that has been written specifically for NPOs. It draws on IPSAS 47 <i>Revenue</i> as its basis. It 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. It describes revenue recognition, measurement and disclosure where there is no EGA.</p> <p>Part I also describes permitted exceptions for the recognition of gifts in-kind and services in-kind.</p> <p>Part II is based on the IFRS for SMEs Accounting Standard and uses NPO specific terminology. It provides simplified guidance for less complex contracts. Some material has been included in the preface where it is relevant to Part I and Part II.</p> <p>There are no known NPO-specific issues for revenue from contracts with customers.</p>	<p>Part I – New Section specifically for NPOs.</p> <p>Part II Updated – Minor changes to aid ease of use and to align with other sections.</p>	
<p>Section 24 – Part I – Expenses on grants and donations</p>	<p>Section 24 <i>Government grants</i> in the <i>IFRS for SMEs Accounting Standard</i> relates to accounting for revenue. This guidance has been replaced by Section 23 Part I <i>Revenue from grants and donations</i>. Section 24 of INPAG covers accounting for expenses. This will contain three parts with Part 1 – <i>Expenses on grants and donations</i> included in ED2. Parts II and III will be included in ED3.</p> <p>Guidance covers the recognition, measurement and disclosure of grants that an NPO makes to other entities or individuals. The proposals are drawn from IPSAS 48 <i>Transfer expenses</i>, with IPSAS terminology and concepts adapted for NPOs. 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.</p>	<p>New Section specifically for NPOs.</p>	<p>Question 5</p>
<p>Section 25 – Borrowing costs</p>	<p>This Section specifies the accounting for borrowing costs. Minor editorial changes related to terminology have been made.</p>	<p>Editorial – Changes to align with other sections.</p>	<p>Question 6</p>
<p>Section 26 – Share based payment</p>	<p>This Section specifies the accounting for share-based payments. As share-based payment transactions are considered highly unlikely this section has been removed and a paragraph included to explain why it is not part of INPAG.</p>	<p>Removed – share-based payments are not expected for NPOs.</p>	<p>Question 7</p>

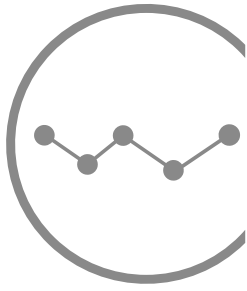
Section	Summary of content	Changes from the <i>IFRS for SMEs Accounting Standard</i>	Comment Questions
Section 28 – Employee benefits	<p>This Section covers all forms of consideration given by an employing NPO to its employees. Changes have been made to this Section to remove references to share-based payments and to profit-sharing arrangements as these are not expected to exist.</p> <p>The guidance has been amended to describe how a controlling NPO providing benefits to employees of controlled entities in the group can apply its provisions.</p>	Updated – minor changes to reflect the removal of Section 26 and to align with other sections.	Question 8
Section 29 – Income tax	<p>This Section addresses the accounting for income tax including current and deferred tax. Minor editorial amendments have been made to align with other Sections. This includes the removal of the exclusion relating to government grants as this is now replaced, as well as a requirement for tax expenses to be recognised in the same component as the transaction or other event that resulted in the tax expense. This is to allow the tax expense to be shown in the Statement of Income and Expenses or Statement of Changes in Net Assets as appropriate.</p>	Editorial – Changes to align with other sections.	Question 9
Section 30 – Foreign currency translation	<p>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.</p> <p>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.</p>	Updated – Minor changes to include NPO specific presentation and disclosure requirements.	Question 10
Section 31 – Hyperinflation	<p>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.</p>	Editorial – Changes to align to with other sections.	Question 11
Section 32 – Events after the end of the reporting period	<p>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 reference to profit sharing, and to remove references specifically to dividend. Those with the power to amend the financial statements after they have been issued has also been widened given the nature of NPOs.</p>	Editorial – Changes, primarily to align with other sections.	Question 12

Annex B – Content of Exposure Drafts

ED1			ED2			ED3		
Section	Title	Change made	Section	Title	Change made	Section	Title	Change expected
	Preface	Modified (Major)	11	Financial instruments	Editorial	12	Fair value measurement	Editorial
1	NPOs	Modified (Major)	13	Inventories	Updated (Minor)	14	Investment in associates	Editorial
2	Concepts and pervasive principles	Modified (Major)	21	Provisions and contingencies	Editorial	15	Joint arrangements	Editorial
3	Financial statement presentation	Updated (Minor)	23 Part I	Revenue from grants and donations	New	16	Investment property	Editorial
4	Statement of Financial Position	Modified (Major)	23 Part II	Revenue from contracts with customers	Editorial	17	Property, plant and equipment	Editorial
5	Statement of Income and Expenses	Modified (Major)	24 Part I	Expenses on grants and donations	New	18	Intangible assets other than goodwill	Editorial
6	Statement of Changes in Net Assets	Modified (Major)	25	Borrowing costs	Editorial	19	Business combinations and goodwill	Editorial
7	Statement of Cashflows	Updated (Minor)	26	Share based payments	Removed	20	Leases	Editorial
8	Notes to the financial statements	Updated (Minor)	28	Employee benefits	Updated (Minor)	22	Liabilities and equity	Editorial
9	Consolidated and separate financial statements	Updated (Minor)	29	Income tax	Editorial	24 Part II	Classification of expenses	New
10	Accounting policies, estimates and errors	Updated (Minor)	30	Foreign currency translation	Updated (Minor)	24 Part III	Fundraising costs	New
35	Narrative reporting	New	31	Hyperinflation	Editorial	27	Impairment of assets	Editorial
			32	Events after the reporting period	Editorial	33	Related party disclosures	Editorial
						34	Specialised activities	Editorial
						36	Fund accounting	New
						37	Supplementary information	New
						38	Transition to the Guidance	Modified

Annex C—Acronyms

Acronym	Full text	Description
ED	Exposure Draft	A document published by the INPAG Secretariat to solicit public comment on proposed reporting guidance.
EGA	Enforceable grant arrangement	A grant arrangement where both a donor and grant recipient have both rights and obligations, enforceable through legal or equivalent means. A grant recipient's undertakings under an EGA are EGOs. An EGA must have at least one EGO.
EGO	Enforceable grant obligation	A grant recipient's undertaking in an EGA to achieve a specified outcome, to carry out a specified activity, to use distinct services, goods or other assets internally for a specified purpose or to transfer distinct services, goods, cash or other assets to a service recipient.
GPFR	General Purpose Financial Reports	A set of financial statements with narrative reports prepared under generally accepted accounting principles to provide information that is useful to users for accountability and decision-making purposes.
IASB	International Accounting Standards Board	An independent group of experts with responsibility for the development and publication of IFRS Accounting Standards, including the IFRS for SMEs Accounting Standards.
IFR4NPO	International Financial Reporting for Non-Profit Organisations	A project that aims to develop the first ever international financial reporting guidance for non-profit organisations (NPOs).
IFRS Accounting Standards	International Financial Reporting Standards	A set of accounting standards developed by the International Accounting Standards Board (IASB) for use by profit making private sector organisations internationally.
IFRS for SMEs Accounting Standard	International Financial Reporting Standards for Small and Medium-sized Entities	A standalone standard developed by the International Accounting Standards Board (IASB) based on the principles in full IFRS Standards but tailored for entities that do not trade on a public market (eg a stock exchange).
INPAG	International Non-Profit Accounting Guidance	High quality, trusted, internationally recognised financial reporting guidance for NPOs being developed as part of IFR4NPO.
IPSAS	International Public Sector Accounting Standards	A set of accounting standards developed by the International Public Sector Accounting Standards Board (IPSASB) for use by government and public sector organisations internationally.
IPSASB	International Public Sector Accounting Standards Board	The International Public Sector Accounting Standards Board develops accounting standards and guidance for use by public sector entities.
NPOs	Non-Profit Organisations	For the purposes of INPAG, these are organisations that have the primary objective of providing a benefit to the public, direct surpluses for benefit of the public, and are not government or public sector entities.
OFA	Other funding arrangement	An arrangement with a grant recipient that is not an enforceable grant arrangement.



International
Non-Profit
Accounting
Guidance
Part 2

**Authoritative
Guidance**

Comments to be received by 15 March 2024
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INPAG ED/2023/2

FINAL DRAFT

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Note: all references to the *IFRS for SMEs* Accounting Standard in the Authoritative Guidance are to the draft Third edition of the *IFRS for SMEs* Accounting Standard exposed in September 2022 unless otherwise stated.

The International Non-Profit Accounting Guidance (INPAG) is set out in the Preface and Sections 1–38. INPAG includes a glossary in Annex A. Terms defined in the glossary are in bold type the first time that they appear in each section unless defined within the section. INPAG is accompanied by a Basis for Conclusions and Implementation Guidance, which includes illustrative examples.

The Preface, Sections 1–10 and Section 35 were published as drafts in **Exposure Draft 1**. This document provides links to the previously published sections and also shows the Sections to be published in Exposure Draft 3 [ED3], due in 2024.

¹ Status refers to whether the *IFRS for SMEs* Standard has been updated to reflect NPO-specific requirements. Further explanation can be found in the Invitation to comment.

Preface and Sections 1–10

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The Preface and Sections 1–10 were included in **Exposure Draft 1**, which closed for comment on 31 March 2023.

Feedback received on Exposure Draft 1 will be incorporated into the final version of INPAG.

Section 11 – Financial Instruments

Scope of this section

- G11.1 Section 11 *Financial instruments* deals with recognising, derecognising, measuring and disclosing **financial instruments (financial assets and financial liabilities)**. Part I of Section 11 applies to basic financial instruments and is relevant to all NPOs. Part II of Section 11 applies to other, more complex financial instruments and transactions. If an entity enters into only basic financial instrument transactions, then Part II of Section 11 is not applicable. However, even NPOs with only basic financial instruments shall consider the scope of Part II of Section 11 to ensure they are exempt.

Part I – Basic financial instruments

Introduction to Part I of Section 11

- G11.2 A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or **equity** instrument of another entity.
- G11.3 Part I of Section 11 requires an amortised cost model for all basic financial instruments, except for issued **financial guarantee contracts**, and investments in non-convertible preference shares and non-puttable ordinary or preference shares that are **publicly traded** or whose **fair value** can otherwise be measured reliably without undue cost or effort.
- G11.4 Basic financial instruments within the scope of Part I of Section 11 are those that satisfy the conditions in paragraph G11.7. Examples of financial instruments that normally satisfy those conditions include:
- (a) **cash**;
 - (b) demand and fixed-term deposits when the entity is the depositor – for example, bank accounts;
 - (c) commercial paper and commercial bills held;
 - (d) accounts, notes and loans receivable and payable;
 - (e) bonds and similar debt instruments;
 - (f) investments in non-convertible preference shares and non-puttable ordinary and preference shares;
 - (g) commitments to receive a loan if the commitment cannot be net settled in cash; and
 - (h) issued financial guarantee contracts.
- G11.5 Examples of financial instruments that do not normally satisfy the conditions in paragraph G11.7, and are therefore within the scope of Part II of Section 11, include:
- (a) asset-backed securities, such as collateralised mortgage obligations, repurchase agreements and securitised packages of receivables;
 - (b) options, rights, warrants, futures contracts, forward contracts and interest rate swaps that can be settled in cash or by exchanging another financial instrument;
 - (c) financial instruments that qualify and are designated as **hedging instruments** in accordance with the requirements in Part II of Section 11;
 - (d) commitments to make a loan to another entity; and
 - (e) commitments to receive a loan if the commitment can be net settled in cash.

Scope of Part I of Section 11

- G11.6 Part I of Section 11 applies to all financial instruments meeting the conditions of paragraph G11.7 except for the following:
- (a) investments in **controlled entities** and **associates** and **joint arrangements** that are accounted for in accordance with Section 9 *Consolidated and separate financial statements*, Section 14 *Investments in associates* or Section 15 *Joint arrangements*.
 - (b) financial instruments that meet the definition of an NPO's own equity, including the equity component of **compound financial instruments** issued by the NPO (see Section 22 *Liabilities and equity*).
 - (c) **leases** to which Section 20 *Leases* or paragraph G11.60(f) apply. However, the **derecognition** requirements in paragraphs G11.43–G11.48 apply to the derecognition of lease receivables recognised by a lessor and lease payables recognised by a lessee, and the impairment requirements in paragraphs G11.31–G11.42 apply to lease receivables recognised by a lessor.
 - (d) employers' rights and obligations under **employee benefit** plans, to which Section 28 *Employee benefits* applies.
 - (e) reimbursement **assets** that are accounted for in accordance with Section 21 *Provisions and contingencies* (see paragraph G21.10).
 - (f) rights and obligations within the scope of Section 23 *Revenue* that are financial instruments, except for receivables and those that Section 23 specifies are accounted for in accordance with this section.

Basic financial instruments

- G11.7 An entity shall account for the following financial instruments as basic financial instruments in accordance with Part I of Section 11:
- (a) cash;
 - (b) a debt instrument (such as an account, note or loan receivable or payable) that meets the conditions in paragraph G11.8 and/or paragraph G11.9;
 - (c) a commitment to receive a loan that:
 - (i) cannot be settled net in cash; and
 - (ii) when the commitment is executed, is expected to meet the conditions in paragraph G11.8.
 - (d) an investment in non-convertible preference shares and non-puttable **ordinary shares** ordinary shares or preference shares; and
 - (e) issued financial guarantee contracts.
- G11.8 A debt instrument that satisfies all of the conditions in (a)–(d) shall be accounted for in accordance with Part I of Section 11:
- (a) returns to the holder (the lender/creditor) assessed in the currency in which the debt instrument is denominated are either:
 - (i) a fixed amount;
 - (ii) a fixed rate of return over the life of the instrument;
 - (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate (such as SONIA); or
 - (iv) some combination of such fixed and variable rates, provided that both the fixed and variable rates are positive (for example, an interest rate swap with a positive fixed rate and negative variable rate would not meet this criterion).

For fixed and variable rate interest returns, interest is calculated by multiplying the rate for the applicable period by the principal amount outstanding during the period.

- (b) there is no contractual provision that could, by its terms, result in the holder (the lender/creditor) losing the principal amount or any interest attributable to the current period or prior periods. The fact that a debt instrument is subordinated to other debt instruments is not an example of such a contractual provision. A party may pay or receive reasonable compensation on early termination of a contract and still meet this condition.
- (c) contractual provisions that permit or require the issuer (the borrower) to prepay a debt instrument or permit or require the holder (the lender/creditor) to put it back to the issuer (ie to demand repayment) before maturity are not contingent on future events other than to protect:
 - (i) the holder against a change in the credit risk of the issuer or the instrument (for example, defaults, credit downgrades or loan covenant violations) or a change in **control** of the issuer; or
 - (ii) the holder or issuer against changes in relevant taxation or law.
- (d) there are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

G11.9 A debt instrument that does not meet all of the conditions in paragraph G11.8(a)–(d) shall nevertheless be accounted for in accordance with Part I of Section 11 if the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A debt instrument with contractual terms that introduce exposure to unrelated risks or volatility – for example, changes in equity prices or commodity prices – is unlikely to meet this requirement. For this assessment, ‘interest’ includes reasonable compensation for the time value of money, credit risk, and other basic lending risks and costs – for example, liquidity risk, administrative costs associated with holding the instrument and lender’s profit margin – consistent with a basic lending arrangement.

G11.10 Examples of debt instruments that would normally satisfy the conditions in paragraph G11.8(a)(iv) include:

- (a) a bank loan that has a fixed interest rate for an initial period that then reverts to a quoted or observable variable interest rate after that period; and
- (b) a bank loan with interest payable at a quoted or observable variable interest rate plus a fixed rate throughout the life of the loan – for example, SONIA plus 200 basis points.

G11.11 An example of a debt instrument that would normally satisfy the conditions set out in paragraph G11.8(b)–(c) would be a bank loan that permits the borrower to terminate the arrangement early, even though the borrower may be required to pay a penalty to compensate the bank for its costs of the borrower terminating the arrangement early.

G11.12 Other examples of financial instruments that would normally satisfy the conditions in paragraph G11.8 are:

- (a) trade accounts and notes receivable and payable, and loans from banks or other third parties.
- (b) accounts payable in a foreign currency. However, any change in the account payable because of a change in the exchange rate is recognised in **surplus or deficit** as required by paragraph G30.11.
- (c) loans to or from controlled entities or associates that are due on demand.
- (d) a debt instrument that would become immediately receivable if the issuer defaults on an interest or principal payment (such a provision does not violate the conditions in paragraph G11.8).

G11.13 Examples of financial instruments that do not satisfy the conditions in paragraph G11.8 or G11.9 (and are therefore within the scope of Part II of Section 11) include:

- (a) an investment in another entity’s equity instruments other than nonconvertible preference shares and non-puttable ordinary and preference shares (see paragraph G11.7(d));

- (b) an interest rate swap that returns a cash flow that is positive or negative, or a forward commitment to purchase a commodity or financial instrument that is capable of being cash-settled and that, on settlement, could have positive or negative cash flow, because such swaps and forwards do not meet the condition in paragraph G11.8(a);
- (c) options and forward contracts, because returns to the holder are not fixed and the condition in paragraph G11.8(a) is not met; and
- (d) investments in convertible debt, because the return to the holder can vary with the price of the issuer's equity shares instead of just with market interest rates.

G11.14 Reassessment of a financial instrument classified at initial recognition in accordance with paragraphs G11.7–G11.9 shall occur only if contractual terms are modified in a way that leads to the derecognition of the financial instrument.

Initial recognition of financial assets and liabilities

G11.15 An NPO shall recognise a financial asset or a financial liability only when the NPO becomes a party to the contractual provisions of the instrument.

Initial measurement

G11.16 When a financial asset or financial liability is recognised initially, an NPO shall measure it at the transaction price (including **transaction costs** except in the initial measurement of financial assets and liabilities that are subsequently measured at fair value through surplus or deficit) unless the arrangement constitutes, in effect, a financing transaction for either the NPO (for a financial liability) or the counterparty (for a financial asset) to the arrangement. An arrangement constitutes a financing transaction if payment is deferred beyond normal business terms – for example, providing interest-free credit to a buyer for the sale of goods – or is financed at a rate of interest that is not a market rate, for example, an interest-free or below market interest rate loan made to an employee. If the arrangement constitutes a financing transaction, the NPO shall measure the financial asset or financial liability at the **present value** of the future payments discounted at a market rate of interest for a similar debt instrument as determined at initial recognition.

Subsequent measurement

G11.17 At the end of each **reporting period**, an NPO shall measure financial instruments as follows, without any deduction for transaction costs the NPO may incur on sale or other disposal:

- (a) debt instruments that meet the conditions in paragraph G11.7(b) shall be measured at **amortised cost** using the **effective interest method**. Paragraphs G11.19–G11.24 provide guidance on determining amortised cost using the effective interest method. Debt instruments that are classified as current assets or current **liabilities** shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (ie net of impairment – see paragraphs G11.25–G11.42) unless the arrangement constitutes, in effect, a financing transaction (see paragraph G11.16).
- (b) commitments to receive a loan that meet the conditions in paragraph G11.7(c) shall be measured at cost (which sometimes is nil) less impairment.
- (c) investments in non-convertible preference shares and non-puttable ordinary or preference shares shall be measured as follows (Section 12 provides guidance on fair value):
 - (i) if the shares are publicly traded or their fair value can otherwise be measured reliably without undue cost or effort, the investment shall be measured at fair value with changes in fair value recognised in surplus or deficit; and
 - (ii) all other such investments shall be measured at cost less impairment.

- (d) issued financial guarantee contracts are measured at the higher of:
 - (i) the expected **credit losses** measured in accordance with paragraphs G11.32–G11.42; and
 - (ii) the amount initially recognised, if any, amortised on a straight-line basis over the life of the guarantee.

Impairment or uncollectability must be assessed for financial assets in (a), (b) and (c)(ii). Paragraphs G11.25–G11.42 provide guidance.

G11.18 **Dividends** are recognised in surplus or deficit only when:

- (a) the NPO's right to receive payment is established;
- (b) it is probable that the economic benefits associated with the dividend will flow to the NPO; and
- (c) the amount of the dividend can be measured reliably.

Amortised cost and effective interest method

G11.19 The **amortised cost of a financial asset or financial liability** at each **reporting date** is the net of the following amounts:

- (a) the amount at which the financial asset or financial liability is measured at initial recognition;
- (b) minus any repayments of the principal;
- (c) plus or minus the cumulative **amortisation** using the effective interest method of any difference between the amount at initial recognition and the maturity amount;
- (d) minus, in the case of a financial asset, any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Financial assets and financial liabilities that have no stated interest rate, that do not relate to an arrangement that constitutes a financing transaction and that are classified as current assets or current liabilities are initially measured at an undiscounted amount in accordance with paragraph G11.16. Consequently, (c) does not apply to them.

G11.20 The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest **income** or interest **expense** over the relevant period. The **effective interest rate** is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the **carrying amount** of the financial asset or financial liability. The effective interest rate is determined on the basis of the carrying amount of the financial asset or liability at initial recognition. Under the effective interest method:

- (a) the amortised cost of a financial asset (liability) is the present value of future cash receipts (payments) discounted at the effective interest rate; and
- (b) the interest expense (income) in a period equals the carrying amount of the financial liability (asset) at the beginning of a period multiplied by the effective interest rate for the period.

G11.21 When calculating the effective interest rate, an NPO shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) and known credit losses that have been incurred, but it shall not consider expected credit losses.

G11.22 When calculating the effective interest rate, an NPO shall amortise any related fees, finance charges paid or received (such as 'points'), transaction costs and other premiums or discounts over the expected life of the instrument, except as follows. The NPO shall use a shorter period if that is the period to which the fees, finance charges paid or received, transaction costs, premiums or discounts relate. This will be the case when the variable to which the fees, finance charges paid or received, transaction costs, premiums or discounts relate is repriced to market rates before the expected maturity of the instrument. In such a case, the appropriate amortisation period is the period to the next such repricing date.

- G11.23 For variable rate financial assets and variable rate financial liabilities, periodic re-estimation of cash flows to reflect changes in market rates of interest alters the effective interest rate. If a variable rate financial asset or variable rate financial liability is recognised initially at an amount equal to the principal receivable or payable at maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.
- G11.24 If an NPO revises its estimates of payments or receipts (excluding changes in estimates of expected credit losses), the NPO shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The NPO shall recalculate the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The NPO shall recognise the adjustment as income or expense in surplus or deficit at the date of the revision.

Impairment of trade receivables and contract assets and financial assets measured at cost

Recognition

- G11.25 At the end of each reporting period, an NPO shall assess whether there is objective evidence of impairment of any trade receivables and **contract assets** within the scope of Section 23, and any financial assets that are measured at cost in accordance with paragraphs G11.17(b) and G11.17(c)(ii). If there is objective evidence of impairment, the NPO shall recognise an impairment loss in surplus or deficit immediately.
- G11.26 Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the holder of the asset about the following loss events:
- (a) significant financial difficulty of the issuer or obligor;
 - (b) a breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) the creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider;
 - (d) it has become **probable** that the debtor will enter bankruptcy or other financial reorganisation; or
 - (e) observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.
- G11.27 Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the debtor or issuer operates.
- G11.28 An NPO shall assess the following financial assets individually for impairment:
- (a) all equity instruments regardless of significance; and
 - (b) other financial assets that are individually significant.

An NPO shall assess other financial assets for impairment either individually or grouped on the basis of similar credit risk characteristics.

Measurement

- G11.29 An NPO shall measure an impairment loss as follows:

- (a) for a financial asset measured at amortised cost in accordance with paragraph G11.17(a), the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate.
- (b) for a financial asset measured at cost less impairment in accordance with paragraphs G11.17(b) and G11.17(c)(ii) the impairment loss is the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the entity would receive for the asset if it were to be sold at the reporting date.

Reversal

G11.30 If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the NPO shall reverse the previously recognised impairment loss either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset (net of any allowance account) that exceeds what the carrying amount would have been had the impairment not previously been recognised. The NPO shall recognise the amount of the reversal in surplus or deficit immediately.

Impairment of other financial assets measured at amortised cost

G11.31 At the end of each reporting period, an NPO shall recognise an allowance for expected credit losses on any financial assets measured at amortised cost in accordance with paragraph G11.17(a) that are not trade receivables or contract assets in the scope of Section 23. An entity shall recognise in surplus or deficit, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the allowance for expected credit losses at the reporting date to the amount that is required to be recognised in accordance with paragraphs G11.32–11.42.

Measurement of expected credit losses

G11.32 An NPO shall measure expected credit losses of a financial instrument in a way that reflects:

- (a) an unbiased and probability-weighted amount that is determined by evaluating alternative possible outcomes;
- (b) the time value of money; and
- (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. For the purposes of this paragraph only, 'undue cost or effort' refers to the extent information shall be obtained to apply (c). It is not an undue cost or effort exemption as discussed in paragraphs G2.33–G2.36.

G11.33 Expected credit losses are a probability-weighted estimate of credit losses (that is, the present value of all cash shortfalls) over the expected life of the financial instrument. The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which an NPO is exposed to credit risk. Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the NPO expects to be paid in full but later than when contractually due.

G11.34 A cash shortfall is the difference between the cash flows that are due to an NPO in accordance with the contract and the cash flows that the NPO expects to receive. The estimate of expected cash shortfalls considers the probability of a foreclosure and the cash flows that would result from it – for example, cash flows from collateralised assets.

G11.35 An NPO may use practical expedients when measuring expected credit losses if they are consistent with the principles in paragraph G11.32.

- G11.36 Expected credit losses on lease receivables shall be measured in a way consistent with the cash flows and the discount rate used in the measurement of the lease receivable in accordance with Section 20.

Financial guarantee contracts

- G11.37 For a financial guarantee contract, the issuer is required to make payments to the holder only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, cash shortfalls (see paragraph G11.34) are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that an NPO expects to receive from the holder, the debtor or any other party. If the asset is fully guaranteed, the estimation of cash shortfalls for a financial guarantee contract would be consistent with the estimations of cash shortfalls for the asset subject to the guarantee.

Probability-weighted outcome

- G11.38 When measuring expected credit losses, an NPO need not identify every possible scenario. However, that measurement shall reflect at least two outcomes, the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.
- G11.39 The average credit losses of a group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability-weighted amount. In other situations when financial assets are individually significant – for example, a loan to a related party – the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will probably be needed.

Time value of money

- G11.40 Expected credit losses shall be discounted to the reporting date, using the effective interest rate determined at initial recognition. If a financial instrument has a variable interest rate, expected credit losses shall be discounted using the current effective interest rate determined in accordance with paragraph G11.23.

Reasonable and supportable information

- G11.41 An NPO shall use reasonable and supportable information to estimate expected credit losses. It may source data, both internally (NPO-specific data) and externally. Possible data sources include: internal historical credit-loss experience; internal ratings; the credit-loss experience of other entities; and external ratings, reports and statistics. An NPO with insufficient sources of NPO-specific data may make use of the experience of its peer group for the comparable financial instrument (or groups of financial instruments).
- G11.42 Historical information is an important anchor or base from which to measure expected credit losses. However, an NPO shall adjust historical data such as credit loss experience to reflect, and be directionally consistent with, changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of credit losses). In some cases, the best reasonable and supportable information could be the unadjusted historical information, depending on the nature of the historical information and when it was calculated, compared to circumstances at the reporting date and the characteristics of the financial instrument being considered.

Derecognition of a financial asset

- G11.43 An NPO shall derecognise a financial asset only when either:
- (a) the contractual rights to the cash flows from the financial asset expire or are settled;
 - (b) the NPO transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or

- (c) the NPO, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer – in this case, the entity shall:
 - (i) derecognise the asset; and
 - (ii) recognise separately any rights and obligations retained or created in the transfer.

The carrying amount of the transferred asset shall be allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations shall be measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised in accordance with this paragraph shall be recognised in surplus or deficit in the period of the transfer.

- G11.44 If a transfer does not result in derecognition because the NPO has retained significant risks and rewards of ownership of the transferred asset, the NPO shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. The asset and liability shall not be offset. In subsequent periods, the NPO shall recognise any income on the transferred asset and any expense incurred on the financial liability.
- G11.45 If a transferor provides non-cash collateral (such as debt or equity instruments) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or repledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows:
 - (a) if the transferee has the right by contract or custom to sell or repledge the collateral, the transferor shall reclassify that asset in its **Statement of Financial Position** (for example, as a loaned asset, pledged equity instruments or repurchase receivable) separately from other assets;
 - (b) if the transferee sells collateral pledged to it, it shall recognise the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral;
 - (c) if the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognise the collateral and the transferee shall recognise the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognise its obligation to return the collateral; and
 - (d) except as provided in (c), the transferor shall continue to carry the collateral as its asset and the transferee shall not recognise the collateral as an asset.

Derecognition of a financial liability

- G11.46 An NPO shall derecognise a financial liability (or a part of a financial liability) only when it is extinguished – ie when the obligation specified in the contract is discharged, is cancelled or expires.
- G11.47 If an existing borrower and lender exchange financial instruments with substantially different terms, the entities shall account for the transaction as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, an NPO shall account for a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) as an extinguishment of the original financial liability and the recognition of a new financial liability.
- G11.48 The NPO shall recognise in surplus or deficit any difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed.

Disclosures

G11.49 The following disclosures make reference to disclosures for financial liabilities measured at fair value through surplus or deficit. Entities that have only basic financial instruments (and therefore do not apply Part II of Section 11) will not have any financial liabilities measured at fair value through surplus or deficit and hence will not need to provide such disclosures.

Disclosure of accounting policies for financial instruments

G11.50 In accordance with paragraph G8.5, an NPO shall disclose material accounting policy information. Information about the **measurement basis** (or bases) for financial instruments used in preparing the financial statements is expected to be material accounting policy information.

Statement of Financial Position – categories of financial assets and financial liabilities

G11.51 An NPO shall disclose the carrying amounts of each of the following categories of financial assets and financial liabilities at the reporting date, in total, either in the Statement of Financial Position or in the **notes**:

- (a) financial assets measured at fair value through surplus or deficit (paragraph G11.17(c)(i) and paragraphs G11.64–G11.65);
- (b) financial assets that are debt instruments measured at amortised cost (paragraph G11.17(a));
- (c) financial assets that are equity instruments measured at cost less impairment (paragraph G11.17(c)(ii) and paragraphs G11.64–G11.65);
- (d) financial liabilities measured at fair value through surplus or deficit (paragraphs G11.64–G11.65);
- (e) financial liabilities measured at amortised cost (paragraph G11.17(a));
- (f) loan commitments measured at cost less impairment (paragraph G11.17(b)); and
- (g) issued financial guarantee contracts (paragraph G11.17(d)).

G11.52 An NPO shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its **financial position** and **performance**. For example, for long-term debt, such information would normally include the terms and conditions of the debt instrument (such as interest rate, maturity, repayment schedule, and restrictions that the debt instrument imposes on the NPO).

G11.53 If a reliable measure of fair value is no longer available, or is not available without undue cost or effort when such an exemption is provided, for any financial instruments that would otherwise be required to be measured at fair value through surplus or deficit in accordance with this Guidance, the NPO shall disclose that fact, the carrying amount of those financial instruments and, if an undue cost or effort exemption has been used, the reasons why a reliable fair value measurement would involve undue cost or effort.

Transferred financial assets that do not qualify for derecognition

G11.54 If an NPO has transferred financial assets to another party in a transaction that does not qualify for derecognition (see paragraphs G11.43–G11.45), the NPO shall disclose the following for each class of such financial assets:

- (a) the nature of the assets;
- (b) the nature of the risks and rewards of ownership to which the NPO remains exposed; and
- (c) the carrying amounts of the assets and of any associated liabilities that the NPO continues to recognise.

Collateral

G11.55 When an NPO has pledged financial assets as collateral for liabilities or **contingent liabilities**, it shall disclose the following:

- (a) the carrying amount of the financial assets pledged as collateral; and
- (b) the terms and conditions relating to its pledge.

Defaults and breaches on loans payable

G11.56 For **loans payable** recognised at the reporting date for which there is a breach of terms or a default of principal, interest, sinking fund or redemption terms that have not been remedied by the reporting date, an NPO shall disclose the following:

- (a) details of that breach or default;
- (b) the carrying amount of the related loans payable at the reporting date; and
- (c) whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

Items of income, expense, gains or losses

G11.57 An NPO shall disclose the following items of income, expense, gains or losses:

- (a) income, expense, gains or losses, including changes in fair value, recognised on:
 - (i) financial assets measured at fair value through surplus or deficit;
 - (ii) financial liabilities measured at fair value through surplus or deficit;
 - (iii) financial assets measured at amortised cost;
 - (iv) financial liabilities measured at amortised cost; and
 - (v) issued financial guarantee contracts.
- (b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not measured at fair value through surplus or deficit; and
- (c) the amount of any impairment loss for each class of financial asset.

Quantitative and qualitative information about amounts arising from expected credit losses

G11.58 An NPO shall explain the inputs, assumptions and estimation techniques used to apply the requirements in paragraphs G11.32–G11.42. For this purpose, the NPO shall disclose:

- (a) the basis of inputs and assumptions and the estimation techniques used to measure the expected credit losses;
- (b) how forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information; and
- (c) changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.

G11.59 To explain the changes in the allowance for expected credit losses and the reasons for those changes, an NPO shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the allowance, in a table. The NPO shall disclose information about the changes in the allowance for financial assets separately from those for expected credit losses on issued financial guarantee contracts.

Part II – Other financial instrument issues

Scope of Part II of Section 11

G11.60 Part II of Section 11 applies to all financial instruments except the following:

- (a) those covered by Part I of Section 11.
- (b) investments in **controlled entities** and, **associates** and **joint arrangements** that are accounted for in accordance with Section 9 *Consolidated and separate financial statements*, Section 14 *Investments in associates* or Section 15 *Joint arrangements*.
- (c) employers' rights and obligations under **employee benefit** plans (see Section 28 *Employee benefits*);
- (d) rights under **insurance contracts** unless the insurance contract could result in a loss to either party as a result of contractual terms that are unrelated to:
 - (i) changes in the insured risk;
 - (ii) changes in foreign exchange rates; or
 - (iii) a default by one of the counterparties;
- (e) financial instruments that meet the definition of an NPO's own equity, including the equity component of compound financial instruments issued by the NPO (see Section 22 *Liabilities and equity*);
- (f) **leases** within the scope of Section 20 *Leases*. Consequently, Part II of Section 11 applies to leases that could result in a loss to the lessor or the lessee as a result of contractual terms that are unrelated to:
 - (i) changes in the price of the leased **asset**;
 - (ii) changes in foreign exchange rates;
 - (iii) changes in lease payments based on variable market interest rates; or
 - (iv) a default by one of the counterparties;
- (g) reimbursement assets that are accounted for in accordance with Section 21 *Provisions and contingencies* (see paragraph G21.10).

G11.61 Most contracts to buy or sell a non-financial item such as a commodity, **inventory** or **property, plant and equipment** are excluded from this section because they are not financial instruments. However, Part II of Section 11 applies to all contracts that impose risks on the buyer or seller that are not typical of contracts to buy or sell non-financial items. For example, Part II of Section 11 applies to contracts that could result in a loss to the buyer or seller as a result of contractual terms that are unrelated to changes in the price of the non-financial item, changes in foreign exchange rates or a default by one of the counterparties.

G11.62 In addition to the contracts described in paragraph G11.61, Part II of Section 11 applies to contracts to buy or sell non-financial items if the contract can be settled net in **cash** or another financial instrument, or by exchanging financial instruments as if the contracts were financial instruments, with the following exception: contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the NPO's expected purchase, sale or usage requirements are not financial instruments for the purposes of Section 11.

Initial recognition of financial assets and liabilities

G11.63 An NPO shall recognise a financial asset or a financial liability only when the NPO becomes a party to the contractual provisions of the instrument.

Initial measurement

G11.64 When a financial asset or financial liability is recognised initially, an NPO shall measure it at its **fair value**, which is normally the transaction price.

Subsequent measurement

G11.65 At the end of each **reporting period**, an NPO shall measure all financial instruments within the scope of Part II of Section 11 at fair value and recognise changes in fair value in **surplus or deficit**, except as follows:

- (a) some changes in the fair value of **hedging instruments** in a designated hedging relationship are required to be recognised in **the Statement of Changes in Net Assets** by paragraph G11.80; and
- (b) **equity** instruments that are not **publicly traded** and whose fair value cannot otherwise be measured reliably without undue cost or effort and contracts linked to such instruments that, if exercised, will result in delivery of such instruments, shall be measured at cost less impairment.

G11.66 Dividends are recognised in surplus or deficit only when:

- (a) the NPO's right to receive payment is established;
- (b) it is probable that the economic benefits associated with the dividend will flow to the NPO; and
- (c) the amount of the dividend can be measured reliably.

G11.67 If a reliable measure of fair value is no longer available without undue cost or effort for an equity instrument, or a contract linked to such an instrument that if exercised will result in the delivery of such instruments, that is not publicly traded but is measured at fair value through surplus or deficit, its fair value at the last date that the instrument was reliably measurable without undue cost or effort is treated as the cost of the instrument. The NPO shall measure the instrument at this cost amount less impairment until it is able to determine a reliable measure of fair value without undue cost or effort.

Fair value

G11.68 An NPO shall apply the guidance on fair value in Section 12 to fair value measurements in accordance with Section 11.

G11.69 The fair value of a financial liability that is due on demand is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Impairment of financial assets measured at cost or amortised cost

G11.70 An NPO shall apply the guidance on impairment in paragraphs G11.25–G11.42 to financial assets measured at cost less impairment in accordance with Part II of Section 11.

Derecognition of a financial asset or financial liability

G11.71 An NPO shall apply the **derecognition** requirements in paragraphs G11.43–G11.48 to financial assets and financial liabilities to which Section 11 applies.

Hedge accounting

G11.72 If specified criteria are met, an NPO may designate a hedging relationship between a hedging instrument and a **hedged item** in such a way as to qualify for hedge accounting. Hedge accounting permits the

gain or loss on the hedging instrument and on the hedged item to be recognised in surplus or deficit at the same time.

- G11.73 To qualify for hedge accounting, an NPO shall comply with all of the following conditions:
- (a) the NPO designates and documents the hedging relationship so that the risk being hedged, the hedged item and the hedging instrument are clearly identified and the risk in the hedged item is the risk being hedged with the hedging instrument.
 - (b) the hedged risk is one of the risks specified in paragraph G11.74.
 - (c) the hedging instrument is as specified in paragraph G11.75.
 - (d) the NPO expects the hedging instrument to be highly effective in offsetting the designated hedged risk. The **effectiveness of a hedge** is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

- G11.74 This Guidance permits hedge accounting only for the following risks:
- (a) interest rate risk of a debt instrument measured at amortised cost;
 - (b) foreign exchange or interest rate risk in a **firm commitment** or a **highly probable forecast transaction**;
 - (c) price risk of a commodity that an NPO holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; and
 - (d) foreign exchange risk in a net investment in a **foreign operation**.

Foreign exchange risk of a debt instrument measured at amortised cost is not in the list because hedge accounting would not have any significant effect on the **financial statements**. Basic accounts, notes and loans receivable and payable are normally measured at amortised cost (see paragraph G11.4(d)). This would include payables denominated in a foreign currency. Paragraph G30.11 requires any change in the **carrying amount** of the payable because of a change in the exchange rate to be recognised in surplus or deficit. Consequently, both the change in fair value of the hedging instrument (the cross-currency swap) and the change in the carrying amount of the payable relating to the change in the exchange rate would be recognised in surplus or deficit and should offset each other except to the extent of the difference between the spot rate (at which the **liability** is measured) and the forward rate (at which the swap is measured).

- G11.75 This Guidance permits hedge accounting only if the hedging instrument has all of the following terms and conditions:
- (a) it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in paragraph G11.74 that is designated as the hedged risk;
 - (b) it involves a party external to the **reporting NPO** (ie external to the **group**, segment or individual NPO being reported on);
 - (c) its **notional amount** is equal to the designated amount of the principal or notional amount of the hedged item;
 - (d) it has a specified maturity date not later than:
 - (i) the maturity of the financial instrument being hedged;
 - (ii) the expected settlement of the commodity purchase or sale commitment; or
 - (iii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged.
 - (e) it has no prepayment, early termination or extension features.

Hedge of fixed interest rate risk of a recognised financial instrument or commodity price risk of a commodity held

- G11.76 If the conditions in paragraph G11.73 are met and the hedged risk is the exposure to a fixed interest rate risk of a debt instrument measured at amortised cost or the commodity price risk of a commodity that it holds, the NPO shall:
- (a) recognise the hedging instrument as an asset or liability and the change in the fair value of the hedging instrument in surplus or deficit; and
 - (b) recognise the change in the fair value of the hedged item related to the hedged risk in surplus or deficit and as an adjustment to the carrying amount of the hedged item.
- G11.77 If the hedged risk is the fixed interest rate risk of a debt instrument measured at amortised cost, the NPO shall recognise the periodic net cash settlements on the interest rate swap that is the hedging instrument in surplus or deficit in the period in which the net settlements accrue.
- G11.78 The NPO shall discontinue the hedge accounting specified in paragraph G11.76 if:
- (a) the hedging instrument expires or is sold or terminated;
 - (b) the hedge no longer meets the conditions for hedge accounting specified in paragraph G11.73; or
 - (c) the NPO revokes the designation.
- G11.79 If hedge accounting is discontinued and the hedged item is an asset or liability carried at amortised cost that has not been derecognised, any gains or losses recognised as adjustments to the carrying amount of the hedged item are amortised into surplus or deficit using the **effective interest method** over the remaining life of the hedged item.

Hedge of variable interest rate risk of a recognised financial instrument, foreign exchange risk or commodity price risk in a firm commitment or highly probable forecast transaction or a net investment in a foreign operation

- G11.80 If the conditions in paragraph G11.73 are met and the hedged risk is:
- (a) the variable interest rate risk in a debt instrument measured at amortised cost;
 - (b) the foreign exchange risk in a firm commitment or a highly probable forecast transaction;
 - (c) the commodity price risk in a firm commitment or highly probable forecast transaction; or
 - (d) the foreign exchange risk in a net investment in a foreign operation,
- the NPO shall recognise in the Statement of Changes in Net Assets the portion of the change in the fair value of the hedging instrument that was effective in offsetting the change in the fair value or expected cash flows of the hedged item. The NPO shall recognise in surplus or deficit in each period any excess (in absolute amount) of the cumulative change in the fair value of the hedging instrument over the cumulative change in the fair value of the expected cash flows of the hedged item since inception of the hedge (sometimes called hedge ineffectiveness). The hedging gain or loss recognised in the Statement of Changes in Net Assets shall be reclassified to surplus or deficit when the hedged item is recognised in surplus or deficit, subject to the requirements in paragraph G11.82. However, the cumulative amount of any exchange differences that relate to a hedge of a net investment in a foreign operation recognised in the Statement of Changes in Net Assets shall not be reclassified to surplus or deficit on disposal or partial disposal of the foreign operation.
- G11.81 If the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost, the NPO shall subsequently recognise in surplus or deficit the periodic net cash settlements from the interest rate swap that is the hedging instrument in the period in which the net settlements accrue.
- G11.82 The NPO shall discontinue prospectively the hedge accounting specified in paragraph G11.80 if:
- (a) the hedging instrument expires or is sold or terminated;

- (b) the hedge no longer meets the criteria for hedge accounting in paragraph G11.73;
- (c) in a hedge of a forecast transaction, the forecast transaction is no longer highly probable; or
- (d) the NPO revokes the designation.

If the forecast transaction is no longer expected to take place or if the hedged debt instrument measured at amortised cost is derecognised, any gain or loss on the hedging instrument that was recognised in the Statement of Changes in Net Assets shall be reclassified to surplus or deficit.

Disclosures

- G11.83 An NPO applying Part II of Section 11 shall make all of the disclosures required in Part I of Section 11, incorporating in those disclosures financial instruments that are within the scope of Part II of Section 11 as well as those within the scope of Part I of Section 11. In addition, if the NPO uses hedge accounting, it shall make the additional disclosures in paragraphs G11.84–G11.86.
- G11.84 An NPO shall disclose the following separately for hedges of each of the four types of risks described in paragraph G11.74:
- (a) a description of the hedge;
 - (b) a description of the financial instruments designated as hedging instruments and their fair values at the **reporting date**; and
 - (c) the nature of the risks being hedged, including a description of the hedged item.
- G11.85 If an NPO uses hedge accounting for a hedge of fixed interest rate risk or commodity price risk of a commodity held (paragraphs G11.76–G11.79), it shall disclose the following:
- (a) the amount of the change in fair value of the hedging instrument recognised in surplus or deficit for the period; and
 - (b) the amount of the change in fair value of the hedged item recognised in surplus or deficit for the period.
- G11.86 If an NPO uses hedge accounting for a hedge of variable interest rate risk, foreign exchange risk, commodity price risk in a firm commitment or highly probable forecast transaction or a net investment in a foreign operation (paragraphs G11.80–G11.82), it shall disclose the following:
- (a) the periods when the cash flows are expected to occur and when they are expected to affect surplus or deficit;
 - (b) a description of any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur;
 - (c) the amount of the change in fair value of the hedging instrument that was recognised in the Statement of Changes in Net Assets during the period (paragraph G11.80);
 - (d) the amount that was reclassified to surplus or deficit for the period (paragraphs G11.80 and G11.82); and
 - (e) the amount of any excess of the cumulative change in fair value of the hedging instrument over the cumulative change in the fair value of the expected cash flows that was recognised in surplus or deficit for the period (paragraph G11.80).

Comparison of Section 11 with the *IFRS for SMEs Accounting Standard*

Section 11 of INPAG has been drawn from Section 11 of the *IFRS for SMEs Accounting Standard*, with changes only to terminology and to align with the statements required by INPAG. The main differences between Section 11 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 11 of INPAG are as follows:

- Any references to share-based payments have been removed from this section, as it is proposed that a section on share-based payments is not included in INPAG.
- INPAG Section 11 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.
- The examples provided in Section 11 of the draft Third edition of the *IFRS for SMEs Accounting Standard* have been relocated to the INPAG Implementation Guidance. Examples of monetary assets and liabilities arising from binding grant arrangements have been added.

Specific matter for comment	
<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>References</p> <p>Section 11</p>

Section 12

Section 12 *Fair value measurement* will be included in ED3.

Section 13 – Inventories

Scope of this section

- G13.1 This section sets out the principles for recognising and measuring inventories. Inventories are assets:
- (a) held for sale in the ordinary course of operations;
 - (b) held for distribution to **service recipients** in the ordinary course of operations;
 - (c) held for use in fundraising (or similar circumstances where the items will be transferred to another party in the course of the NPO's fundraising activities eg prizes);
 - (d) in the process of production for such sale or distribution; or
 - (e) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
- G13.2 This section applies to all inventories, except:
- (a) financial instruments (see Section 11 *Financial instruments*); and
 - (b) **biological assets** related to **agricultural activity** and agricultural produce at the point of harvest (see Section 34 *Specialised activities*).
- G13.3 This section applies to the presentation and disclosure of refund assets held in inventory representing expected product returns. An NPO shall recognise and measure refund assets in accordance with paragraphs G23.115–G23.121.
- G13.4 This section does not apply to the measurement of inventories held by producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at fair value less costs to sell through surplus or deficit.

Recognition of inventories

- G13.5 An NPO shall not recognise inventories where it has elected to apply one of the following permitted exceptions in respect of those inventories:
- (a) low-value items donated to the NPO for resale or to be transferred to another party in the course of the NPO's fundraising activities, recognised as revenue when the items are sold or fundraising activity takes place, in accordance with paragraph G23.37(a);
 - (b) items (other than non-current assets or high-value items) donated to the NPO for distribution to service recipients or for the NPO's own use, recognised as revenue and an expense when the items are distributed or used in accordance with paragraph G23.37(b);
 - (c) work in progress that comprises services in-kind donated to the NPO that are not recognised as revenue, an asset or an expense in accordance with paragraph G23.37(c); and
 - (d) work in progress that comprises services to be provided for no or nominal consideration and the NPO elects to expense the costs as they are incurred.

Measurement of inventories

- G13.6 An NPO shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell, except where paragraph G13.7 and/or paragraph G13.8 applies.
- G13.7 Where inventories are acquired through a donation, their initial cost shall be measured at fair value in accordance with paragraph G23.33.

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

Cost of inventories

- G13.9 An NPO shall include in the cost of inventories all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of purchase

- G13.10 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the NPO from the taxing authorities) and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.
- G13.11 An NPO may purchase inventories on deferred settlement terms. In some cases, the arrangement effectively contains an unstated financing element – for example, a difference between the purchase price for normal credit terms and the deferred settlement amount. In these cases, the difference is recognised as interest expense over the period of the financing and is not added to the cost of the inventories.

Costs of conversion

- G13.12 The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as **depreciation** and maintenance of factory buildings and equipment and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

Allocation of production overheads

- G13.13 An NPO shall allocate fixed production overheads to the costs of conversion on the basis of the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

Joint products and by-products

- G13.14 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of raw materials or conversion of each product are not separately identifiable, an NPO shall allocate them between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable or at the completion of production. Most

by-products, by their nature, are immaterial. When this is the case, the NPO shall measure them at selling price less costs to complete and sell and deduct this amount from the cost of the main product. As a result, the **carrying amount** of the main product is not materially different from its cost.

Other costs included in inventories

- G13.15 An NPO shall include other costs in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.
- G13.16 Paragraph G11.76(b) requires that, in some circumstances, the change in the fair value of the **hedging instrument** in a hedge of fixed interest rate risk or commodity price risk of a commodity held adjusts the carrying amount of the commodity.

Costs excluded from inventories

- G13.17 Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:
- (a) abnormal amounts of wasted materials, labour or other production costs;
 - (b) storage costs, unless those costs are necessary during the production process before a further production stage;
 - (c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and
 - (d) selling costs.

Cost of inventories of a service provider

- G13.18 To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.

Cost of agricultural produce harvested from biological assets

- G13.19 Section 34 requires that inventories comprising agricultural produce that an NPO has harvested from its biological assets shall be measured on initial recognition at their fair value less estimated costs to sell at the point of harvest. This becomes the cost of the inventories at that date for application of this section.

Techniques for measuring cost, such as standard costing, retail method and most recent purchase price

- G13.20 An NPO may use techniques such as the standard cost method, the retail method or most recent purchase price for measuring the cost of inventories if the result approximates cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions. The retail method measures cost by reducing the sales value of the inventory by the appropriate percentage gross margin.

Cost formulas

- G13.21 An NPO shall measure the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs.
- G13.22 An NPO shall measure the cost of inventories, other than those dealt with in paragraph G13.21, by using the first-in, first-out (FIFO) or weighted average cost formula. An NPO shall use the same cost formula for all inventories having a similar nature and use to the NPO. For inventories with a different nature or use, different cost formulas may be justified. The last-in, first-out(LIFO) method is not permitted by INPAG.

Impairment of inventories

- G13.23 Section 27 *Impairment of assets* requires an NPO to assess at the end of each reporting period whether any inventories are impaired, ie the carrying amount is not fully recoverable (for example, because of damage, obsolescence or declining selling prices). If an item (or group of items) of inventory is impaired, those paragraphs require the NPO to measure the inventory at its selling price less costs to complete and sell (or for inventories held for distribution at no or nominal consideration or for use by the NPO in delivering its objectives, the cost adjusted for any loss of service potential or replacement cost) and to recognise an impairment loss. Those paragraphs also require a reversal of a prior impairment in some circumstances.

Recognition as an expense

- G13.24 When inventories are sold, distributed to service recipients or used by the NPO, the NPO shall recognise the carrying amount of those inventories as an expense in the period in which the related revenue is recognised.
- G13.25 Some inventories may be allocated to other asset accounts – for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are accounted for subsequently in accordance with the section of INPAG relevant to that type of asset.

Disclosures

- G13.26 An NPO shall disclose the following:
- (a) the **accounting policies** adopted in measuring inventories, including the cost formula used;
 - (b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the NPO;
 - (c) the amount of inventories recognised as an expense during the period;
 - (d) impairment losses recognised or reversed in surplus or deficit in accordance with Section 27;
 - (e) a description of any inventories not recognised because they do not meet the recognition criteria due to the NPO being unable to reliably measure the inventories; and
 - (f) the total carrying amount of inventories pledged as security for liabilities.
- G13.27 If an NPO elects to use the permitted exceptions in paragraph G13.5, the NPO shall disclose which permitted exception or exceptions have been used, provide a description of the inventories for which the exception or exceptions have been used, and provide an explanation of why the NPO has elected to use the permitted exception(s).

Application Guidance: Section 13 – Inventories

Measurement

Fair value

- AG13.1 Guidance in determining fair value is found in Section 12 *Fair value measurement* [ED3].
- AG13.2 Section 12 establishes a fair value hierarchy that categorises the inputs to valuation techniques used to measure fair value into three levels. An NPO shall apply that hierarchy in determining the fair value of donated inventories.
- AG13.3 Where an NPO needs to refer to level 3 inputs (that is, **unobservable inputs**) to determine the fair value of the donated inventories, the NPO may use the cost to the donor (where this is known) as deemed fair value.

Loss of service potential

- AG13.4 Where an NPO decides to recognise inventories held for distribution at no or nominal consideration or for use by the NPO in delivering its objectives, after initial recognition, its measurement must take into account any loss of service potential.
- AG13.5 The service potential of the inventories takes into account the current age, functionality and condition of the inventories held by the NPO.
- AG13.6 In order to reflect the current age, functionality and condition, the following factors are considered:
- (a) physical obsolescence: this relates to any loss of service potential due to the physical deterioration of the inventories resulting from physical damage or age;
 - (b) functional obsolescence: this relates to any loss of service potential resulting from inefficiencies in the inventories that are being valued compared with its modern equivalent; and
 - (c) economic obsolescence: this relates to any loss of utility caused by economic or other factors outside the control of the NPO.

Reliable measurement

- AG13.7 Paragraph G2.86 states that for an asset to be recognised, it must be measured. Where an asset cannot be reliably measured, it is not recognised.
- AG13.8 It is expected that the majority of donated inventories can be measured reliably. Rarely, there may be circumstances where an NPO is unable to reliably measure inventories. For example, where an NPO responding to an emergency receives large volumes of donated items, distributes them almost immediately and does not have the systems or resources to keep accurate records without delaying the response to the emergency.
- AG13.9 In these circumstances, it will not be possible for the NPO to apply a permitted exception (paragraph G13.5) to those inventories. This is because it will not be possible to reliably measure the asset and the related revenue and expense that are all required to be recognised when the items are used or distributed (see paragraph G23.37(b)). In these circumstances, the NPO shall not recognise inventories in respect of these donated items. Instead, the NPO shall make the disclosure required by paragraph G13.26(e).

Comparison of Section 13 with the *IFRS for SMEs Accounting Standard*

Section 13 of INPAG has been drawn from Section 13 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 13 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 13 of INPAG are as follows:

- INPAG Section 13 uses different terminology, referring specifically to NPOs rather than entities more generally.
- INPAG Section 13 broadens the scope of the section to include inventory held for distribution and fundraising and specifically inventory held for distribution to service recipients in the course of an NPO's ordinary operations. Additional measurement requirements are included for these types of inventories.
- Commodity brokers and dealers that measure their inventories at fair value less costs to sell through profit and loss has been removed as these activities are expected to not be relevant to NPOs.
- INPAG Section 13 includes a requirement that inventory received for no or nominal cost is to be measured at fair value (subject to permitted exceptions).
- INPAG Section 13 includes permitted exceptions that allow certain types of donated inventory to not be recognised until it is sold or transferred to another party in the course of fundraising activities, or to not be recognised until it has been distributed to service recipients. These permitted exceptions provide pragmatic relief for NPOs in recognising and measuring these kinds of inventories.
- INPAG Section 13 sets the expectation that all donated inventories can be reliably measured, providing additional guidance, and requires additional disclosure if inventories have not been recognised because a reliable measurement cannot be obtained.
- Additional application guidance has been developed for Section 13 that further explains the main amendments from Section 13 of the draft Third edition of the *IFRS for SMEs Accounting Standard*. It also provides NPO-specific guidance that cost to the donor can be used to approximate fair value for donated inventory.
- INPAG Section 13 requires that use of the permitted exceptions be disclosed.

Specific matter for comment	
<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>

Sections 14–20

Section	
14	Investments in associates
15	Joint arrangements
16	Investment property
17	Property, plant and equipment
18	Intangible assets other than goodwill
19	Business combinations and goodwill
20	Leases

Sections 14–20 will be included in ED3.

Section 21 – Provisions and contingencies

Scope of this section

- G21.1 This section applies to all **provisions** (ie liabilities of uncertain timing or amount), **contingent liabilities** and **contingent assets** except those provisions covered by other sections of this Guidance. These include provisions relating to:
- (a) **leases** (Section 20 *Leases*). However, this section deals with **operating leases** that have become onerous.
 - (b) **revenue** (Section 23 *Revenue*). However, this section deals with enforceable grant arrangements and contracts with customers that have become onerous.
 - (c) **employee benefit** obligations (Section 28 *Employee benefits*).
 - (d) **income tax** (Section 29 *Income tax*).
 - (e) **contingent consideration** of an **acquirer** in a **business combination** (Section 19 *Business combinations and goodwill*).
- G21.2 The requirements in this section do not apply to **executory contracts** unless they are **onerous contracts**. Executory contracts are contracts under which neither party has fulfilled any of its obligations or both parties have partially fulfilled their obligations to an equal extent.
- G21.3 The word 'provision' is sometimes used in the context of such items as **depreciation**, impairment of **assets** and uncollectable receivables. Those are adjustments of the **carrying amounts** of assets instead of **recognition** of liabilities and therefore are not covered by this section.

Initial recognition

- G21.4 An NPO shall recognise a provision only when:
- (a) the NPO has an obligation at the **reporting date** as a result of past events;
 - (b) it is **probable** (ie more likely than not) that the NPO will be required to transfer economic benefits in settlement; and
 - (c) the amount of the obligation can be estimated reliably.²
- G21.5 The NPO shall recognise the provision as a liability in the **Statement of Financial Position** and shall recognise the amount of the provision as an **expense**, unless another section of this Guidance requires the cost to be recognised as part of the cost of an asset such as **inventories** or **property, plant and equipment**.
- G21.6 The condition in paragraph G21.4(a) (obligation at the reporting date as a result of a past event) means that the NPO has no realistic alternative to settling the obligation. This can happen when the NPO has a legal obligation that can be enforced by law or when the NPO has a **constructive obligation** because the past event (which may be an action of the NPO) has created valid expectations in other parties that the entity will discharge the obligation. Obligations that will arise from the NPO's future actions (ie the future conduct of its activities) do not satisfy the condition in paragraph G21.4(a), no matter how likely they are to occur and even if they are contractual. To illustrate, because of operational pressures or legal requirements, an NPO may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting safety equipment in an operational building). Because the NPO can avoid the future expenditure by its future actions – for example, by changing its method of operation

² This section uses the term provision in a way that differs in some respects from the definition of a liability in paragraph G2.59 and the Glossary. 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.

or selling the operational building – it has no present obligation for that future expenditure and no provision is recognised.

- G21.7 A restructuring is a programme that is planned and controlled by management and materially changes either the scope of an activity undertaken by an NPO or the manner in which that activity is conducted. A constructive obligation to restructure arises only when an NPO:
- (a) has a detailed formal plan for the restructuring identifying at least:
 - (i) the activities concerned;
 - (ii) the principal locations affected;
 - (iii) the location, function and approximate number of employees who will be compensated for terminating their services;
 - (iv) the expenditures that will be undertaken; and
 - (v) when the plan will be implemented.
 - (b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Initial measurement

- G21.8 An NPO shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date. The best estimate is the amount an NPO would rationally pay to settle the obligation at the end of the **reporting period** or to transfer it to a third party at that time:
- (a) when the provision involves a large population of items, the estimate of the amount reflects the weighting of all possible outcomes by their associated probabilities. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.
 - (b) when the provision arises from a single obligation, the individual most likely outcome may be the best estimate of the amount required to settle the obligation. However, even in such a case, the NPO considers other possible outcomes. When other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount than the most likely outcome.

When the effect of the time value of money is **material**, the amount of a provision shall be the **present value** of the amount expected to be required to settle the obligation. The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money. The risks specific to the liability shall be reflected either in the discount rate or in the estimation of the amounts required to settle the obligation, but not both.

- G21.9 An NPO shall exclude gains from the expected disposal of assets from the measurement of a provision.
- G21.10 When some or all of the amount required to settle a provision may be reimbursed by another party (for example, through an insurance claim), the NPO shall recognise the reimbursement as a separate asset only when it is virtually certain that the NPO will receive the reimbursement on settlement of the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision. The reimbursement receivable shall be presented in the Statement of Financial Position as an asset and shall not be offset against the provision. In the **Statement of Income and Expenses**, the NPO may offset any reimbursement from another party against the expense relating to the provision.

Subsequent measurement

- G21.11 An NPO shall charge against a provision only those expenditures for which the provision was originally recognised.

G21.12 An NPO shall review provisions at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. Any adjustments to the amounts previously recognised shall be recognised in **surplus or deficit** unless the provision was originally recognised as part of the cost of an asset (see paragraph G21.5). When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount shall be recognised as a finance cost in surplus or deficit in the period it arises.

Contingent liabilities

G21.13 A **contingent liability** is either a possible but uncertain obligation or a present obligation that is not recognised because it fails to meet one or both of the conditions (b) and (c) in paragraph G21.4. An NPO shall not recognise a contingent liability as a liability, except for contingent liabilities assumed in a business combination (see paragraph 19.10J). Disclosure of a contingent liability is required by paragraph G21.16 unless the possibility of an outflow of resources is remote. When an NPO is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

Contingent assets

G21.14 An NPO shall not recognise a contingent asset as an asset. Disclosure of a contingent asset is required by paragraph G21.17 when an inflow of economic benefits is probable. However, when the flow of future economic benefits to the NPO is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.

Disclosures

Disclosures about provisions

G21.15 For each class of provision, an NPO shall disclose all of the following:

- (a) a reconciliation showing:
 - (i) the carrying amount at the beginning and end of the period;
 - (ii) additions during the period, including adjustments that result from changes in measuring the discounted amount;
 - (iii) amounts charged against the provision during the period; and
 - (iv) unused amounts reversed during the period.
- (b) a brief description of the nature of the obligation and the expected amount and timing of any resulting payments;
- (c) an indication of the uncertainties about the amount or timing of those outflows; and
- (d) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Comparative information for prior periods is not required.

Disclosures about contingent liabilities

G21.16 Unless the possibility of any outflow of resources in settlement is remote, an NPO shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:

- (a) an estimate of its financial effect, measured in accordance with paragraphs G21.8–G21.12;

- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
- (c) the possibility of any reimbursement.

If it is **impracticable** to make one or more of these disclosures, that fact shall be stated.

Disclosures about contingent assets

G21.17 If an inflow of economic benefits is probable (more likely than not) but not virtually certain, an NPO shall disclose a description of the nature of the contingent assets at the end of the reporting period and, unless it would involve undue cost or effort, an estimate of their financial effect, measured using the principles set out in paragraphs G21.8–G21.12. If such an estimate would involve undue cost or effort, the NPO shall disclose that fact and the reasons why estimating the financial effect would involve undue cost or effort.

Prejudicial disclosures

G21.18 In extremely rare cases, disclosure of some or all of the information required by paragraphs G21.15–G21.17 can be expected to prejudice seriously the position of the NPO in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an NPO need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

Comparison of Section 21 with the *IFRS for SMEs Accounting Standard*

Section 21 of INPAG has been drawn from Section 21 of the *IFRS for SMEs Accounting Standard*, with changes only to terminology and to align with the statements required by INPAG. The main differences between Section 21 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 21 of INPAG are as follows:

- INPAG Section 21 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.
- The reference to obligations arising as a result of a past event has been updated to obligations arising as a result of past events in line with the concepts and pervasive principles.
- The examples provided in Section 21 of the draft Third edition of the *IFRS for SMEs Accounting Standard* have been relocated to the INPAG Implementation Guidance. The example of warranties has been removed and a new example relating to onerous contracts has been added.

Specific matter for comment	
<p>Question 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 added? If not, why not?</p>	<p>References</p> <p>Section 21, illustrative example 3</p>

Section 22 – Liabilities and equity

Section 22 will be included in ED3.

Section 23 – Revenue

Scope of this section

- G23.1 This section specifies the accounting for revenue by NPOs.
- G23.2 Section 23 applies to all **revenue** except:
- (a) equity contributions received (see Section 22 *Liabilities and equity* [ED3]).
 - (b) **lease** agreements within the scope of Section 20 *Leases* [ED3];
 - (c) **insurance contracts**;
 - (d) financial instruments and other contractual rights or obligations within the scope of Section 9 *Consolidated and separate financial statements*, Section 11 *Financial instruments*, Section 14 *Investments in associates* and Section 15 *Joint arrangements* that are not grants and donations; and
 - (e) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.
- G23.3 A transaction may be partially within the scope of this section and partially within the scope of the other INPAG sections as set out in paragraph G23.2 (for example, a lease agreement that includes the provision of services). If the other section specifies how to separate or initially measure any parts of the transaction, then an NPO shall first apply the separation or measurement requirements in that section. Otherwise, the NPO shall apply this section to separate or initially measure those parts of the transaction.

Structure of Section 23

- G23.4 This section comprises two parts: Part I *Revenue from grants and donations* and Part II *Revenue from contracts with customers* (see Figure 23.1).
- G23.5 Part I relates to accounting for revenue from grants, donations and similar income. It is revenue that arises from a transaction in which an NPO receives cash, a service, good or other asset from another entity or individual without directly providing any cash, or a service, good or other asset in return to the provider of those resources. This form of revenue is sometimes known as non-exchange revenue, non-reciprocal revenue or unrequited revenue.
- G23.6 Part II relates to accounting for revenue from contracts with customers. This is revenue that an NPO earns from providing services, goods or other assets to customers (be they an entity or individual), usually at a market rate. This form of revenue is sometimes known as commercial revenue, exchange revenue, reciprocal revenue or required revenue.
- G23.7 The part of Section 23 that an NPO is required to apply to a revenue transaction depends on the economic substance of that transaction. As a consequence, there may be situations where it is necessary to apply both parts of Section 23 to an individual transaction. Also, an NPO may be required to treat an element of a transaction as a grant expense (where Section 24 Part I *Expenses on grants and donations* will apply). For example, goods or services provided at a significant subsidy may, in substance, be the provision of a grant, along with the goods or services). Paragraphs AG23.3–AG23.13 and Figure 23.1 provide additional guidance, separating a transaction into separate elements where revenue transactions involve a subsidy being received or given by an NPO.

Principles for revenue recognition and measurement

- G23.8 The general principles for recognising revenue are as follows:
- (a) a revenue transaction that does not impose specified **enforceable grant obligations (EGOs)** on the NPO or does not require the satisfaction of promises in a contract with customers is recognised as revenue when the amounts are received or, if earlier, become receivable;

- (b) a revenue transaction that imposes specified EGOs on the NPO or requires the satisfaction of promises in a contract with customers is recognised as revenue only when the EGOs or promises are met; and
- (c) amounts received before the revenue recognition criteria are satisfied are recognised as a liability.

G23.9 A liability recognised in accordance with paragraph G23.8(c) is subsequently derecognised, and revenue recognised, when the EGOs or promises are met.

G23.10 An NPO shall measure revenue at the fair value of the asset received or receivable, or the reduction in a liability where the **grant provider** forgives an NPO's obligation.

Initial recognition of revenue from enforceable grant arrangements or contracts with customers

5 step model

G23.11 For revenue transactions that impose specified EGOs on the NPO or require the satisfaction of promises in a contract with customers, Parts I and II share a common 5 step revenue recognition model. The objective of the model is for an NPO to recognise revenue that reflects the amount to which the NPO expects to be entitled for meeting each EGO or promise. This is applicable to revenue from grants and donations where there is an **enforceable grant arrangement (EGA)** and to all revenue from contracts with customers. Each step is summarised below, highlighting the differences in terminology depending on which part applies to the transaction.

Step	Part I Revenue from grants and donations with enforceable grant arrangements	Part II Revenue from contracts with customers
1 – Identify the existence and nature of grant arrangements and contracts.	Identify if there is an EGA, and if so, identify the nature of the arrangement.	Identify the contract(s) with a customer.
2 – Identify the EGOs or promises.	Identify the EGOs in the EGA that arise from undertakings given by the NPO.	Identify the promises in the contract. 'Promises' is used to refer to both the actions an NPO will undertake (equivalent to undertakings in Part I) and the obligation to carry out those actions (equivalent to EGOs in Part I).
3 – Determine the transaction amount or price.	Determine the transaction amount (the total amount of the grant).	Determine the transaction price.
4 – Allocate the transaction amount or price to the EGOs or promises.	Allocate the transaction amount to EGOs (where there is more than one EGO).	Allocate the transaction price to the promises in the contract (where there is more than one promise).
5 – Recognise revenue when (or as) the NPO satisfies an EGO or promise.	Recognise revenue when (or as) the NPO satisfies an EGO.	Recognise revenue when (or as) the NPO satisfies a promise.

An NPO may need to refer to Part II for more complex, less common grant transactions. Paragraphs AG23.37–AG23.40 set out how Part II is to be applied to such grants. Paragraph AG23.62 includes guidance on applying Part II to less complex contracts with customers.

Unsatisfied transactions

- G23.12 When an EGA (Part I) or a contract with a customer (Part II) is wholly unsatisfied, an NPO shall not recognise any asset, liability or revenue associated with the EGA or contract. The recognition of assets, liabilities and revenues commences when one party to the EGA or contract starts to satisfy their obligations under the arrangement.
- G23.13 EGAs and contracts with customers will be wholly unsatisfied if the NPO has not yet met any of its stated EGOs in the EGA or promises in a contract and the grant provider or customer has not yet paid, and is not yet obligated to pay, consideration to the NPO.

Revenue in foreign currencies

- G23.14 An NPO may receive revenue in a foreign currency. Measurement of revenue in a foreign currency may be affected by the point at which amounts are translated from the foreign currency to the reporting currency.
- G23.15 The effect of changes in foreign exchange rates after the inception of an EGA or contract with a customer are accounted for in accordance with Section 30 *Foreign currency translation*.

Principal versus agent considerations

- G23.16 When another party is involved in satisfying the requirements of an EGA or contract with a customer, an NPO shall determine whether the nature of its obligation is to satisfy the requirements itself (that is, the NPO is a principal) or to arrange for those requirements to be met by the other party (that is, the NPO is an agent). An NPO shall determine whether it is a principal or an agent for each EGO in an EGA and each promise in a contract. An NPO cannot be an agent unless it has a present obligation to the grant provider or customer.
- G23.17 An NPO is a principal if:
- (a) it is primarily responsible for meeting the requirements of the EGA or contract;
 - (b) when the NPO transfers goods to a **service recipient** or customer, the NPO obtains control of the specified goods as inventory before it transfers them to the service recipient or customer (that is, the NPO has inventory risk before the goods are transferred); or
 - (c) when the NPO provides services to a service recipient or customer, it obtains control of the specified service or right to the specified good or service before:
 - (i) it provides the services to the service recipient or customer; or
 - (ii) it directs another party who is acting on the NPO's behalf to provide the service to the service recipient or customer.

If none of the circumstances in (a)–(c) apply, the NPO is an agent.

- G23.18 An NPO that is a principal shall recognise the gross amount of revenue to which the NPO expects to be entitled for satisfying the requirements of an EGA or contract.
- G23.19 An NPO that is an agent shall recognise the amount of any management or administration charge, fee or commission to which the NPO expects to be entitled in exchange for arranging for the requirements of the EGA or contract to be satisfied as revenue.

Presentation

G23.20 An NPO shall apply Section 36 *Fund accounting* [ED3] to determine the presentation of grant revenue as from funds with restrictions or funds without restrictions.

Part I – Revenue from grants and donations

Scope of Part I

G23.21 Part I specifies the accounting for revenue from grants, donations and similar income (hereafter referred to as grant revenue) as described in G23.5.

G23.22 The accounting for expenditure by an NPO on grants, donations and similar transfers is specified in Section 24 Part I *Expenses on grants and donations*.

Types of grant revenue

G23.23 Grant revenue may arise:

(a) from transactions that:

- (i) impose no constraints on the NPO's ability to use the grant revenue; or
- (ii) impose requirements that constrain an NPO's ability to use the grant revenue, without requiring the NPO to undertake specific activities or identifying distinct services, goods and other assets; or

(b) from EGAs that have:

- (i) only one EGO;
- (ii) multiple distinct EGOs.

G23.24 An EGA is 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 EGO.

G23.25 An EGA can arise through a written grant agreement, an oral agreement or be implied by a party's or a sector's customary practices. In determining whether a grant arrangement is enforceable, an NPO must consider the substance rather than the legal form of the grant arrangement.

G23.26 An EGA must specify:

- the outcome the NPO is expected to achieve;
- the activities that the NPO is required to undertake with the resources; or
- the distinct services, goods and other assets that the NPO will use internally or transfer externally.

G23.27 This undertaking by the grant recipient in an EGA is an EGO. An EGO creates a present obligation.

G23.28 An arrangement with an NPO that does not specify the outcomes, activities or identify distinct services, goods and other assets may nevertheless include requirements that constrain an NPO's ability to use the grant revenue.

G23.29 If these requirements do not meet the definition of an EGO, the requirement will not create a present obligation when resources are transferred.

G23.30 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 is categorised as an **other funding arrangement (OFA)**. The type of grant revenue will determine its recognition and measurement.

Identify the grant revenue transaction

G23.31 For a grant arrangement to be enforceable, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide each entity with the ability to hold the parties accountable for the satisfaction of their obligations.

Grant revenue from transactions from other funding arrangements

G23.32 Grant revenue from transactions under an OFA will result in an asset (cash, goods, services or another asset) and revenue for an NPO. The NPO will usually recognise both the asset and revenue when the asset is received or when the amount becomes receivable.

G23.33 The NPO shall measure the grant revenue and the asset (cash, receivable or other asset) at the fair value of the asset at the point at which it is recognised. Fair value shall be determined in accordance with Section 12 *Fair value measurement* [ED3]

Subsequent measurement

G23.34 After initial recognition, an NPO shall subsequently measure:

- (a) cash and receivable assets in accordance with Section 11 *Financial instruments*; and
- (b) all other assets in accordance with the relevant section of INPAG (examples include Section 13 *Inventories* and Section 17 *Property, plant and equipment*).

Donations in-kind

G23.35 Donations in-kind include donations of non-cash items such as goods and other assets, and services such as volunteer time. Donations in-kind are recognised and measured in accordance with paragraphs G23.32–G23.33 except as outlined in paragraphs G23.36–G23.40.

G23.36 NPOs may apply permitted exceptions to the general recognition and measurement requirements for grant revenue under an OFA. This is because the cost of complying with the general requirements may exceed the benefits to the users of the financial statements of such compliance. These exceptions are not permitted in relation to grant revenue from EGAs.

G23.37 An NPO may elect to depart from the general recognition and measurement requirements by:

- (a) recognising revenue from low-value assets donated for resale or to be transferred to another party in the course of the NPO's fundraising activities, when the items are sold or the fundraising activity has taken place, measured at the amount of the consideration received or receivable;
- (b) recognising revenue from items donated for distribution to service recipients or for an NPO's own use when the items are distributed or used, measured at the fair value of the items at the time they are distributed or used; and
- (c) not recognising revenue in respect of any services in-kind, except those that are critical to the NPO's mission.

G23.38 Services in-kind that are critical to an NPO's mission are those services in-kind without which an NPO would have to **materially** reduce the level of its activities. Paragraphs AG23.35–AG23.36 provide additional guidance on determining which services are critical to an NPO's mission.

G23.39 When applying a permitted exception, the NPO shall apply that exception to all items within a class of **inventories** or other assets.

G23.40 Donations in-kind may only be recognised when they can be measured reliably. For services in-kind that are critical to the NPO's mission but cannot be reliably measured, an NPO is required to make the disclosures in paragraph G23.63.

Revenue from transactions with enforceable grant arrangements

G23.41 An NPO shall apply the 5 step model set out in paragraph G23.11. Part I provides guidance on common NPO transactions. The guidance in Part II can be used for more complex, less common transactions. Paragraphs AG23.37–AG23.40 set out how Part II is to be applied.

Enforceable grant arrangements with a single enforceable grant obligation

G23.42 Where an EGA has a single EGO, an NPO may be able to apply the 5 step model without a detailed analysis for some or all of the steps. An NPO may apply the 5 step model as follows to such transactions:

Step	Action required
1 – Identify the grant arrangement (paragraph G23.44).	Completed by applying paragraphs G23.4–G23.7 to identify an arrangement and determine that the arrangement is an EGA.
2 – Identify the EGO (paragraphs G23.45–G23.50).	Detailed analysis may not be required.
3 – Determine the transaction amount (paragraphs G23.51–G23.52).	No analysis required, as this is the total amount of the grant.
4 – Allocate the transaction amount to the EGOs (paragraphs G23.53–G23.56).	Not required as the total amount of the grant is allocated to the single EGO.
5 – Recognise revenue when (or as) the NPO satisfies an EGO (paragraphs G23.57–G23.59).	The EGO may be recognised over time or at a point in time (see paragraphs AG23.50–AG23.51). Depending on the nature of the EGO, detailed analysis may not be required.

G23.43 An NPO shall:

- (a) recognise an **enforceable grant arrangement liability** for the amount of grant received and for which the EGO has yet to be satisfied;
- (b) recognise revenue and derecognise the EGA liability as or when the EGO is satisfied;
- (c) recognise revenue and an **enforceable grant arrangement asset** for the amount of the **transaction consideration** to which the NPO is entitled for progress towards complete satisfaction of the EGO and for which the grant is yet to be received; and
- (d) derecognise the EGA asset as the consideration is received.

Enforceable grant arrangements with a number of distinct enforceable grant obligations

Step 1 – Identifying an enforceable grant arrangement

G23.44 An NPO will have completed this step by applying paragraphs G23.4–G23.7 to identify an arrangement and determine that the arrangement is an EGA.

Step 2 – Identifying enforceable grant obligations in an enforceable grant arrangement

G23.45 An undertaking in an EGA must create an EGO.

G23.46 At the inception of an EGA, an NPO shall assess its commitments in the arrangement and identify as an EGO each of its separate and distinct undertakings to:

- (a) achieve a specified outcome or group of outcomes (or to employ best endeavours to achieve a specified outcome or group of outcomes);
- (b) carry out a specified activity or group of activities;
- (c) transfer a distinct good or service (or a distinct bundle of goods or services) to service recipients; and
- (d) use a distinct good or service (or a distinct bundle of goods or services) internally.

G23.47 If an NPO determines that the EGA has a single EGO, it shall apply paragraphs G23.42–G23.43 in accounting for the EGA.

Enforceable grant obligations and resources

G23.48 An EGA will generally explicitly state the outcomes, activities, services or goods that are required by an EGO. However, these may be implied by the customary practices of an NPO, a grant provider, or a sector in some jurisdictions.

G23.49 Generally, EGOs do not include administrative tasks such as monthly monitoring reports.

Identifying separate enforceable grant obligations

G23.50 An EGO is separate and distinct if both of the following criteria are met:

- (a) an outcome or activity (which may be the transfer of goods or services to service recipients) is separate from other outcomes or activities in the EGA; and
- (b) the resources (including goods or services) required to complete the outcome or activity by the EGA are separate from other resources required by the EGA.

Step 3 – Determining the transaction amount

G23.51 The transaction amount is the amount of the grant to which an NPO expects to be entitled for satisfying its EGOs. An NPO shall consider the terms of the EGA and its customary practices to determine the transaction amount.

G23.52 For the purpose of determining the transaction amount, an NPO shall assume that the grant will be received in accordance with the terms of the EGA as it exists at the transaction date and that it will not be cancelled, renewed or modified in the future.

Step 4 – Allocating the transaction amount to enforceable grant obligations

G23.53 An NPO shall allocate the transaction amount to each EGO identified in the EGA on a **stand-alone value** basis that is relative to the estimated costs.

G23.54 The stand-alone value is the cost (including costs such as employee costs) the NPO expects to incur to satisfy an EGO. Where a grant is only intended to contribute towards part of the costs of a specified activity or deliverable under an EGO, the stand-alone value shall be adjusted to reflect any specific amount identified in the EGA or to reflect the proportion of the activity or deliverable intended in the EGA.

G23.55 An NPO shall use the observable price of a good or service as the stand-alone value when the NPO acquires those goods and services in an observable market. Otherwise, the NPO shall estimate the stand-alone value.

G23.56 When estimating a stand-alone value, an NPO shall take into account all information that is reasonably available to it, including market conditions, NPO-specific factors and negotiations with the grant provider. An NPO shall apply estimation methods consistently in similar circumstances.

Step 5 – Recognising grant revenue when (or as) the NPO satisfies an enforceable grant obligation

- G23.57 An NPO shall recognise grant revenue from a transaction with an EGA when (or as) the NPO satisfies an EGO. An NPO satisfies an EGO by completing the activity or deliverable (which may be the transfer of goods or services to service recipients) using the required resources. EGOs may be satisfied over time or at a point in time (see paragraphs AG23.50–AG23.51).
- G23.58 Grant revenue is measured at the value of the transaction amount allocated to the EGO that has been met or partially met.
- G23.59 Where an NPO has received a grant in advance of meeting its EGOs, it shall recognise an EGA liability. It shall recognise an EGA asset where an EGO has been met ahead of the amount being receivable.

Enforceable grant arrangement costs

- G23.60 An NPO shall account for the costs incurred in fulfilling an EGA in accordance with the relevant section of INPAG for those costs (for example, Section 13 *Inventories*, Section 17 *Property, plant and equipment* and Section 18 *Intangible assets other than goodwill*).

Disclosure

- G23.61 An NPO shall disclose the revenue it recognised from grants, donations and other income, disaggregated into categories, showing separately, at a minimum, revenue arising from transactions:
- (a) that are OFAs, disaggregated into:
 - (i) revenue received or receivable in cash;
 - (ii) revenue received as gifts in-kind; and
 - (iii) revenue received as services in-kind;
 - (b) with EGAs.

Grant revenue without enforceable grant arrangements

- G23.62 If an NPO elects to use the permitted exceptions in paragraph G23.37, the disclosures in G13.27 shall be made.
- G23.63 When an NPO receives services in-kind that are critical to the NPO's mission but does not recognise those services in-kind (in accordance with paragraph G23.36(c)) because the value of the services cannot be reliably measured, the NPO shall disclose:
- (a) a description of the services received;
 - (b) an explanation of why the services are critical to the NPO's mission; and
 - (c) any quantitative information available to the NPO – for example, the number of hours or days of each type of service in-kind received.
- G23.64 An NPO is encouraged (but not required) to disclose its best estimate of the value of any gifts in-kind or services in-kind that it has received but not recognised as revenue.
- G23.65 An NPO shall disclose the opening and closing balances of any receivables from grants, donations and similar income without EGAs if not otherwise separately presented or disclosed.

Grant revenue with enforceable grant arrangements

- G23.66 Unless the amounts are presented separately in the Statement of Income and Expenses by applying other sections of INPAG, an NPO shall disclose the amount of **impairment** losses recognised for the

reporting period on any receivables or EGA assets arising from an NPO's EGAs, which the NPO shall disclose separately from other impairment losses for the reporting period.

- G23.67 An NPO shall disclose:
- (a) the opening and closing balances of receivables, EGA assets and EGA liabilities, if not otherwise separately presented or disclosed;
 - (b) revenue recognised in the reporting period that was included in the EGA liability balance at the beginning of the period; and
 - (c) revenue recognised in the reporting period from EGOs satisfied or partially satisfied in previous periods.
- G23.68 An NPO shall disclose information about its EGOs in EGAs, including a description of:
- (a) when the NPO typically satisfies its EGOs (for example, upon delivery, as services are rendered or upon completion of service); and
 - (b) the significant grant payment terms.
- G23.69 For EGOs that an NPO satisfies over time, the NPO shall disclose the methods it used to recognise revenue.
- G23.70 An NPO shall provide a quantitative or qualitative explanation of the significant unsatisfied EGOs and when they are expected to be satisfied. However, an NPO need not disclose such information if the EGO is part of an EGA that has an original expected duration of one year or less.

Part II – Revenue from contracts with customers

Revenue recognition model

- G23.71 Part II applies the 5 step revenue recognition model in paragraph G23.11 to contracts with customers. An NPO shall apply Part II consistently to contracts with similar characteristics and in similar circumstances.
- G23.72 Part II specifies the accounting for an individual contract with a customer. An NPO may apply this section to a portfolio of similar contracts (or promises) if the NPO reasonably expects that the result of doing so would not differ materially from the result of applying this section to the individual contracts (or promises) within that portfolio.

Applying the revenue recognition model to simpler transactions

- G23.73 Part II establishes the revenue recognition model for all revenue from contracts with customers, and as a consequence includes requirements for many complex features of revenue transactions that are not relevant for many NPO revenue transactions. For complex transactions, NPOs will need to apply the relevant requirements in this section. Paragraph AG23.62 provides guidance on when certain requirements will not be relevant to simpler transactions.

Step 1 – Identify the contract(s) with a customer

- G23.74 An NPO shall apply the revenue recognition model to account for a contract with a customer that is within the scope of this section only when all of the following criteria are met:
- (a) the parties to the contract have approved the contract and are committed to perform their respective obligations;
 - (b) the NPO can identify each party's rights regarding the goods or services to be transferred;

- (c) the NPO can identify the payment terms for the goods or services to be transferred;
- (d) the contract has commercial substance; and
- (e) it is **probable** that the NPO will collect the consideration to which it will be entitled in exchange for the goods or services to be transferred to the customer.

- G23.75 The criterion in paragraph G23.74(e) is met when the customer has the ability and intention to pay the consideration when due.
- G23.76 If a contract with a customer meets the criteria in paragraph G23.74 at inception, reassessment is only required if there is an indication of a significant change in relevant facts and circumstances.
- G23.77 If a contract with a customer does not meet the criteria in paragraph G23.74, an NPO shall initially recognise any consideration received from the customer as a liability and continue to reassess the contract until the criteria are met.
- G23.78 An NPO shall recognise the consideration initially recognised as a liability in accordance with paragraph G23.77 as revenue when either:
- (a) the contract is complete and all, or substantially all, of the consideration promised by the customer has been received and is non-refundable; or
 - (b) the contract is terminated and the consideration received is non-refundable.
- G23.79 Some contracts with customers may have no fixed duration or may automatically renew periodically. An NPO shall apply this section to the duration of the contract (that is, the contractual period) in which the parties to the contract have present enforceable rights and obligations, except for contract renewal options within the scope of paragraph G23.104.

Combination of contracts

- G23.80 An NPO shall combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:
- (a) the contracts are negotiated as a package with a single commercial objective;
 - (b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
 - (c) the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single promise in accordance with paragraphs G23.84–G23.92.

Contract modifications

- G23.81 A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A contract modification either creates new enforceable rights and obligations or changes such rights and obligations that already exist.
- G23.82 An NPO shall account for contract modifications as follows:
- (a) if the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification, an NPO shall account for the contract modification as if it were a termination of the existing contract and the creation of a new contract. The transaction price for the new contract is the sum of:
 - (i) the consideration included in the original estimate of the transaction price that had not been recognised as revenue; and
 - (ii) any additional consideration promised as part of the contract modification.

- (b) if the remaining goods or services are not distinct from the goods or services transferred on or before the date of the contract modification, an NPO shall account for the contract modification as if it were part of the existing contract. The effect that the contract modification has on the transaction price, and on the NPO's measure of progress towards complete satisfaction of the promise, shall be recognised as an adjustment to revenue at the date of the contract modification (that is, on a cumulative catch-up basis).

G23.83 As an alternative to the treatment set out in paragraph G23.82(a) and instead of terminating the existing contract, an NPO may choose to account for a contract modification as a separate contract if:

- (a) the modification increases the scope of the existing contract because of additional goods or services promised that are distinct from those in the existing contract; and
- (b) the modification increases the price of the existing contract by an amount of consideration that reflects the NPO's **stand-alone selling price** of the additional goods or services and any appropriate adjustments to that price to reflect the circumstances of that contract.

Step 2 – Identify the promises in the contract

G23.84 At contract inception, an NPO shall assess the goods and services promised in a contract with a customer and shall identify each promise to transfer a distinct good or service (or a distinct bundle of goods or services).

G23.85 If an NPO is to transfer a series of distinct goods or services that are substantially the same, the series shall be accounted for as a single promise if both of the following criteria are met:

- (a) each distinct good or service in the series that the NPO promises to transfer to the customer would meet the criteria in paragraph G23.142 to be satisfied over time; and
- (b) in accordance with paragraphs G23.152–G23.157, the same method would be used to measure the NPO's progress towards complete satisfaction of the promise to transfer each distinct good or service in the series to the customer.

G23.86 A contract with a customer generally explicitly states the goods or services that an NPO promises to transfer. However, promises may be implied by an NPO's customary business practices, published policies or specific statements if these create a valid expectation of the customer that the NPO will transfer a good or service to the customer.

G23.87 Promises do not include activities that an NPO must undertake to fulfil a contract unless those activities directly transfer a good or service to the customer (for example, set-up activities and administrative tasks that do not transfer a good or service to the customer).

Distinct goods or services

G23.88 A good or service that is promised by an NPO to a customer is distinct if both of the following criteria are met:

- (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (that is, the good or service is capable of being distinct); and
- (b) the NPO's obligation to transfer the good or service is separate from other obligations in the contract (see paragraph G23.91).

G23.89 The criterion in paragraph G23.88(a) is satisfied for goods or services that the NPO regularly sells separately.

G23.90 For the purpose of applying the criterion in paragraph G23.88(a), readily available resources are:

- (a) goods or services sold separately (by the NPO or another entity); or

- (b) goods or services that the customer has already obtained from the NPO (including goods or services transferred to the customer under the contract) or from other transactions or events.

G23.91 The purpose of the criterion in paragraph G23.88(b) is to determine if the nature of the NPO's obligation, within the context of the contract, is to transfer the good or service individually rather than to transfer a combined item or items to which the good or service is an input. Factors that indicate that two or more goods or services promised in a contract are inputs to a combined item or items and are therefore not distinct include, but are not limited to, the following:

- (a) the NPO provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the NPO is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the customer. A combined output or outputs might include more than one phase, element or unit. An example is a **construction contract** when an NPO provides an integration (or contract management) service to manage and co-ordinate the various construction tasks necessary for the construction of an asset.
- (b) one or more of the goods or services significantly modifies or customises, or is significantly modified or customised by, one or more of the other goods or services promised in the contract. An example is a software contract when an NPO promises to provide existing software and to customise that software, if the customisation service significantly modifies the software.
- (c) the goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. For example, in some cases, two or more goods or services are significantly affected by each other because an NPO would not be able to fulfil its promise by transferring each of the goods or services independently.

G23.92 If a good or service promised to a customer is not distinct, an NPO shall combine that good or service with other goods or services in the contract until it identifies a bundle of goods or services that is distinct. In some cases, this will result in the NPO accounting for all the goods or services in a contract as a single promise.

Warranties

G23.93 An NPO might provide a warranty in connection with the sale of a product (whether a good or service).

G23.94 If a customer has the option to purchase a warranty separately (that is, there is a choice of purchasing the product either with or without a warranty), the warranty is distinct because the NPO promises to provide a service to the customer in addition to the product that has the functionality described in the contract. In those circumstances, an NPO shall account for the warranty as a separate promise in accordance with paragraphs G23.84–G23.92.

G23.95 If a customer does not have the option to purchase a warranty separately, an NPO shall account for the warranty in accordance with Section 21 *Provisions and contingencies* unless:

- (a) the warranty is significant to the contract; and
- (b) the warranty, or part of the warranty, provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

G23.96 If the conditions in paragraph G23.95 are met, the service that the warranty provides to the customer is a separate promise. Therefore, the NPO shall allocate the transaction price to the product and the service. If a warranty provides the customer with both a service and the assurance that the product complies with agreed-upon specifications, but an NPO cannot reasonably account for these components separately, the NPO shall account for both the components together as a single promise.

Non-refundable upfront fees

- G23.97 In some contracts, an NPO charges a customer a non-refundable upfront fee at or near contract inception. Examples include joining fees in health club membership contracts, set-up fees in some service contracts and initial fees in some supply contracts.
- G23.98 Often a non-refundable upfront fee relates to an activity that the NPO is required to undertake to fulfil the contract but that activity does not directly transfer a good or service to the customer. If a non-refundable upfront fee relates to the transfer of a good or service, an NPO shall evaluate whether to account for the good or service as a separate promise in accordance with paragraphs G23.84–G23.92. Otherwise, the non-refundable upfront fee is included in the transaction price and allocated to the promises in the contract.
- G23.99 An NPO may charge a non-refundable fee that gives customers an option to renew the contract on similar terms. Such options that provide a customer with a material right identified in accordance with paragraph G23.100 are accounted for in accordance with paragraph G23.104, instead of as separate promises in accordance with paragraphs G23.84–G23.92.

Customer options for additional goods or services

- G23.100 In some contracts, customers are granted the option to acquire additional goods or services for free or at a discount. If the option provides the customer with a material right that it would not receive without entering into that contract, the option gives rise to a separate promise in addition to the other promises in the contract. If customers are granted the option to acquire additional goods or services at a price that would reflect the stand-alone selling prices for that good or service, the option does not provide the customer with a material right and does not give rise to a separate promise.
- G23.101 Options that may provide a material right to customers include sales incentives, customer award credits (or points), contract renewal options or other discounts on future goods or services.
- G23.102 If an option provides a material right to a customer, the customer is in effect paying the NPO in advance for future goods or services. As a consequence, the NPO recognises revenue when those future goods or services are transferred or when the option expires.
- G23.103 An NPO shall account for an option that provides a material right to a customer as a separate promise only when the effect of doing so is significant to the accounting for the individual contract.
- G23.104 If a customer is granted an option to renew a contract on similar terms (that is, provide goods or services that are similar to the original goods or services in the contract) and the option provides the customer with a material right, an NPO shall not account for the option as a separate promise. Instead, an NPO shall account for a contract that includes such an option based on:
- (a) the expected contract term (that is, including expected renewal periods); and
 - (b) the corresponding expected consideration (that is, the consideration that the NPO expects to receive in exchange for the goods or services that the NPO expects to provide).

Step 3 – Determine the transaction price

- G23.105 An NPO shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the NPO expects to be entitled in exchange for transferring goods or services promised to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes).
- G23.106 For the purpose of determining the transaction price, an NPO shall assume that the goods or services will be transferred to the customer in accordance with the existing contract and that the contract will not be cancelled, modified or renewed, except for contract renewal options within the scope of paragraph G23.104.

Variable consideration

- G23.107 If the consideration promised in a contract includes a variable amount (for example, because of some discounts, rebates, refunds, penalties or performance bonuses), an NPO shall estimate the variable amount in the transaction price that reflects the amount that is expected to become due, determined in accordance with paragraphs G23.108–G23.114.
- G23.108 An NPO shall first estimate an amount of variable consideration by using either of the following methods:
- (a) the expected value – the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an NPO has a large number of contracts with similar characteristics.
 - (b) the most likely amount – the most likely amount is the single most likely amount in a range of possible consideration amounts (that is, the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an NPO either achieves a performance bonus or does not).
- G23.109 An NPO shall apply one method consistently throughout the contract when estimating the amount of variable consideration. The information that an NPO uses to estimate the amount of variable consideration would typically be similar to the information that the NPO’s management uses during the bid-and-proposal process and in establishing prices for the goods or services promised to the customer.
- G23.110 An NPO shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph G23.108 only to the extent that it is **highly probable** that this amount will become due when the uncertainty associated with the variable consideration is subsequently resolved.
- G23.111 At the end of each reporting period, an NPO shall update the estimate of variable consideration included in the transaction price to reflect any relevant changes in circumstances. An NPO shall account for changes in the estimate of the transaction price in accordance with paragraphs G23.136–G23.138.

Sales-based or usage-based royalties

- G23.112 An NPO shall not apply paragraphs G23.108–G23.111 to a sales-based or usage-based royalty provided in exchange for a licence of intellectual property when the licence of intellectual property is the sole or predominant item to which the royalty relates. Instead, an NPO shall recognise revenue for such royalties when (or as) the later of the following events occurs:
- (a) the subsequent sale or usage takes place; and
 - (b) when (or as) the promise to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

Refund liabilities

- G23.113 If an NPO receives consideration from a customer and expects to refund some or all of that consideration to the customer, the NPO shall recognise as a refund liability the amount of consideration that the NPO reasonably expects to refund to the customer. For example, the terms of a fixed-price service contract may require a customer to pay upfront and provide the customer with a full refund of the amount paid if the customer is dissatisfied with the service at any time. At the end of each reporting period, an NPO shall update the estimate of the refund liability (and transaction price) to reflect any relevant changes in circumstances. An NPO shall account for changes in the estimate of the transaction price in accordance with paragraphs G23.136–G23.138.
- G23.114 To account for a refund liability relating to a sale with a right of return, an NPO shall apply paragraphs G23.115–G23.120.

Sale with a right of return

- G23.115 In some contracts, an NPO transfers control of a product to a customer and also grants the customer the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:
- (a) a full or partial refund of any consideration paid;
 - (b) a credit that can be applied against amounts owed, or that will be owed, to the NPO; and
 - (c) another product in exchange.
- G23.116 Exchanges by customers of one product for another of the same type, quality, condition and price (for example, one colour or size for another) are not considered returns for the purposes of applying the requirements in paragraphs G23.117–G23.120.
- G23.117 To account for revenue for the transfer of products with a right of return (and for some services that are provided subject to a refund), an NPO shall recognise the following:
- (a) revenue only for products expected not to be returned;
 - (b) a refund liability for consideration received (or receivable) for products expected to be returned; and
 - (c) a refund asset, classified as inventory, for products expected to be returned (and corresponding adjustment to cost of sales).
- G23.118 To determine the amount of consideration that should be recognised in accordance with paragraph G23.117(a), an NPO shall recognise revenue only to the extent that it is highly probable that the products will not be returned. The amount of consideration received (or receivable) that is not recognised as revenue shall be recognised as a refund liability in accordance with paragraph G23.117(b).
- G23.119 A refund asset recognised by an NPO in accordance with paragraph G23.117(c) shall initially be measured at the former **carrying amount** of the product (for example, inventory), less:
- (a) any expected costs to recover those products; and
 - (b) allowances for potential decreases in the value to the NPO of those products (for example, because of damage, obsolescence or declining selling prices).
- G23.120 At the end of each reporting period, an NPO shall update its assessment of products expected to be returned. The NPO shall:
- (a) recognise changes in the amount of revenue recognised as adjustments to the refund liability, and vice versa; and
 - (b) recognise adjustments to the asset recognised for products expected to be returned in cost of sales.
- G23.121 Contracts in which a customer may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs G23.93–G23.96.

Time value of money

- G23.122 If payment is deferred beyond normal business terms, the arrangement constitutes a financing transaction (see paragraph G11.16). An NPO shall adjust the promised amount of consideration for the effects of the time value of money and recognise the interest revenue in accordance with Section 11. The NPO shall present interest revenue separately from revenue from contracts with customers.
- G23.123 An NPO need not adjust the promised amount of consideration for the effects of the time value of money if the NPO expects, at contract inception, that the period between when the NPO transfers the good or service promised to a customer and when the customer pays for that good or service will be one year or less.

Non-cash consideration

G23.124 To determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an NPO shall measure the non-cash consideration (or promise of non-cash consideration) at fair value. If an NPO cannot reasonably estimate the fair value of the non-cash consideration, the NPO shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

Step 4 – Allocate the transaction price to the promises in the contract

G23.125 An NPO shall allocate the transaction price to each promise identified in the contract on a relative stand-alone selling price basis in accordance with G23.127–G23.131, unless allocating discounts or variable amounts on an alternative basis in accordance with paragraphs G23.132–G23.133.

G23.126 Paragraphs G23.127–G23.138 do not apply if:

- (a) a contract contains a single promise; or
- (b) all promises in a contract are satisfied at the same point in time in accordance with paragraph G23.147.

However, paragraph G23.135 applies if an NPO accounts for a series of distinct goods or services as a single promise in accordance with paragraph G23.85 and the consideration promised in the contract includes a variable amount.

Allocation based on stand-alone selling prices

G23.127 An NPO shall determine the stand-alone selling price at contract inception of the distinct good or service underlying each promise in the contract and allocate the transaction price in proportion to those stand-alone selling prices.

G23.128 The stand-alone selling price is the price at which an NPO would sell a good or service promised in a contract separately to a customer. The best evidence of a stand-alone selling price is the observable price of a good or service when the NPO sells that good or service separately in similar circumstances and to similar customers.

G23.129 If a stand-alone selling price is not directly observable, an NPO shall estimate it. When estimating a stand-alone selling price, an NPO shall take into account all information that is reasonably available to the NPO, including market conditions, NPO-specific factors and information about the customer or class of customer. An NPO shall apply estimation methods consistently in similar circumstances.

G23.130 Suitable estimation methods include, but are not limited to, the following:

- (a) adjusted market assessment approach – an NPO could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services. That approach might also include referring to prices from the NPO's competitors for similar goods or services and adjusting those prices as necessary to reflect the NPO's costs and margins.
- (b) expected cost plus a margin approach – an NPO could forecast its expected costs of transferring the good or service promised to a customer and then add an appropriate margin for that good or service.
- (c) residual approach – only if the stand-alone selling price of a good or service is highly variable or uncertain, then an NPO may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable or estimated stand-alone selling prices of other goods or services promised in the contract.

- G23.131 When estimating the stand-alone selling price for a customer's option to acquire additional goods or services identified in accordance with paragraphs G23.100–G23.104, an NPO shall reflect the discount that the customer would obtain when exercising the option, adjusted for both:
- (a) any discount that the customer could receive without exercising the option; and
 - (b) the likelihood that the option will be exercised.

Allocation of a discount

- G23.132 A customer receives a discount if the sum of the stand-alone selling prices of the goods or services promised in the contract exceeds the promised consideration.
- G23.133 An NPO shall allocate a discount to the entire contract on a relative stand-alone selling price basis, unless this basis does not depict the amount of consideration to which the NPO expects to be entitled in exchange for transferring the goods or services promised to the customer. In that case, the NPO shall allocate the discount using a method that reflects such an amount.

Allocation of variable consideration

- G23.134 An NPO shall allocate variable consideration in a transaction price to the entire contract on a relative stand-alone selling price basis, unless this basis does not depict the amount of consideration to which the NPO expects to be entitled in exchange for transferring the goods or services promised to the customer. In that case, the NPO shall allocate the variable consideration using a method that reflects such an amount.
- G23.135 An NPO shall allocate variable consideration in a transaction price to all the distinct goods or services promised in a series of distinct goods or services that forms part of a single promise in accordance with paragraph G23.85, unless this basis does not depict the amount of consideration to which the NPO expects to be entitled in exchange for transferring the goods or services promised to the customer. In that case, the NPO shall allocate the variable consideration using a method that reflects such an amount.

Changes in the transaction price

- G23.136 After contract inception, an NPO's estimate of the amount of consideration to which it expects to be entitled in exchange for transferring goods or services may change. For example, an NPO updates its estimate of variable consideration included in the transaction price to reflect any relevant changes in circumstances.
- G23.137 To account for changes in the estimate of the transaction price, an NPO shall allocate any changes to promises in the contract on the same basis as at contract inception. Consequently, an NPO shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a promise that has been satisfied shall be recognised as revenue, or as a reduction of revenue, in the period in which the estimate of the transaction price changes.
- G23.138 A change in transaction price as a result of a contract modification arises from separate and subsequent negotiation between the parties to the contract that changes the enforceable rights and obligations of those parties. Such a change shall be accounted for in accordance with paragraphs G23.81–G23.83.

Step 5 – Recognise revenue when (or as) the NPO satisfies a promise

- G23.139 An NPO shall recognise revenue when (or as) the NPO satisfies a promise to transfer a good or service or bundle of goods or services to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service.
- G23.140 For each promise identified in accordance with paragraphs G23.84–G23.92, an NPO shall determine at contract inception whether the promise is satisfied over time (in accordance with paragraphs G23.142–G23.146) or satisfied at a point in time (in accordance with paragraphs G23.147–G23.151).

G23.141 Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining economic benefits that may flow from the asset.

Promises satisfied over time

G23.142 An NPO transfers control of a good or service over time, and therefore satisfies a promise over time, if one of the following criteria is met:

- (a) the customer receives and consumes the benefits of the NPO's performance as the NPO performs (for example, routine or recurring services such as a cleaning service);
- (b) the NPO's work carried out to date would not need to be substantially reperformed if another entity were to fulfil the remainder of the promise to the customer (for example, a freight logistics contract);
- (c) the NPO's performance creates or enhances an asset that the customer obtains control of as the asset is created or enhanced (for example, in the case of a construction contract in which the customer controls the work in progress); or
- (d) the NPO's performance creates an asset that cannot be readily redirected to another customer and the customer is obliged to compensate the NPO for work carried out to date (see paragraphs G23.145–G23.146).

G23.143 An asset created by an NPO's performance cannot be readily redirected to another customer if:

- (a) to sell the asset in its completed state, the NPO would either recognise a significant loss or incur significant costs to rework the asset (for example, if an asset was highly customised for a particular customer); or
- (b) substantial contractual restrictions exist that preclude the NPO from selling the asset to another customer during the creation or enhancement of that asset (for example, if the NPO is legally obliged to sell the asset to the customer).

G23.144 An assessment of whether an asset can be readily redirected to a customer is made at contract inception. Reassessment of whether an asset can be readily redirected to a customer shall occur only if there is a contract modification that substantially changes the promise.

G23.145 An obligation for a customer to compensate an NPO for work carried out to date may arise from specific terms in the contract or laws that apply to that contract. An obligation for a customer to compensate the NPO exists if the NPO has either:

- (a) a present unconditional right to payment for work carried out to date; or
- (b) an enforceable right to demand or retain payment for work carried out to date if the contract were to be terminated before completion for reasons other than the NPO's failure to perform as promised.

G23.146 An amount that would compensate an NPO for work carried out to date would be an amount that approximates the selling price of the goods or services transferred to date (for example, recovery of the cost incurred by the NPO in satisfying the promise plus a reasonable profit margin).

Promises satisfied at a point in time

G23.147 If a promise is not satisfied over time, an NPO satisfies the promise at a point in time. To determine the point in time at which a customer obtains control of a promised asset, an NPO shall consider indicators of the transfer of control, which include, but are not limited to, the following:

- (a) the NPO has a present right to payment for the asset;
- (b) the customer has legal title to the asset;
- (c) the customer has physical possession of the asset;
- (d) the customer has the significant risks and rewards of ownership of the asset; and
- (e) the customer has accepted the asset (see paragraphs G23.150–G23.151).

- G23.148 The existence or absence of an indicator in paragraph G23.147 does not determine whether control of a promised asset has transferred. For example, an NPO may retain legal title of an asset that a customer controls as protection against the customer's failure to pay. Conversely, in a consignment arrangement, the other party (for example, a dealer or distributor) has physical possession of a product that an NPO controls. An NPO shall not recognise revenue upon delivery of a product to another party if the delivered product is held on consignment.
- G23.149 Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:
- (a) the product is controlled by the NPO until a specified event occurs, such as the sale of the product to a customer of the distributor or until a specified period expires;
 - (b) the NPO is able to require the return of the product or transfer the product to a third party (such as another distributor); and
 - (c) the distributor does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

Customer acceptance

- G23.150 Customer acceptance clauses allow a customer to cancel a contract or require an NPO to take remedial action if a good or service does not meet agreed-upon specifications. If a contract includes a customer acceptance clause, an NPO shall consider the effect of the clause when evaluating when a customer obtains control of the asset.
- G23.151 If an NPO can objectively determine (that is, determine based on information available to the NPO) that control of a good or service has been transferred to the customer in accordance with the agreed-upon specifications in the contract, then customer acceptance is a formality that would not affect the NPO's determination of when the customer has obtained control of the good or service. However, if an NPO cannot objectively determine that the good or service provided to the customer is in accordance with the agreed-upon specifications in the contract, then the NPO would not be able to conclude that the customer has obtained control until the NPO receives the customer's acceptance.

Measuring progress towards complete satisfaction of a promise

- G23.152 For each promise satisfied over time in accordance with G23.142–G23.146, an NPO shall recognise revenue over time by measuring its progress towards complete satisfaction of that promise.
- G23.153 An NPO shall select a method of measuring progress that depicts the NPO's performance in transferring control of goods or services promised to a customer (that is, the satisfaction of the promise). An NPO shall apply a single method of measuring progress for each promise satisfied over time and shall apply that method consistently to similar promises and in similar circumstances.
- G23.154 At the end of each reporting period, an NPO shall remeasure its progress towards complete satisfaction of a promise satisfied over time and update its measure of progress. Such changes to an NPO's measure of progress shall be accounted for as a change in **accounting estimate** in accordance with paragraphs G10.18–G10.22.
- G23.155 In determining a method of measuring progress, an NPO shall consider the nature of the good or service that the NPO will transfer to the customer. Appropriate methods of measuring progress include methods that recognise revenue based on:
- (a) measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services to be transferred under the contract (referred to as output methods); and
 - (b) the NPO's efforts or inputs to the satisfaction of a promise relative to the total expected inputs to satisfy the promise (referred to as input methods).

- G23.156 Common methods, and circumstances when they may be appropriate, include:
- (a) an output method based on surveys of work completed, when the surveys provide an objective measure of an NPO's performance to date;
 - (b) an output method based on units delivered, when each item transfers an equal amount of value to the customer on delivery;
 - (c) an output method based on time elapsed, when control of the goods or services is transferred evenly over time;
 - (d) an input method based on time elapsed, when an NPO's efforts or inputs are expended evenly throughout the performance period; and
 - (e) an input method based on costs incurred, when there is a relationship between costs incurred and the transfer of control of goods or services to a customer.
- G23.157 If an NPO has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the NPO's work to date (for example, a service contract in which an NPO bills a fixed amount for each hour of service provided), the NPO may recognise revenue in the amount to which the NPO has a right to invoice.

Licensing

- G23.158 A licence establishes a customer's rights to the intellectual property of an NPO (such as software, technology, trademarks, patents, franchises, music and motion picture films).
- G23.159 If a contract with a customer includes a promise to grant a licence (or licences) in addition to other goods or services, an NPO shall apply paragraphs G23.84–G23.92 to identify each of the promises in the contract. If the promise to grant a licence is not distinct from the other goods or services in the contract, an NPO shall apply paragraphs G23.139–G23.151 to determine whether the promise (which includes the licence) is satisfied either over time or at a point in time. If the promise to grant a licence is distinct from the other goods or services in the contract, an NPO shall apply paragraphs G23.160–G23.165 to determine whether the promise is satisfied over time or satisfied at a point in time.
- G23.160 To determine if the promise to grant a licence is satisfied over time or satisfied at a point in time, an NPO shall consider whether the nature of the NPO's promise in granting the licence provides the customer with either:
- (a) a right to access the NPO's intellectual property as it exists throughout the licence period; or
 - (b) a right to use the NPO's intellectual property as it exists at the point in time at which the licence is granted.
- G23.161 A licence provides a customer with a right to access an NPO's intellectual property if the NPO expects to undertake activities that either:
- (a) will significantly affect the benefit the customer obtains from the intellectual property by changing the substance of the intellectual property; or
 - (b) could significantly affect the benefit the customer obtains from the intellectual property by directly exposing the customer to any positive or negative effects of those activities.
- G23.162 An NPO's expected activities may be included in the terms of a contract or arise from those activities that the customer reasonably expects the NPO will undertake. The assessment of whether a licence provides a customer with a right to access an NPO's intellectual property shall not include activities that result in the transfer of a good or service to the customer as those activities occur.
- G23.163 Activities that change the substance of the intellectual property include activities that change the intellectual property's design, content or ability to perform a function or task (for example, **development** activities that change the content to which the customer has rights). Activities that expose the customer to positive or negative effects of those activities include activities that support or maintain the value of

intellectual property (for example, ongoing activities that maintain the value of the brand to which the customer has rights).

- G23.164 If the criteria in paragraph G23.161 are met, the promise to grant a licence is satisfied over time because a customer receives and consumes the benefits of an NPO's performance of providing access to its intellectual property as the NPO performs. An NPO shall apply paragraphs G23.152–G23.157 to select an appropriate method to measure its progress towards complete satisfaction of that promise.
- G23.165 If the criteria in paragraph G23.161 are not met, the licence provides the customer with a right to use the NPO's intellectual property as it exists at the point in time at which the licence is granted. Types of licences that often provide customers with a right to use an NPO's intellectual property include licences relating to software, biological compounds or drug formulas, and completed media content (for example, motion picture films, television shows and music recordings). An NPO shall apply paragraphs G23.147–G23.151 to determine the point in time at which the licence transfers to the customer. Revenue cannot be recognised for a licence that provides a right to use the NPO's intellectual property before the beginning of the period during which the customer is able to use and benefit from the licence.

Contract costs

Costs to obtain a contract

- G23.166 An NPO may incur costs in its effort to obtain a contract with a customer. An NPO shall recognise such costs as an asset if:
- (a) the costs would not have been incurred by the NPO if the contract had not been obtained (for example, a sales commission payable on obtaining a contract); and
 - (b) the costs are expected to be recovered.
- G23.167 If an NPO is unable to identify whether costs to obtain a contract meet the criteria in paragraph G23.166 without undue cost or effort, the NPO shall recognise such costs as an expense when incurred.
- G23.168 Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.
- G23.169 An NPO may recognise the costs to obtain a contract that meet the criteria in paragraph G23.166 as an expense when incurred if the **amortisation** period of the assets that the NPO otherwise would have recognised is one year or less.

Costs of fulfilling a contract

- G23.170 An NPO shall account for the costs incurred in fulfilling a contract with a customer in accordance with the relevant section of INPAG for those costs (for example, Section 13 *Inventories*, Section 17 *Property, plant and equipment*, Section 18 *Intangible assets other than goodwill*).
- G23.171 If the costs incurred in fulfilling a contract are not within the scope of another section of INPAG, an NPO shall recognise those costs as an asset if:
- (a) the costs relate directly to a contract or to an anticipated contract that the NPO can specifically identify (for example, direct costs of a specific anticipated contract);
 - (b) the costs generate or enhance resources of the NPO that will be used in satisfying (or in continuing to satisfy) promises in the future; and
 - (c) the costs are expected to be recovered.
- G23.172 An asset recognised in accordance with paragraph G23.171 gives rise to resources that the NPO will use to satisfy future promises in the contract. Conversely, costs that relate to promises that are satisfied

(or partially satisfied) shall be recognised as expenses when incurred, as those costs relate to past performance.

Measurement after recognition

- G23.173 After initial recognition, an NPO shall measure assets recognised in accordance with paragraph G23.166 or G23.171 at cost less accumulated amortisation and any accumulated impairment losses.
- G23.174 An asset recognised in accordance with paragraph G23.166 or G23.171 shall be amortised in accordance with the pattern of transfer and revenue recognition of the goods or services to which the asset relates.
- G23.175 If an asset has been recognised in accordance with paragraph G23.166 or G23.171, an NPO shall follow Section 27 *Impairment of assets* for recognising and measuring the impairment of the asset. However, an NPO shall apply paragraph G23.176 instead of paragraphs 27.11–27.20 to estimate the **recoverable amount** of such an asset.
- G23.176 The recoverable amount of an asset recognised in accordance with paragraph G23.166 or G23.171 is:
- (a) the remaining amount of consideration that the NPO expects to receive in exchange for the goods or services to which the asset relates; less
 - (b) the costs that relate directly to providing those goods or services and that have not been recognised as expenses.
- G23.177 In applying paragraph G23.176(a), an NPO shall determine the amount of consideration that the NPO expects to receive by adjusting the transaction price for any consideration received to date and the effects of the customer's credit risk.

Contract balances

- G23.178 When either party to a contract has performed, an NPO shall present the contract in the **Statement of Financial Position** as a contract asset or a contract liability, depending on the relationship between:
- (a) the NPO's performance in transferring goods or services to the customer; and
 - (b) the customer's payment.
- G23.179 If an NPO has received consideration (or consideration is due) from the customer before the NPO transfers a good or service to the customer, the NPO shall recognise a contract liability when the payment is made or the payment is due (whichever is earlier). A contract liability is an NPO's obligation to transfer goods or services to a customer for which the NPO has received consideration (or the amount is due) from the customer. When (or as) the NPO transfers those goods or services to the customer, the NPO shall derecognise the contract liability (or part of a contract liability) and recognise revenue in accordance with paragraphs G23.139–G23.157.
- G23.180 If an NPO transfers a good or service to a customer before the customer pays consideration (or before payment is due), the NPO shall recognise a contract asset, excluding any amounts presented as a receivable. A contract asset is an NPO's right to consideration in exchange for goods or services that the NPO has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the NPO transferring other goods or services promised in the contract). When the customer pays the consideration (or the consideration becomes due), the NPO shall derecognise the contract asset. An NPO shall assess a contract asset for impairment, and recognise any impairment loss, in accordance with Section 11.
- G23.181 A receivable is an NPO's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an NPO would recognise a receivable if it has a present right to payment even though that amount may be subject to refund in the future.
- G23.182 An NPO shall present contract assets and receivables separately.

Customers' unexercised rights

- G23.183 When an NPO receives an upfront non-refundable payment that gives the customer a right to receive a good or service in the future (for example, a gift card), this gives rise to a contract liability. However, customers might not exercise all of their contractual rights. Those unexercised rights are often referred to as breakage.
- G23.184 If an NPO expects to be entitled to a breakage amount in a contract liability, the NPO shall recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer when those future goods or services are transferred. If an NPO does not expect to be entitled to a breakage amount, the NPO shall recognise the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote.

Disclosures

- G23.185 An NPO shall disclose the revenue it recognised from contracts with customers disaggregated into categories, showing separately, at a minimum, revenue arising from:
- (a) the sale of goods;
 - (b) the rendering of services;
 - (c) royalties;
 - (d) commissions; and
 - (e) any other significant types of revenue from contracts with customers.
- G23.186 Unless the amounts are presented separately in the Statement of Income and Expenses by applying other sections of INPAG, an NPO shall disclose the amount of impairment losses recognised (by applying Section 11) for the reporting period on any receivables or contract assets arising from an NPO's contracts with customers, which the NPO shall disclose separately from impairment losses from other contracts for the reporting period.
- G23.187 An NPO shall disclose:
- (a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers if not otherwise separately presented or disclosed;
 - (b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and
 - (c) revenue recognised in the reporting period from promises satisfied or partially satisfied in previous periods (for example, changes in estimates of variable consideration).
- G23.188 An NPO shall disclose information about its promises in contracts with customers, including a description of:
- (a) when the NPO typically satisfies its promises (for example, upon shipment, upon delivery, as services are rendered or upon completion of service);
 - (b) the significant payment terms (for example, when payment is typically due, whether the contract includes a financing transaction, and whether the consideration amount is variable);
 - (c) obligations for returns, refunds and other similar obligations; and
 - (d) types of warranties and related obligations.
- G23.189 For promises that an NPO satisfies over time, the NPO shall disclose the methods it used to recognise revenue – for example, a description of the output methods or input methods used – and how those methods are applied.
- G23.190 An NPO shall provide a quantitative or qualitative explanation of the significance of unsatisfied promises and when they are expected to be satisfied. However, an NPO need not disclose such information for a promise if either of the following conditions is met:

- (a) the promise is part of a contract that has an original expected duration of one year or less; or
- (b) the NPO recognises revenue from the satisfaction of the promise in accordance with paragraph G23.157.

G23.191 An NPO shall disclose:

- (a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraphs G23.166 and G23.171) by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and set-up costs); and
- (b) the amount of amortisation and any impairment losses recognised in the reporting period.

G23.192 If an NPO elects to use the options in paragraph G23.123 (making no adjustment for the time value of money) or paragraph G23.169 (costs of obtaining a contract), the NPO shall disclose that fact.

G23.193 If an NPO recognises the costs to obtain a contract as expenses when incurred because it is unable to identify whether those costs meet the criteria in paragraph G23.166 without undue cost or effort, the NPO shall disclose that fact and the reasons why identifying the costs that meet the criteria in paragraph G23.166 would involve undue cost or effort.

Application Guidance: Section 23 – Revenue

Scope of this section

Applying Parts I and II

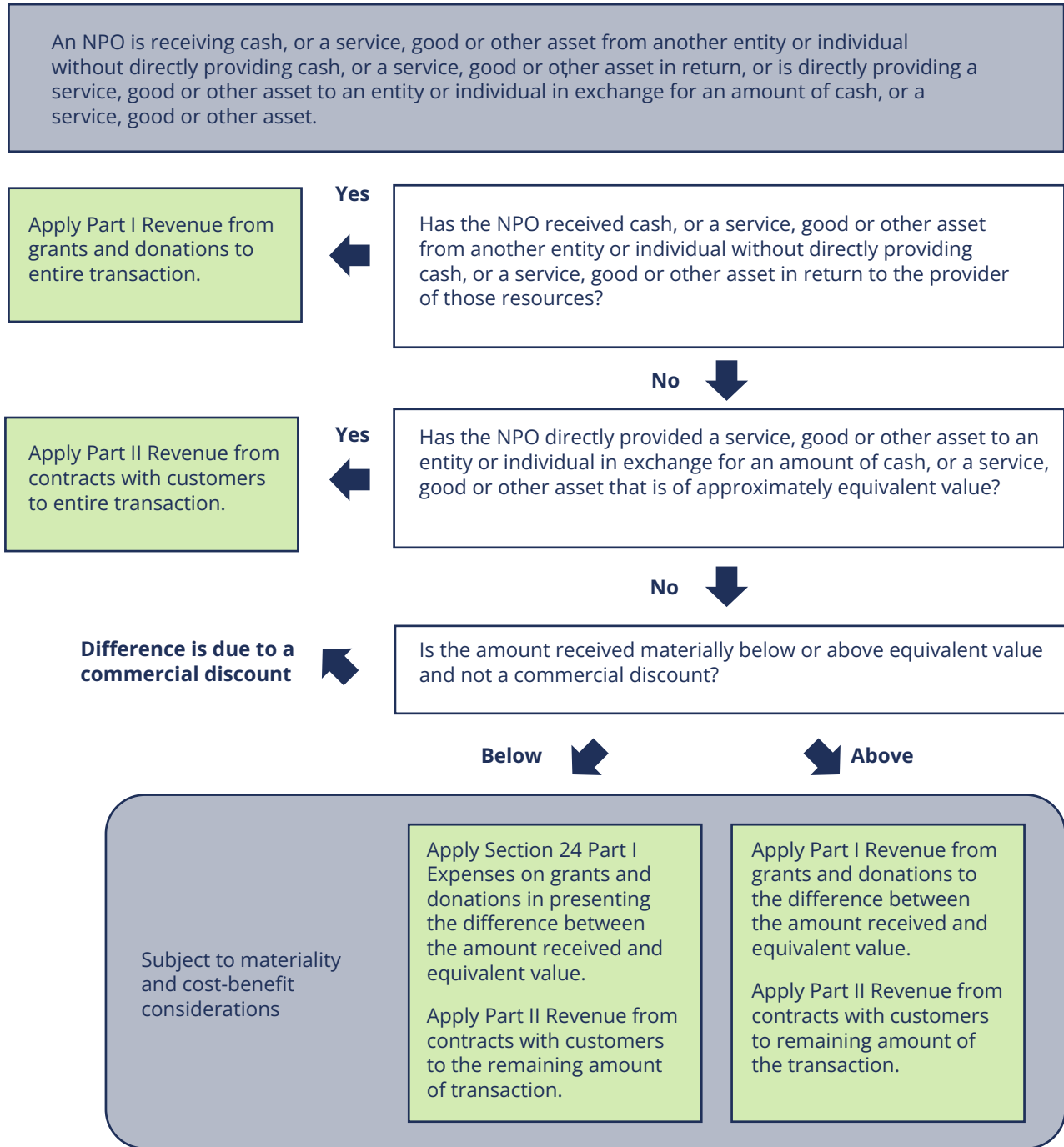
AG23.1 Whether to use Part I *Revenue from grants and donations* or Part II *Revenue from contracts with customers* depends on the economic substance of each revenue transaction (see Figure 23.1). Where, for example, an organisation provides an NPO with cash to support its provision of services, and:

- the NPO has control of the **economic resources** transferred because it has discretion over how the cash is utilised without requiring further authorisation from the cash providing organisation; and
- the cash providing organisation does not receive directly cash, a service, good or other asset in return by NPO;

the economic substance of this transaction means that the NPO should apply Part I for accounting for revenue from grants, donations and similar transfers.

AG23.2 In contrast, where, for example, an organisation asks an NPO to provide it with a service for a fee, the economic substance of this transaction involves the NPO directly providing a service to the organisation in exchange for consideration and means that the NPO should apply Part II for accounting for revenue from contracts with customers.

Figure 23.1: Decision tree illustrating which Part to apply to a revenue transaction



Economic substance of transactions – the amounts given and received are not of approximately equivalent value

Revenue – an NPO provides services, goods or other assets and receives an amount of cash, services, goods or other assets that is not of approximately equivalent value

AG23.3 An NPO may receive an amount that is either higher or lower than the value of the services, goods or other assets provided by the NPO. Where this is the case, the NPO shall determine how best to account for the substance of the transaction in accordance with paragraphs AG23.4–AG23.9.

Value received is below approximately equivalent value

AG23.4 Where the amount received by an NPO is below approximately equivalent value, the NPO shall determine whether the lower amount is because the NPO has provided a commercial discount or has provided a grant or donation to the other party by considering the substance of the transaction.

AG23.5 Where the goods, services or other assets are being provided at a commercial discount, the NPO shall apply Part II *Revenue from contracts with customers* in accounting for the transaction.

AG23.6 When the NPO is providing a grant or donation along with the services, goods or other assets, the NPO shall:

- (a) apply Part II *Revenue from contracts with customers* in accounting for the revenue; and
- (b) present or disclose the amount of grants or donations in accordance with Section 24 Part I *Expenses on grants and donations*. The grant or donation is the difference between the fair value of the services, goods or other assets provided, or to be provided, and the amount received or receivable.

AG23.7 An NPO may elect not to reflect the intention to make a donation or grant where the difference is not material or the cost of identifying the donation or grant exceeds the likely benefit to users of the financial statements.

Value received is above approximately equivalent value

AG23.8 When the amount received by an NPO is above approximately equivalent value, the NPO is, in substance, receiving a grant or donation in addition to the payment it receives for providing services, goods or other assets. The NPO shall therefore recognise the fair value of the services or goods to be provided in accordance with Part II *Revenue from contracts with customers* and the remainder (the grant or donation received) in accordance with Part I *Revenue from grants and donations*.

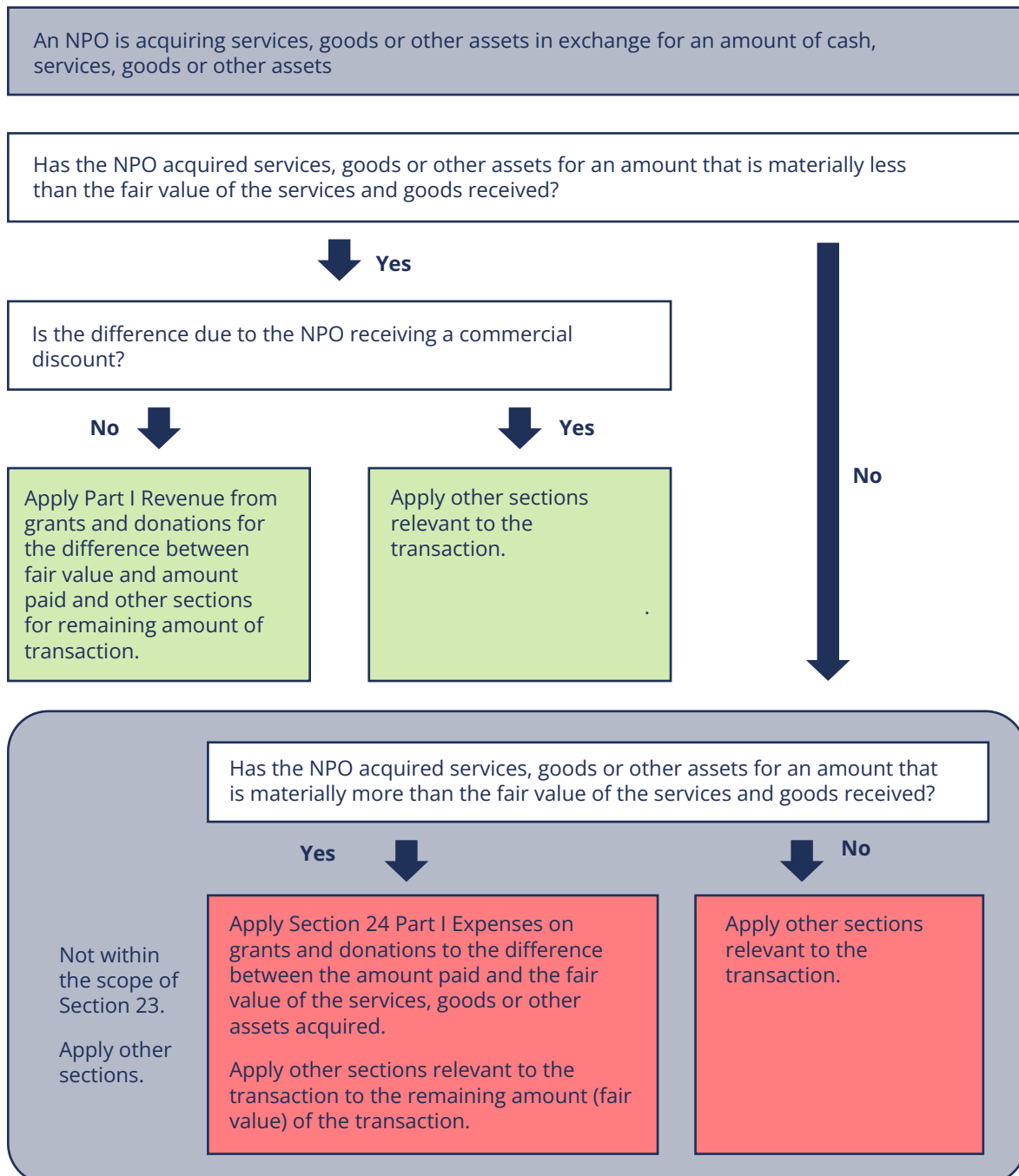
AG23.9 An NPO may elect not to separately account for the amount of the grant or donation in accordance with Part II where the cumulative effect of not accounting for such grants and donations is not material, or the cost of identifying the grants and donations exceeds the likely benefit to users of the financial statements.

Expenses – an NPO acquires services, goods or other assets in exchange for an amount of cash, services, goods or other assets below approximately equivalent value

AG23.10 An NPO may acquire goods or services for an amount that is less than the fair value of the goods or services to be received. The NPO shall determine whether it has received a commercial discount or a grant or donation by considering the substance of the transaction. An NPO that acquires goods or services for more than the fair value of the goods or services is in substance providing a grant to the other entity and shall apply Part I of Section 24 in accounting for that grant.

AG23.11 When the substance of the transaction is that the NPO has received a commercial discount, the NPO shall account for the acquisition of the services, goods or other assets in accordance with the relevant section of INPAG.

- AG23.12 When the substance of the transaction is that the NPO has received a grant or donation, the grant or donation shall be recognised in accordance with Part I *Revenue from grants and donations*. The NPO shall recognise the receipt of a grant or donation for the difference between the fair value of the services and goods received and the amount transferred. The NPO shall account for the element that relates to the acquisition of the services, goods or other assets in accordance with the relevant section of INPAG.
- AG23.13 An NPO may elect not to reflect the grant or donation received where the difference is not material or the cost of identifying the grant or donation exceeds the likely benefit to users of the financial statements.



Part I – Revenue from grants and donations

Terminology

- AG23.14 NPOs may receive funds in the form of grants, donations and similar income. Section 23 Part I uses the term grant to encompass any cash, service, good or other asset that is transferred by a grant provider to an NPO without the NPO directly providing any cash, service, good or other asset in return. A grant may therefore arise not only from items commonly described as grants but also items that may otherwise be described as donations, gifts and similar transfers of resources.
- AG23.15 In Section 23 Part I, the term resource includes goods, services and other assets, which may encompass cash, financial assets or non-current assets. References to goods or services are to be read as incorporating references to cash and other assets.

Identifying whether an enforceable grant arrangement exists

Enforceability

- AG23.16 EGAs can be evidenced in several ways (see paragraphs G23.3–G23.9). An EGA can be written, oral or implied by an NPO's customary practices. The practices and processes for establishing EGAs vary across legal frameworks, jurisdictions, sectors and entities. In addition, they may vary within an NPO (for example, they may depend on the grant provider or the nature of the NPO's promise in an EGA).

Enforceability through legal or equivalent means

- AG23.17 For a grant arrangement to be enforceable, it must be enforceable through legal or equivalent means. In determining whether a grant arrangement is enforceable, the NPO considers the substance rather than the legal form of the arrangement. Whether a grant arrangement is enforceable is based on an NPO's assessment of the ability to enforce the specified terms and conditions of the grant arrangement and the satisfaction of the other parties' stated obligations.
- AG23.18 Enforceability can arise from various mechanisms. While these may be through legal systems, there may also be alternative processes that have equivalent effect, depending on the parties involved in the EGA and the jurisdictions in which they are based.
- AG23.19 For example, in some jurisdictions, NPOs may be subject to a form of regulatory oversight, which regardless of the legal basis of an individual agreement require NPOs to act in accordance with defined rules and directives or potentially face censure. This broader regulatory oversight may provide the parties to a grant arrangement with the effective means to enforce the arrangement through appeal to a regulator, even if the specific agreement is not legally enforceable.
- AG23.20 Generally, the ability of a grant provider to reduce or withhold future funding will not on its own be a valid enforcement mechanism. This is because there is no present obligation on the grant provider to provide the future funding, and the NPO has no right to receive future funding.
- AG23.21 However, if the grant recipient is presently entitled to future funding through another EGA, and the terms of this other arrangement specifically allow the grant provider to reduce future funding if other EGAs are breached, this could be a valid enforcement mechanism. This will require the NPO to apply judgement based on the facts and circumstances, including any past history of funding being reduced where a grant provider had the right to do so.
- AG23.22 Enforceability can arise from various mechanisms. An NPO should objectively assess all relevant factors at the transaction date to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities are not legally able to enter into agreements in their own name, only that of the **government**. Alternative processes with equivalent effect to legal arrangements such as executive

orders or ministerial directives are in place to ensure that agreed-upon obligations in an arrangement are enforceable.

- AG23.23 For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal system that is similar to the force of law without being legal in nature is required. This enforcement mechanism should:
- (a) establish the right of the grant provider to obligate the NPO to complete the agreed obligation or be subject to remedies for non-completion; and
 - (b) establish the right of the NPO to obligate the grant provider to pay the agreed consideration.

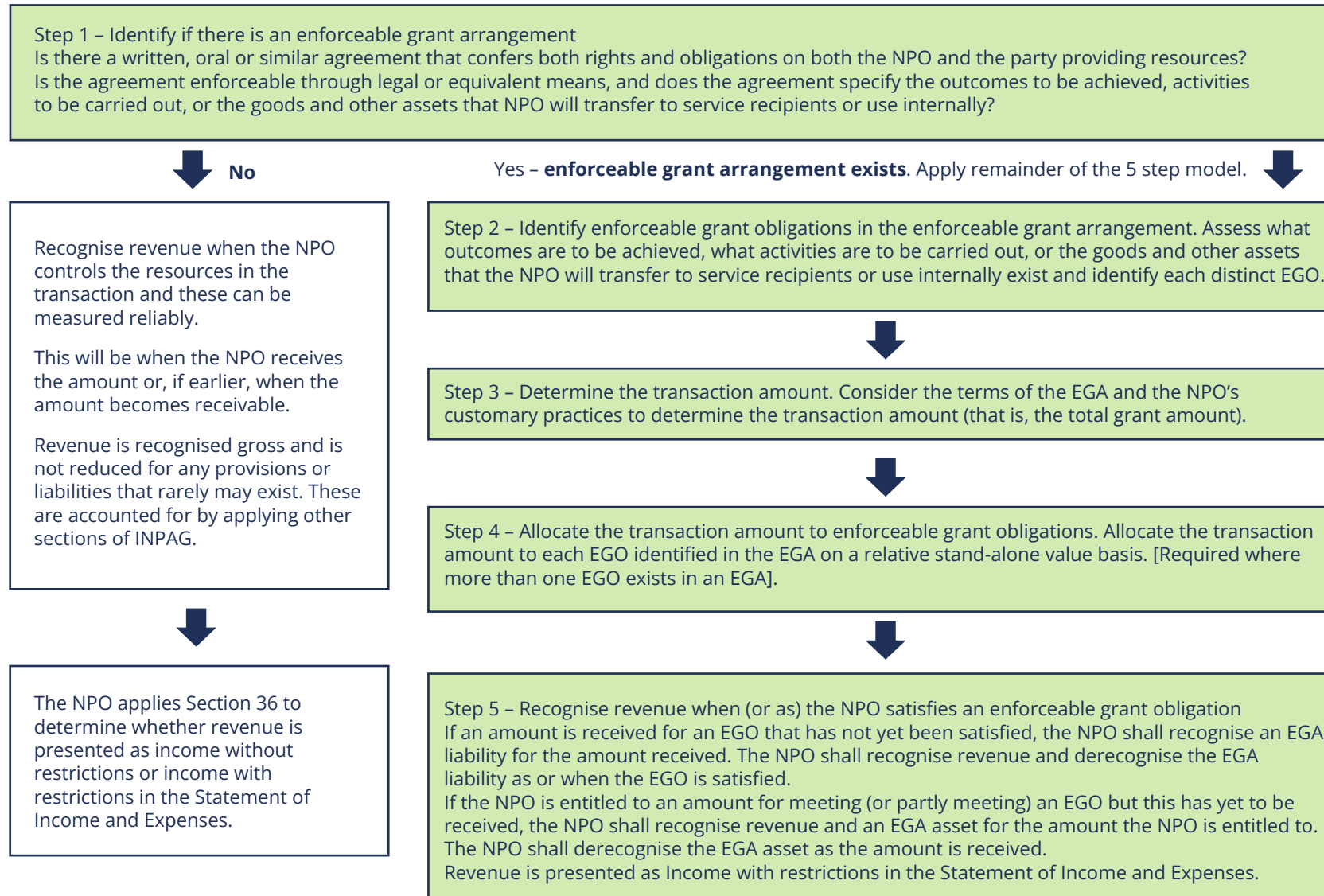
Enforceability as a result of rights and obligations

- AG23.24 An EGA includes both rights and obligations that are enforceable for both parties. Each party's enforceable right(s) and obligation(s) within the grant arrangement are interdependent and inseparable. This means that the grant provider has the ability to obligate the NPO recipient to complete the agreed obligation or be subject to remedies for not doing so, and the NPO is able to obligate the grant provider to pay the agreed grant amount even if these are rarely, if ever, exercised.
- AG23.25 For a grant arrangement to be enforceable, the grant provider must be able to determine whether the NPO has complied with its obligations. If the obligations imposed on the NPO are not sufficiently specific, the grant provider will not be able to make this determination, and the grant agreement will not be an enforceable grant agreement.
- AG23.26 For an NPO's obligations to be sufficiently specific for the grant arrangement to be enforceable, the terms of the agreement will refer to the outcomes the NPO has undertaken to achieve, the activities the NPO is required to carry out, or the goods or services that the NPO will either transfer to service recipients or use internally.
- AG23.27 A general statement of intent by a grant provider that it may transfer cash, or deliver goods, services or other assets in a certain way is not usually in and of itself an enforceable arrangement. As the declaration is a general statement of intent, it will not create an EGA between a grant provider and an NPO under which both parties have rights and obligations.
- AG23.28 The NPO's assessment of enforceability occurs at inception and subsequently when a significant external change indicates that there may be a change in the enforceability of that arrangement.
- AG23.29 An arrangement is enforceable if the agreement includes:
- (a) clearly specified rights and obligations for each involved party; and
 - (b) remedies for non-completion by each involved party, which can be enforced through the identified enforcement mechanisms.

Accounting for grant arrangements

- AG23.30 An NPO will apply the recognition and measurement criteria in Section 23 Part I as follows:
- (a) grant revenue from transactions without EGAs (whether an agreement is in place or not) is accounted for by applying paragraphs G23.32–G23.40; and
 - (b) grant revenue from transactions with EGAs is accounted for by applying paragraphs G23.41–G23.60.
- AG23.31 Figure 23.2 below summarises the process for determining how to apply Part I of this section.

Figure 23.2: Decision tree illustrating how to apply Part I



Revenue from other funding arrangements

AG23.32 In circumstances where an OFA is required before resources can be transferred, an NPO will not identify the resources as controlled until such time as the NPO has a right to those resources. This is because the NPO cannot exclude or regulate the access of the grant provider to the resources to be transferred. The NPO will need to establish that it has control of the resources before it can recognise them as an asset.

Recognising revenue when an other funding arrangement becomes receivable

AG23.33 An NPO recognises revenue from an OFA when the resource is received or receivable, whichever is earlier. In most cases, this will be when the resource is received, as the NPO will usually not have a right to the resource prior to that point.

AG23.34 However, where an OFA is in place, it is possible that this will give the NPO the right to the resource at an earlier point. This right may enable the NPO to recognise revenue even if it has not already received the resource.

Services in-kind that are critical to an NPO's mission

AG23.35 Services in-kind are critical to an NPO's mission when, without those services, an NPO would have to materially reduce the level of its activities. An example would include an NPO whose mission is to provide a telephone counselling service, and where the majority of the counsellors are volunteers.

AG23.36 Administrative services such as accountancy or legal services provided to an NPO are not critical to an NPO's mission unless such services are used to provide advice to service recipients.

Revenue from transactions with enforceable grant arrangements

Applying guidance in Part II to enforceable grant arrangements

AG23.37 Part I and Part II of Section 23 both use the same 5 step model. Part I specifies the requirements for a simplified version of the 5 step model that is expected to apply to most EGAs. When an EGA includes more complex arrangements, the NPO will apply the relevant guidance from Part II (see paragraph G23.40).

AG23.38 Different terminology is used in Part I and Part II when applying the 5 step model as set out in paragraph G23.11. Other key differences are:

- (a) the 5 step model only applies to grants with an EGA, but applies to all contracts with customers; and
- (b) the term 'EGOs' (in EGAs) has a wider meaning than the term 'promises' (in a contract with customers). A promise in a contract with a customer always involves the NPO transferring goods and services to the purchaser (or an entity or individual specified by the purchaser). An EGO might involve an NPO transferring goods or services but can also involve objectives to be achieved or activities to be carried out by the NPO that do not involve the transfer of goods or services to another party.

AG23.39 In applying the requirements of Part II to an EGA:

- (a) references to the 'contract' are to be read as the 'EGA';
- (b) references to 'promises' are to be read as 'EGOs';
- (c) references to 'goods or services [transferred/to be transferred]' are to be read as 'EGOs [satisfied/to be satisfied]';
- (d) references to 'customer' are to be read as 'grant provider';
- (e) references to 'transaction price' are to be read as 'transaction amount'; and
- (f) references to 'consideration' are to be read as the 'grant' or 'grant amount'.

AG23.40 The following table provides additional guidance on how the Part II requirements should be applied to a Part I EGA.

Topic	Application to enforceable grant arrangements
Criteria to be met before accounting for an EGA (paragraphs G23.74–G23.79)	<p>These paragraphs specify criteria that can be applied to determine if an enforceable grant agreement is within the scope of Part I if the NPO is uncertain about this.</p> <p>In applying the guidance, references to ‘commercial substance’ are to be read as ‘economic substance’. NPOs should assume that the EGA will have economic substance, as the risk, timing or amount of the NPO’s future cash flows is expected to change as a result of the EGA.</p>
Combination of EGAs (paragraph G23.80)	<p>If an NPO has entered into two or more EGAs with the same grant provider at or near the same time, an NPO may apply this paragraph in determining if the EGAs should be combined.</p> <p>In applying this guidance, the reference to ‘price’ should be read as a the ‘grant in respect of an EGA’.</p>
Modifications to EGAs (paragraphs G23.81–G23.83)	<p>An NPO shall apply these paragraphs if the terms of the enforceable grant agreement are changed.</p> <p>In applying this guidance, the reference to ‘stand-alone selling price’ shall be read as the ‘stand-alone value’.</p>
Variable grant amounts (paragraphs G23.107–G23.111)	<p>An NPO shall apply these paragraphs if the amount of the grant contains a variable element (for example, if an NPO receives a grant to carry out a vaccination programme, and an additional amount will be paid if the number of people vaccinated exceeds a threshold set in the enforceable grant agreement).</p>
Time value of money (paragraphs G23.122–G23.123)	<p>An NPO shall apply these paragraphs where the time difference between the grant being paid and the EGO being satisfied is more than one year.</p> <p>In applying this guidance, an NPO shall allow for grants being paid in advance as well as after the enforceable obligation is satisfied, which can give rise to an interest expense.</p>
Non-cash grant amounts (paragraph G23.124)	<p>An NPO shall apply this paragraph in measuring any non-cash grant amounts it receives under an EGA.</p> <p>Where an NPO cannot reasonably estimate the fair value of the non-cash item, it shall measure the grant amount indirectly by reference to the estimated cost of satisfying the EGO(s) for which the non-cash grant amount has been provided.</p>
Allocation of variable grant amounts (paragraphs G23.134–G23.135)	<p>Where an NPO has identified variable grant amounts by applying the guidance in paragraphs G23.107–G23.111), it shall apply these paragraphs in allocating the variable grant amounts to EGOs.</p>
Changes in transaction amount (paragraphs G23.136–G23.138)	<p>An NPO shall apply these paragraphs where its estimate of the total grant amount changes – for example, where its estimate of variable grant amounts changes.</p>

Topic	Application to enforceable grant arrangements
EGOs satisfied over time or at a point in time (paragraphs G23.140–G23.151)	<p>Guidance in determining whether an EGO is satisfied over time or at a point in time can be found in G23.140–G23.149. This guidance is most likely to be relevant to EGOs that require the NPO to transfer services or goods to service recipients.</p> <p>Additional guidance for other types of EGO can be found in paragraphs AG23.50–AG23.51.</p>
Measuring progress towards complete satisfaction of an EGO (paragraphs G23.152–G23.157)	<p>For EGOs satisfied over time, an NPO may apply the guidance in these paragraphs in selecting an appropriate method of measuring progress towards complete satisfaction of an EGO.</p> <p>In applying these paragraphs, references to ‘value to the customer’ are to be read as ‘proportion of the activities undertaken’ or ‘cost of the goods or services provided’ as appropriate.</p> <p>Additional guidance is provided in paragraphs AG23.52–AG23.61.</p>

Multi-year grants

- AG23.41 Multi-year arrangements generally involve the provision of resources over multiple years for a specific purpose or project. Funding may occur at multiple dates throughout a year and/or across multiple years. Multi-year arrangements can exist where there is an EGA or where there is an OFA.
- AG23.42 While such grant arrangements are longer term, the NPO shall consider whether an inflow, or a right to a future inflow, of resources gives rise to an asset, applying the same principles as an EGA that covers a single period. Revenue recognition is assessed independently from the timing of funding.
- AG23.43 In accordance with paragraph G23.12, when an EGA is wholly unsatisfied, an NPO shall not recognise any asset, liability or revenue associated with the EGA.
- AG23.44 Similarly, where a part of the EGA remains equally unsatisfied, the NPO shall not recognise any asset, liability or revenue for the equally unperformed parts of the EGA. Such equally unsatisfied parts of the EGA continue to constitute a single asset or liability that is measured at zero.
- AG23.45 In considering whether any expected inflow of resources in subsequent years meets the definition of an asset, the NPO shall consider whether that part of an EGA relating to the subsequent years is equally unsatisfied. Where this is the case, the NPO shall not recognise any asset, liability or revenue for the equally unperformed parts of the EGA.

Capital grants

- AG23.46 A **capital grant** arises when a grant provider transfers or is obligated to transfer cash or another asset to an NPO that requires the NPO to acquire or construct a non-current asset that the NPO will then control.
- AG23.47 An NPO shall follow the same approach to recognising revenue involving a capital grant as with any other revenue.
- AG23.48 Capital grants typically include substantial details about the various stages in the project (eg conception and planning, design, procurement, construction, etc.). These details are likely to mean that the capital grant is part of an EGA and can provide a basis for identifying the EGOs.
- AG23.49 An NPO shall identify the individual EGOs and determine for each the appropriate measure of progress. Revenue recognition is independent of the timing of the receipt of resources from the grant provider for each EGO.

Enforceable grant obligations over time or at a point in time

- AG23.50 EGOs to achieve an objective or carry out an activity may be satisfied over time or at a point in time. An EGO is satisfied over time if the NPO is entitled to grant revenue for the activities it has carried out to date; otherwise, the EGO is satisfied at a point in time.
- AG23.51 For example, an NPO may have an obligation to deliver 1,000 vaccinations by the end of the project:
- (a) if the NPO is entitled to grant revenue for the vaccinations it has delivered, even if this is fewer than the agreed number, the NPO is entitled to grant revenue for the activities carried out to date, and the EGO is satisfied over time.
 - (b) if the NPO is only entitled to grant revenue if the full 1,000 vaccinations are delivered, and the NPO is not entitled to revenue if fewer vaccinations are delivered, the NPO is not entitled to grant revenue for the activities carried out to date and the EGO is satisfied at a point in time, as the final vaccination is delivered.

Methods for measuring progress towards complete satisfaction of an enforceable grant obligation

Output methods

- AG23.52 Output methods recognise revenue on the basis of direct measurements of the proportion of the specified objectives achieved or specified activities carried out. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, and units produced or units delivered.
- AG23.53 A specified activity is a particular action, stated in an EGA, that the NPO must perform and that the grant provider can compel the NPO to perform.
- AG23.54 When an NPO evaluates whether to apply an output method to measure its progress, the NPO shall consider whether the output selected would faithfully depict the NPO's performance towards complete satisfaction of the EGO. An output method would not provide a faithful depiction of the NPO's performance if the output selected would fail to measure some of the promises to use resources in the specified manner. For example, output methods based on activity would not faithfully depict an NPO's performance in satisfying an EGO if the expected cost of delivering remaining activity is significantly higher than that of the activity delivered to date.
- AG23.55 Where an NPO is required to transfer a distinct good or service to a service recipient, and the NPO has a right to grant revenue that corresponds directly with the value of the EGOs completed, the NPO may recognise revenue in the amount to which it has an entitlement.
- AG23.56 The disadvantages of output methods are that the outputs used to measure progress may not be directly observable and the information required to apply them may not be available to an NPO without undue cost. Therefore, an input method may be necessary.

Input methods

- AG23.57 Input methods recognise revenue on the basis of the NPO's efforts or inputs (for example, resources consumed, labour hours expended, eligible expenditures incurred or time elapsed) relative to the total expected inputs required to satisfy that EGO. If the NPO's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the NPO to recognise revenue on a straight-line basis.
- AG23.58 The grant provider needs to be able to confirm that the NPO's EGOs in the EGA have been satisfied in the specified manner. The NPO needs to keep appropriate documentation, which may include records of eligible expenditures incurred by the NPO that directly relate to the NPO's satisfaction of the EGOs

in the specified manner. The records on eligible expenditures will show the cost of the inputs required to satisfy the EGOs.

- AG23.59 A shortcoming of input methods is that there may not be a direct relationship between an NPO's inputs and the satisfaction of its EGOs. Therefore, an NPO shall exclude from an input method the effects of any inputs that do not affect the NPO's performance in satisfying its EGOs. For instance, a cost-based input method may require an adjustment to the measure of progress in the following circumstances:
- (a) when a cost incurred does not contribute to an NPO's progress in satisfying the EGO. For example, an NPO would not recognise revenue on the basis of costs that include impairments as a result of damage to assets being used to meet the EGO.
 - (b) when a cost incurred is not proportionate to the NPO's progress in satisfying the EGO. In those circumstances, the best depiction of the NPO's performance may be to adjust the input method to recognise revenue only to the extent of that cost incurred. For example, where the costs of goods are the major cost of satisfying the EGO, a faithful depiction of an NPO's performance might be to recognise revenue proportionate to the cost of those goods.

Donor, reporting, assurance or audit requirements

- AG23.60 Reporting, assurance or audit requirements may allow a grant provider to cancel an EGA or require an NPO to take remedial action if the NPO does not comply with the requirements of the EGA. If an EGA includes reporting, assurance or audit requirements, an NPO shall consider the effect of the requirements when evaluating when an EGO is satisfied.
- AG23.61 If an NPO can objectively determine (that is, determine based on information available to the NPO) that the EGO has been satisfied in accordance with the terms of the EGA, then the reporting, assurance or audit requirements are a formality that would not affect the NPO's determination of when the enforceable compliance obligation has been satisfied. However, if an NPO cannot objectively determine that the EGO has been satisfied in accordance with the terms of the EGA, then the NPO would not be able to conclude that the EGO has been satisfied until the NPO receives the grant provider's confirmation that the requirements have been met. An NPO only recognises revenue when an EGO has been satisfied.

Part II – Revenue from contracts with customers

Applying the revenue recognition model to simpler transactions

- AG23.62 Part II establishes the revenue recognition model for all revenue from contracts with customers. It includes requirements for the complex features of revenue transactions that are not relevant for many NPO revenue transactions. For simpler transactions, NPOs need only apply the relevant requirements. The following table provides guidance on when certain requirements will not be relevant to simpler transactions.

Paragraphs	Guidance
Step 1 – Identify the contract(s) with a customer	
G23.74–G23.83	For many simpler transactions, the contract will be the sale to the customer, and no further analysis is required for Step 1. The paragraphs below relate to specific circumstances and need only be applied where relevant.
G23.80	Combination of contracts – consider only where two or more contracts are entered into at or near the same time with the same customer (or a related party).
G23.81–G23.83	Contract modification – only applies where the original contract has been amended.

Paragraphs	Guidance
Step 2 – Identify the promises in the contract	
G23.84–G23.104	For many simpler transactions, the contract will include a single promise (for example, to transfer goods to a customer), and no further analysis is required for Step 2. The paragraphs below relate to specific circumstances and need only be applied where relevant.
G23.93–G23.96	Warranties – requirements are only relevant when the contract includes a warranty.
G23.97–G23.99	Non-refundable upfront fees – requirements are only relevant when the NPO charges non-refundable upfront fees (for example, joining fees in respect of memberships).
G23.100–G23.104	Customer options for additional goods or services – requirements only apply where the original contract gives the customer the option to acquire additional goods or services for free or at a discount.
Step 3 – Determine the transaction price	
G23.105–G23.124	The transaction price is the total amount expected to be received under the contract. For many simpler transactions, the transaction price will be the amount paid at the time of the sale, and no further analysis is required for Step 3. For more complex transactions, especially those transactions that include variable consideration, reference should be made to the detailed requirements. The paragraphs below relate to specific circumstances and need only be applied where relevant.
G23.112	Only relevant when the contract includes sales-based or usage-based royalties.
G23.113–G23.114	Only relevant when the contract includes refund liabilities (for example, where the terms of a fixed-price service contract require a customer to pay upfront and provide the customer with a full refund of the amount paid if the customer is dissatisfied with the service at any time).
G23.115–G23.121	Only relevant when the contract gives the customer a right to return purchased goods for a full or partial refund, a credit or other goods in exchange.
Step 4 – Allocate the transaction price to the promises in the contract	
G23.125–G23.138	For many simpler transactions, the contract will include a single promise (for example, to transfer goods to a customer), and the full transaction price is allocated to that one promise. No further analysis is required for Step 4. The paragraphs below relate to specific circumstances and need only be applied where relevant.
G23.132–G23.133	Only relevant where the contract includes a discount and more than one promise.
G23.134–G23.135	Only relevant where the contract includes variable consideration and more than one promise.
G23.136–G23.138	Only relevant where there is a change in the transaction price (for example, a revised estimate of variable consideration between the commencement and completion of the contract). This will not affect many simpler transactions such as sales in shops.
Step 5 – Recognise revenue when (or as) the NPO satisfies a promise	
G23.139–G23.165	For many simpler transactions, revenue will be recognised at a point in time, and the more complex requirements relating to recognition of revenue over time will not be relevant.

Comparison of Section 23 with the *IFRS for SMEs Accounting Standard*

Section 23 comprises two parts, with a preface that explains the structure of the section and contains content that is common to both parts. Part I is new material for NPOs that has been informed by IPSAS 47 *Revenue*. Part II is based on the *IFRS for SMEs Accounting Standard*. The main differences between Section 23 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 23 Part II of INPAG are as follows:

- INPAG Section 23 Part II uses different terminology, referring specifically to NPOs rather than entities more generally.
- The scope section has been relocated to the preface, as the scope applies to both Part I and Part II.
- The overview of the 5 step revenue recognition model is included in the preface, as the 5 step model is being used to recognise EGAs that have characteristics in common with contracts with customers.
- The accounting for principal-agent arrangements is included in the preface, as it shares principles in common with revenue from grants and donations.
- INPAG Section 23 Part II provides simplified guidance where a contract with a customer contains only one promise, to simplify application by NPOs.
- Section 24 of the *IFRS for SMEs Accounting Standard* (covering government grants) is not included in INPAG, as government grants are covered by Section 23 Part I of INPAG, which covers a wider range of non-exchange revenue. The recognition and measurement principles are included in the preface.

Comparison of Section 23 with IPSAS 47

Section 23 comprises two parts, with a preface that explains the structure of the section and contains content that is common to both parts. Part II is based on the *IFRS for SMEs Accounting Standard*. Part I is new material for NPOs that has been informed by IPSAS 47 *Revenue*. The main differences to IPSAS 47 are as follows:

- INPAG Section 23 Part I uses different terminology, referring specifically to NPOs rather than entities more generally.
- INPAG Section 23 Part I uses the term EGA, which is drawn from the broader type of arrangement in IPSAS 47 (binding arrangement), except that an EGA specifically excludes contracts with customers.
- INPAG Section 23 Part I uses the term EGO, which is similar to a compliance obligation in IPSAS 47, except that it does not apply to requirements to transfer goods or services to a customer. The definition of an EGO specifically mentions outcomes and activities, whereas the definition of a compliance obligation in IPSAS 47 is more focused on goods and services.
- INPAG Section 23 Part I includes permitted exceptions for gifts in kind. It allows certain types of donated inventory to not be recognised until it is sold, used or distributed to service recipients. These permitted exceptions provide pragmatic relief for NPOs in recognising and measuring these kinds of inventories.
- INPAG Section 23 Part I requires services in-kind that are critical to an NPO's mission to be recognised, whereas this is not required by IPSAS 47.
- The disclosure requirements in INPAG Section 23 Part I are reduced from those in IPSAS 47. The disclosure requirements included in Part I of Section 23 are based on those in the draft Third edition of the *IFRS for SMEs Accounting Standard*. These have been adapted for the NPO context and specifically the inclusion of grants. Additional disclosures have been included where there is no equivalent requirement in the *IFRS for SMEs Accounting Standard* – for example, OFAs.

Specific matter for comment	
<p>Question 4: Revenue</p> <p>(a) Section 23 Part I and Section 24 Part I introduce new terminology relating to grant arrangements.³ Do you agree with the terms EGA and EGO 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 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>(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>(d) The revenue recognition model for EGAs requires that revenue is allocated where there is more than one EGO. Do you agree with the allocation methods identified? If not, what methods would you propose? What are the practical considerations?</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 of an EGA? If not, what would you propose instead and what is the rationale?</p> <p>(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?</p> <p>(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?</p> <p>(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 EGA? If not, provide examples of where administrative tasks are an enforceable obligation.</p> <p>(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?</p> <p>(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 on 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> <p>(k) Do you have any other comments on the proposals in Section 23, including whether the full content of the section from the <i>IFRS for SMEs Accounting Standard</i> 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>References</p> <p>G23.23–G23.30, G24.3–G24.4</p> <p>Section 23</p> <p>G23.27, G23.41– G23.59</p> <p>G23.53–G23.56, G23.125–G23.138, AG23.52–AG23.59</p> <p>G23.36, G23.37</p> <p>G23.36, G23.38, G23.63, AG23.35– AG23.36</p> <p>G23.31–G23.32, G23.35–G23.38</p> <p>G23.49</p> <p>G23.61–G23.70</p> <p>G23.42–G23.59, G23.73, AG23.37– AG23.40, AG23.62</p> <p>Section 23</p>

³ Sections 23 and 24 both include this question, which you can answer under either section or cover the grantor and grantee perspectives separately.

Section 24 – Expenses

Section 24 of the IFRS for SMEs Accounting Standard has been removed, with the equivalent guidance in Section 23 Part I Revenue from grants and donations. A new Section 24 is being developed to address NPO-specific issues related to expenses.

- G24.0 This section provides guidance on the accounting for expenses incurred by NPOs on **operating activities**. It comprises three parts:
- Part I *Expenses on grants and donations*
 - Part II *Classification of expenses [ED3]*
 - Part III *Fundraising costs [ED3]*

Part I – Expenses on grants and donations

Scope

- G24.1 This section specifies the accounting for expenses on grants, donations and similar transfers (hereafter called **grant expenses**) by **grant-providing NPOs**. It does not relate to the receipt of grants, donations and similar transfers from another entity as a **grant recipient**, which is covered in Section 23 Part I *Revenue from grants and donations*.
- G24.2 A grant expense is an expense arising from a transaction in which a grant-providing NPO provides, or is obliged to provide, assistance to a **grant recipient** (which may be an entity or individual) by transferring cash or a service, good or other asset to that grant recipient without directly receiving any cash, service, good or other asset in return.

Enforceable grant arrangements

- G24.3 An **enforceable grant arrangement (EGA)** is a grant arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on both the parties to the grant arrangement. This could be through a written grant agreement but could also be through an oral agreement or implied by a grant-providing NPO's or a sector's customary practices. In determining whether a grant arrangement is enforceable, a grant-providing NPO must consider the substance rather than the legal form of the grant arrangement. This will require the consideration of the grant-providing NPO's, the grant recipient's and the sector's customary practices.
- G24.4 An EGA must specify the outcome that the grant recipient undertakes to achieve with the transferred resources, the activities that the grant recipient undertakes to carry out with the transferred resources, or the distinct services, goods and other assets the grant recipient undertakes to use the resources for, either internally or to transfer externally. Such requirements on the use of the resources create an **enforceable grant obligation (EGO)**.
- G24.5 An arrangement with a grant recipient that is not enforceable through legal or equivalent means and does not give both parties rights is categorised as an **other funding arrangement (OFA)**. An other funding arrangement may be a written grant agreement, an oral agreement or implied by customary practices. An OFA also includes those situations where a grant-providing NPO transfers resources to a grant recipient without there being any agreed or implied arrangement in place. An OFA may constrain the grant recipient's use of the resources, but this will not be sufficient to create an EGO. This is because an OFA does not confer both rights and obligations, enforceable through legal or equivalent means, on both the parties to the arrangement.
- G24.6 Grant expenses may therefore arise from transactions involving:
- (a) OFAs; and
 - (b) EGAs.

Grant expenses from transactions that are other funding arrangements

Recognition and measurement

- G24.7 For OFAs that do not contain an obligation but where the grant-providing NPO nevertheless transfers resources to the grant recipient, a grant expense shall only be recognised when the grant-providing NPO transfers the resources to the grant recipient and no longer controls the resources in the transaction.
- G24.8 Where there is an obligation established by legal or similar means (hereafter a legal obligation) to transfer resources that results in the recognition of a liability, or there is a **constructive obligation** to transfer resources that results in the recognition of a **provision** in accordance with paragraph G21.4 of Section 21 *Provisions and contingencies*, a grant expense shall be recognised at the same time as the liability or provision. The subsequent transfer of resources will settle the recognised liability or provision.
- G24.9 Where a grant-providing NPO recognises a grant expense because it has ceased to control the resources in the transaction, the grant expense shall be measured at the **carrying amount** of the previously controlled resources.
- G24.10 Where a grant-providing NPO recognises a grant expense because a legal or constructive obligation has been established, the grant expense and liability shall be initially and subsequently measured at the amount of the resources that the grant-providing NPO is obliged to transfer to the grant recipient. The provision shall be initially and subsequently measured in accordance with paragraphs G21.8–G21.12.
- G24.11 Any requirements that constrain the use of the resources provided to the grant recipient may give rise to an asset for the grant-providing NPO if at a future date the grant recipient does not satisfy those requirements. For example, if a grant recipient fails to use a grant within the timeframe specified in the OFA, an obligation to refund all or part of the grant may arise at the end of the specified time period. The grant-providing NPO will only recognise an asset where the failure to satisfy the requirements creates a present obligation for the grant recipient.
- G24.12 After the inception of an OFA, a grant-providing NPO shall account for any financial asset that arises as a result of a grant recipient's failure to comply with a requirement that constrains the use of resources in accordance with Section 11 *Financial instruments* as at the date at which the failure to meet the requirement is confirmed. If not a financial asset, the asset shall be accounted for in accordance with the relevant section of INPAG and shall subsequently be assessed for **impairment** in accordance with Section 27 *Impairment of assets*.

Grant expenses from transactions with enforceable grant arrangements

Recognition and measurement

- G24.13 Where there is an EGA, a grant-providing NPO shall consider its rights in the EGA. The grant-providing NPO shall identify each distinct **grant fulfilment right** (or series of grant fulfilment rights that have substantially similar characteristics) that creates an EGO for the grant recipient.
- G24.14 The substance of the EGA may mean that effectively there is only one grant fulfilment right and one EGO.
- G24.15 The grant-providing NPO will need to consider the terms of the EGA to determine the **stand-alone amount** that it is obliged to pay the grant recipient for meeting each distinct grant fulfilment right. If there is only one grant fulfilment right, this will be the total amount of the grant.
- G24.16 An EGA will be wholly unsatisfied if the grant-providing NPO has not yet transferred and is not yet obligated to transfer an amount to the grant recipient and the grant recipient has not yet met any of the stated EGOs in the EGA. This is similar to an **executory contract** in which neither party has fulfilled

any of its obligations. If an EGA is wholly unsatisfied, the grant-providing NPO does not recognise any expense, asset or liability associated with the EGA. Only as one or both parties begin to fulfil their obligations will the grant-providing NPO begin to recognise transactions associated with the EGA.

- G24.17 The grant-providing NPO should consider carefully whether there are requirements attached to enforceable grant obligations that enable it to realistically avoid the transfer of resources.
- G24.18 If the grant-providing NPO concludes that realistically it cannot avoid the transfer of resources, the grant-providing NPO shall recognise a liability and a grant expense measured at the stand-alone amount of the distinct grant fulfilment right associated with the EGO.
- G24.19 If the grant-providing NPO concludes that there are requirements attached to EGOs that enable it to realistically avoid the transfer of resources, the recognition of assets, liabilities and expenses will commence only when one party to the EGA starts to meet the requirements related to their obligations under the arrangement.
- G24.20 A grant expense is recognised by the grant-providing NPO when a grant fulfilment right is met. The grant expense is measured at the stand-alone amount of the grant fulfilment right that has been met.
- G24.21 If a grant-providing NPO transfers resources prior to the grant recipient meeting its EGO, the grant-providing NPO recognises a prepayment asset and derecognises the transferred resources. The prepayment asset is measured at the total carrying amount of the resources that have been transferred. A grant-providing NPO shall recognise the grant expense when the grant recipient meets the EGO to which the grant fulfilment right relates and derecognise the prepayment asset.
- G24.22 Conversely, when a grant recipient satisfies an EGO prior to the grant-providing NPO transferring resources, the grant-providing NPO shall recognise a liability and an expense. The grant-providing NPO shall measure the liability and grant expense at the total carrying amount of the resources that the grant-providing NPO is obligated to transfer to the grant recipient for meeting its grant fulfilment right. Where the obligation is to transfer cash, this will be a financial liability measured at amortised cost in accordance with paragraph G11.17 of Section 11 *Financial instruments*.

Variable consideration

- G24.23 The amount that the grant-providing NPO is obliged to transfer to the grant recipient may vary for items such as incentives, penalties or other similar items. It may also vary if the grant-providing NPO's obligation to provide the resources is contingent on the occurrence or non-occurrence of a future event. For example, an additional amount of funds may become payable to the grant recipient if it meets its EGOs in the EGA within a specified period. This is known as **variable consideration**.
- G24.24 Variable consideration in an EGA may result in a liability of uncertain timing or amount that meets the definition of a provision in Section 21 *Provisions and contingencies*. If the grant-providing NPO has determined that it is more likely than not that a present obligation exists for the payment of variable consideration, the grant-providing NPO shall estimate an amount of variable consideration that is initially and subsequently measured in accordance with paragraphs G21.8–G21.12 of Section 21 *Provisions and contingencies*.

Changes to the amount that the grant-providing NPO is obligated to transfer and modification of the enforceable grant arrangement

- G24.25 After the inception of the EGA, the amount that a grant-providing NPO is obligated to transfer to the grant recipient in the EGA can change for various reasons, including the resolution of uncertain events or other changes in circumstances. Any changes to the amounts allocated to a grant fulfilment right that was previously met shall be recognised as an additional expense, or as a reduction of an expense, in the period in which the amount that the grant-providing NPO is obligated to transfer changes.
- G24.26 An EGA may also be modified through a change in the rights and obligations that are approved by the parties to the arrangement. The grant-providing NPO shall determine the accumulated grant expense

to be recognised as at the date of the modification by revising its estimates of the amount it is obliged to transfer for each grant fulfilment right met. The grant-providing NPO shall also determine the amount allocated to met and unmet grant fulfilment rights. The difference between the accumulated grant expense determined as at the date of the modification and the accumulated grant expense previously recognised shall be recognised in surplus or deficit as at the date of the modification.

Reclassification and impairment of a prepayment asset

- G24.27 After the recognition of a prepayment asset, the grant recipient may become unable or unwilling to satisfy its EGOs under the EGA. Where the grant-providing NPO has an enforceable and unconditional right to a refund or return of the previously transferred resources arising from the terms of the EGA, the grant-providing NPO shall reclassify the prepayment asset to a financial asset. Subsequent to its reclassification, the grant-providing NPO shall measure the financial asset in accordance with Section 11 *Financial instruments*.
- G24.28 If the grant prepayment asset is not reclassified to a financial asset as set out in paragraph G24.27 because the terms of the EGA, the legal system in the jurisdiction and/or other circumstances do not support the recognition of a financial asset, the grant-providing NPO shall assess the prepayment asset for impairment in accordance with Section 27 *Impairment of assets*.

Principal versus agent considerations

- G24.29 An important question for the recognition and measurement of grant expenses is whether the grant-providing NPO controls the **economic resources** that are transferred to the grant recipient. A grant-providing NPO controls the economic resources by having the present ability to direct the use of the economic resources and to obtain the economic benefits or **service potential** that may flow from them. If the grant-providing NPO controls the economic resources, it will be a principal in the transaction, and the recognition and measurement requirements of paragraphs G24.7–G24.26 will apply to grant expenses. This is the case even if the grant-providing NPO is subject to an EGA with the grant recipient that imposes obligations upon the grant-providing NPO. This is because as a principal the grant-providing NPO will ultimately have discretion over the amounts and timing of the transaction, the identity of the grant recipient and the requirements under which the transaction is to occur.
- G24.30 Where a grant-providing NPO does not control the economic resources, it is likely to be acting as an agent for another entity. This situation may occur, for example, when a grant-providing NPO operates in a jurisdiction where another entity does not. By agreement, the grant-providing NPO may administer the other entity's funds on its behalf and transfer the other entity's funds to a grant recipient. As an agent, the grant-providing NPO will be acting for the other entity's purpose and objectives, in accordance with the instructions or directions of the other entity, and will have no discretion about the use to which the resources are put.
- G24.31 Where a grant-providing NPO is acting as an agent and is transferring cash or other assets to a grant recipient on behalf of another entity, a grant expense is not recognised in accordance with the recognition and measurement requirements of paragraphs G24.7–G24.26. The costs incurred in the administration of the agency arrangement by the grant-providing NPO will be recognised as an expense. Similarly any assets related to the agency arrangement such as funding provided to the grant-providing NPO by the other entity do not form part of the grant-providing NPO's assets or income. Any income due to the grant-providing NPO for administering the agency arrangement will be recognised in accordance with Section 23 *Revenue*. Any funds that the grant-providing NPO is holding as an agent will be presented and disclosed in accordance with paragraph G24.41.

Disclosures

- G24.32 A grant-providing NPO shall disclose sufficient information to enable the users of the **general purpose financial reports** to understand the nature, amount, timing and uncertainty arising from grant

expenses. This will include a description of the purpose of the **material** EGAs or OFAs that have led to the recognition of grant expenses, the existence and potential consequences of variable consideration, significant payment terms and the nature of the resources that have been or will be transferred.

- G24.33 A grant-providing NPO is not required to disclose sensitive information about grant expenses. A disclosure is sensitive if it would compromise the safety or wellbeing of individuals working/volunteering for and with the grant-providing NPO, or those to whom it provides cash, goods, services and other assets and/or could prejudice the ability of the grant-providing NPO or grant recipient to deliver its mission or purpose. Sensitive information may include but is not limited to the name of grant recipients, the geographic locations in which they operate, and the third parties to whom they provide services, goods and other assets.
- G24.34 A grant-providing NPO will remain in compliance with the requirements of INPAG where this exception is utilised. When a sensitive information exception is used, the grant-providing NPO should disclose that its note related to grant expenses has been prepared in accordance with the requirement of this paragraph but is not required to provide any information that would have the effect of highlighting the nature of the sensitive information.
- G24.35 A grant-providing NPO shall present information related to grant expenses that does not result in sensitive information. The exception to not disclose sensitive information cannot be used by a grant-providing NPO to avoid disclosures that might identify failures in organisational governance, performance or financial management that could, for example, have a negative impact on its ability to fundraise its operations.

Analysis of grant expenses

- G24.36 A grant-providing NPO shall disclose the amount recognised in the **Statement of Income and Expenses** as grant expenses and provide an analysis of grant expenses in accordance with Section 24 Part II *Classification of expenses* (to be provided in ED 3).

Grant expense from revenue classified to funds with restrictions

- G24.37 Where a grant-providing NPO has financed a grant expense with revenue provided to it that has been classified to **funds with restrictions**, the grant expense will be presented as a restricted expense in the Statement of Income and Expenses in accordance with Section 36 *Fund accounting [ED3]*.

Prepayment assets and financial assets

- G24.38 Where a grant-providing NPO has recognised prepayment assets in accordance with paragraph G24.21, this shall be presented separately in the **Statement of Financial Position**. The grant-providing NPO shall disclose information that enables users to understand significant judgements, and changes in significant judgements, that the grant-providing NPO has made regarding the recognition of prepayment assets related to grants and any significant risks and uncertainties relating to their realisation.
- G24.39 Where a grant prepayment asset has been reclassified to a financial asset in accordance with paragraph G24.27, the grant-providing NPO shall provide disclosure in accordance with paragraphs G11.51–G11.53 of Section 11 *Financial instruments*.

Liabilities and provisions

- G24.38 Where a grant-providing NPO has recognised liabilities in accordance with paragraph G24.22, these will be presented in the Statement of Financial Position. If the liability is an obligation to transfer cash, the disclosure requirements of paragraphs G11.51–G11.53 in Section 11 *Financial instruments* for payables are applicable. If not an obligation to transfer cash, the grant-providing NPO will need to provide users with information on the nature of the obligation and the resources that will need to be transferred to satisfy the obligation relevant to the non-cash liability.

G24.39 If variable consideration in an EGA has resulted in the recognition of a provision in accordance with paragraph G24.24, or there is an OFA and a grant payment prostraint is recognised for a constructive obligation in accordance with paragraph G24.8 and G24.10, then the disclosure requirements of G21.15 in Section 21 *Provisions and contingencies* are applicable.

Contingent liabilities

G24.40 A grant-providing NPO shall disclose the existence of commitments to provide grant funding that are not recognised as liabilities or provisions when it is sufficiently clear that a payment is possible but not **probable**. These grant funding commitments will be disclosed as a **contingent liability** in accordance with the requirements of G21.15 in Section 21 *Provisions and contingencies*.

Principal versus agent considerations

G24.41 Where a grant-providing NPO has acted as an agent during the reporting period, it must disclose in a note to the accounts:

- a) an analysis of funds received and paid by the grant-providing NPO as an agent;
- b) details of any balances held as an agent at the **reporting date**;
- c) the name and objects of the entity on whose behalf the balances are held and why the grant-providing NPO is acting as an agent on their behalf;
- d) details of any balances outstanding between any participating consortium members for which the grant-providing NPO is administratively responsible;
- e) where funds have been held as agent for related parties, the grant-providing NPO must make the required disclosures for related parties; and
- f) details of the arrangements for safe custody and segregation of funds and other assets from the grant-providing NPO's own assets.

Part II *Classification of expenses* (to be provided as part of ED3)

Part III *Fundraising costs* (to be provided as part of ED3)

Application Guidance – Section 24 Expenses

Part I – Expenses on grants and donations

Grant expenses and procurement of services, goods and other assets

AG24.1 A grant expense is recognised when a grant-providing NPO does not directly receive any cash, service, good or other asset from a grant recipient as a result of the transfer of cash, service, good or other asset that it has or is obliged to make. A grant expense for a grant-providing NPO may therefore arise not only from items commonly described as grants but also items that may otherwise be described as donations, gifts and similar transfers of resources. These transactions may also be commonly referred to as non-exchange, non-reciprocal or non-requited transfers and expenses.

AG24.2 Where a grant-providing NPO directly receives cash, services, goods or other assets from a grant recipient as a consequence of the transfer of resources, then this may indicate a procurement relationship and a purchase.

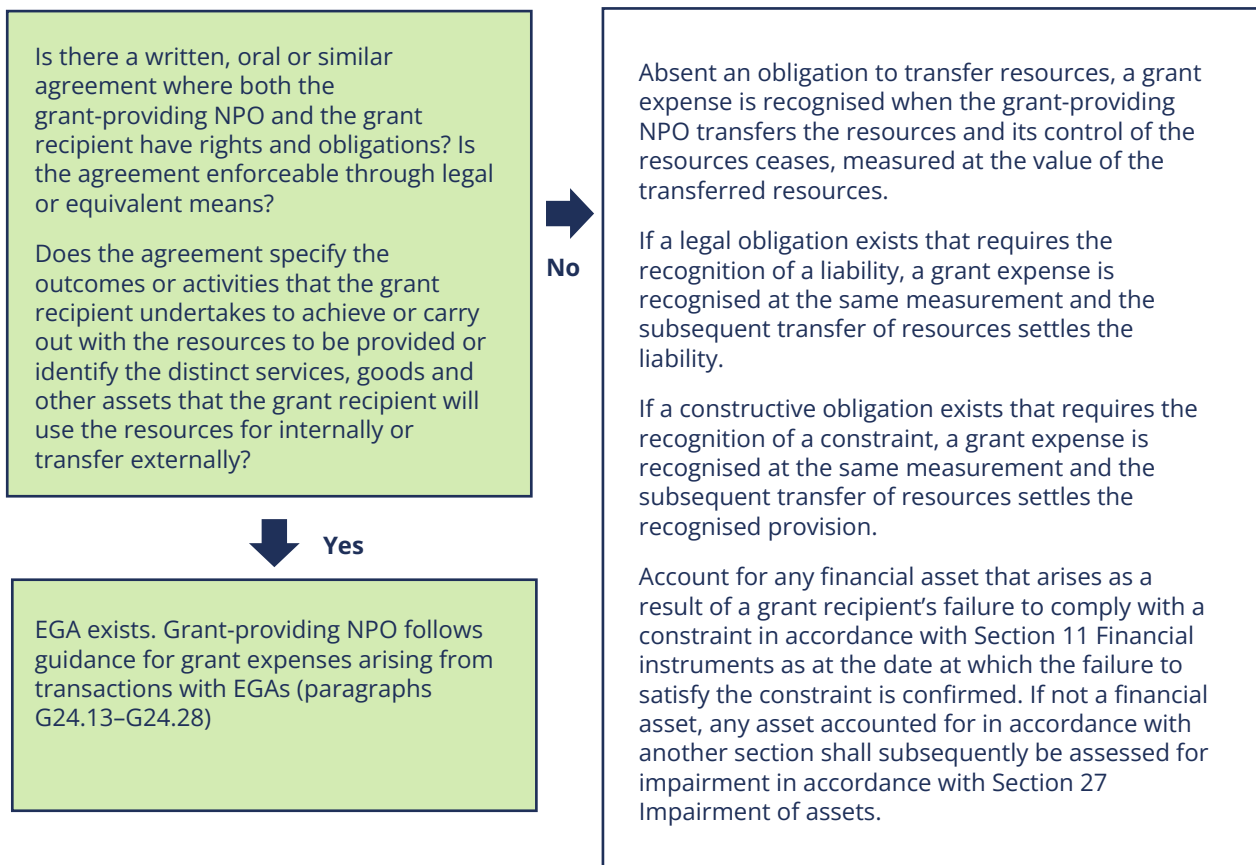
AG24.3 There may be situations where the services, goods or other assets directly received by the grant-providing NPO are not of equivalent value to the resources it transferred to the grant recipient. This could range from a nominal amount to an amount that is only just below equivalent value. Where this is the case, the grant-providing NPO must determine how best to reflect the substance of the

transaction. Where material, this may involve recognising part of the transaction as a grant expense and part as the procurement of services, goods or other assets. Additional guidance can be found in Section 23 *Revenue* AG23.3–AG23.13.

Recognition and measurement of grant expenses

AG24.4 The recognition and measurement principles for grant expenses are based on whether a transaction is from an EGA or an OFA. As noted in G24.3, an EGA is a grant arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on both the parties to the grant arrangement, ie the grant-providing NPO and the grant recipient. By contrast, as noted in G24.5, an arrangement with a grant recipient that is not enforceable through legal or equivalent means and does not give both parties both rights and obligations and is an OFA. Figure 24.1 can be used by grant-providing NPOs to determine which recognition and measurement principles apply.

Figure 24.1: The recognition and measurement of grant expenses



Issues related to other funding arrangements

Constructive obligations

AG24.5 A constructive obligation is an obligation that can arise from an NPO's customary practices, published policies or specific statements if the NPO has no practical ability to act in a manner inconsistent with those practices, policies or statements (see paragraph G2.61 in Section 2 *Concepts and pervasive principles*).

Constraints

AG24.6 There may be requirements that place constraints on the grant recipient's ability to use resources provided to it as part of a grant arrangement. Some constraints will be very specific and be part of an EGA that creates rights and obligations for both the grant-providing NPO and the grant recipient (see G24.4). Constraints that do not meet these requirements and are part of an OFA will not give rise to a present obligation for the grant recipient when resources are transferred to it. If the grant recipient does not subsequently satisfy a requirement that places constraints on the use of resources, this may give rise to an obligation to the grant recipient and a potential asset for the grant-provider at a future date.

Issues related to enforceable grant arrangements

Enforceability in an enforceable grant arrangement

AG24.7 To be an EGA, the interdependent rights and obligations in the grant arrangement must be enforceable. This means that the grant-providing NPO is able to require the grant recipient to complete the agreed obligations or be subject to remedies for not doing so, and the grant recipient is able to require the grant-providing NPO to transfer the amount agreed. A grant arrangement will be an EGA if there is the ability to exercise these rights, even if in practice they are never or rarely utilised.

AG24.8 Enforceability can arise from various mechanisms. While these may be through legal systems, there may also be alternative processes that have equivalent effect, depending on the parties involved in the EGA and the jurisdictions in which they are based.

AG24.9 For example, in some jurisdictions, NPOs may be subject to a form of regulatory oversight which, regardless of the legal basis of an individual agreement, require NPOs to act in accordance with defined rules and directives or potentially face censure. This broader regulatory oversight may provide the parties to a grant arrangement with the effective means to enforce the arrangement through appeal to a regulator, even if the specific agreement is not legally enforceable.

AG24.10 It is also the case that in some jurisdictions, public sector entities are not permitted to contract in their own name, but alternative processes with equivalent effect to legal arrangements such as executive orders or ministerial directives are in place to ensure that agreed-upon obligations in an arrangement are enforceable. A grant-providing NPO may not therefore be able to enter into a legally enforceable arrangement with a public sector entity that is a grant recipient, but the alternative processes will provide for enforceability of the EGA.

AG24.11 A key issue for grant-providing NPOs is whether the ability to reduce or withhold future funding from a grant recipient can be considered an enforcement mechanism. Generally, the ability to reduce or withhold future funding will not on its own be a valid enforcement mechanism for an EGA because there is no present obligation on the grant-providing NPO to provide this future funding.

AG24.12 However, if there is interdependency with other EGAs held by the grant recipient, the potential for the grant-providing NPO to reduce future funding could be a valid enforcement mechanism. For example, if the grant recipient is presently entitled to funding in the future through another EGA, and the terms of this other EGA specifically allow for a reduction in funding if other EGAs are breached, then the potential reduction in funding could be a valid enforcement mechanism. This will require the grant-providing NPO to apply judgement based on the facts and circumstances, including any past history of reducing funding where it has had the right to do so.

Customary practices

AG24.13 A further key issue is the extent to which in some circumstances enforceability may arise from a grant-providing NPO's, a grant recipient's or a sector's customary practices.

AG24.14 Where a grant is made to a public sector body, enforceability may arise because public bodies, through long-established policies and practices, create a legitimate expectation of how they will

behave. Ultimately, however, these legitimate expectations will usually be enforceable through legal mechanisms such as a court ruling that mean a public body will be required to act in a certain way.

- AG24.15 For NPOs, the customary practices may be that all parties to the agreement will abide by the obligations in the agreement. However, these expectations may not ultimately be legally enforceable, as the parties may not be subject to court rulings to uphold such expectations. Enforceability in such circumstances will be dependent on the existence of equivalent means such as an appeal to a regulator or withholding or reducing future funding through a linked EGA.

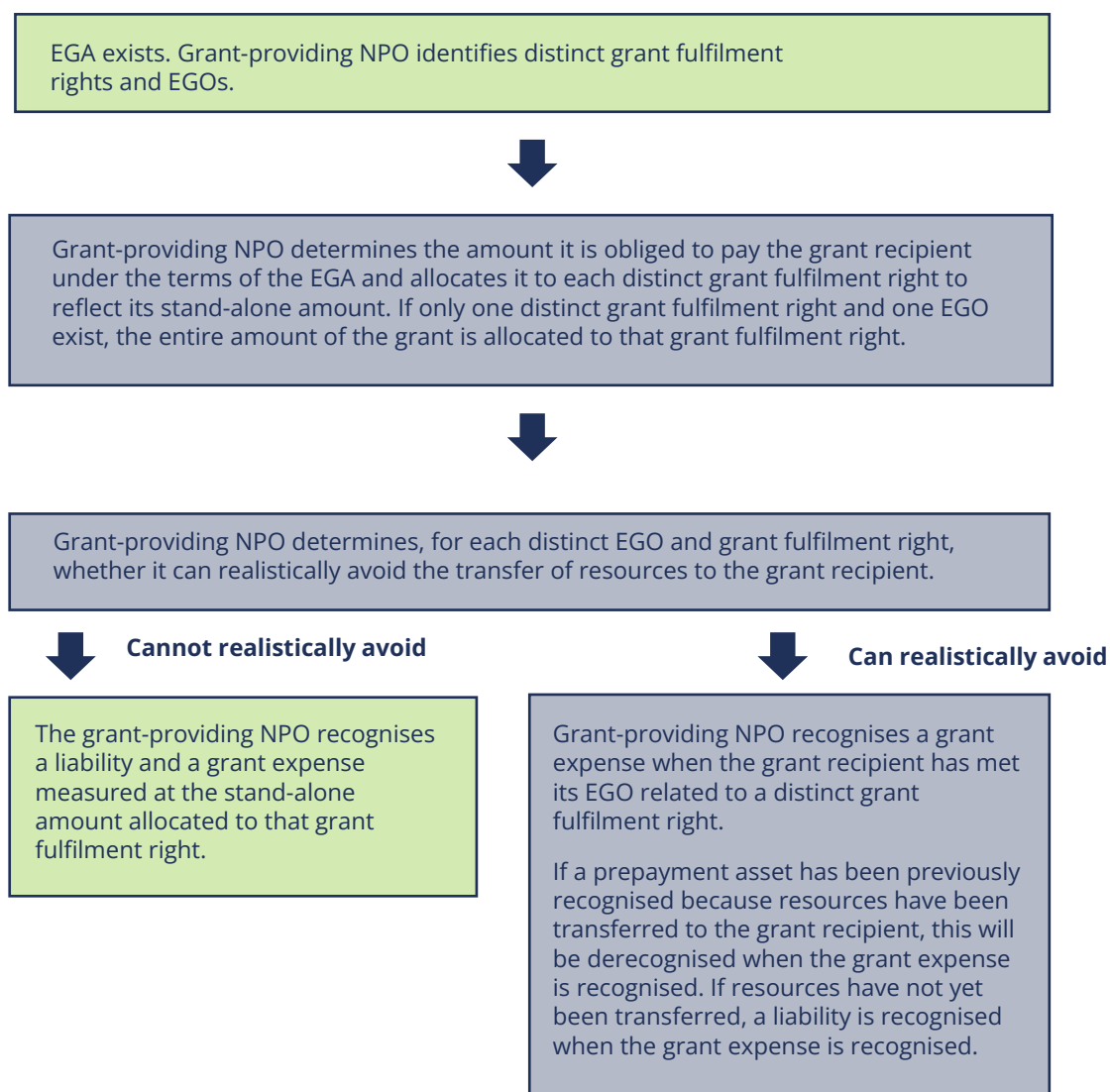
General statements of intent and oral agreements

- AG24.16 A general statement of intent by a grant-providing NPO that it may transfer cash or deliver goods, services or other assets in a certain way is not usually in and of itself an enforceable arrangement. As the declaration is a general statement of intent, it will not create an EGA between a grant-providing NPO and a grant recipient under which both parties have rights and obligations. It may, however, give rise to a constructive obligation in accordance with G21.4 of Section 21 *Provisions and contingencies*.
- AG24.17 This general statement of intent differs from an oral agreement between a grant-providing NPO and grant recipient. Oral agreements will arise from serious discussions between the parties where an offer has been made by the grant-providing NPO to transfer cash, goods, services or another asset to a grant recipient, who has accepted the requirement to meet an obligation. Depending on the substance of the agreement, an oral agreement may be sufficient to create an EGA, particularly in those jurisdictions where oral agreements can be legally binding.

Grant fulfilment rights and enforceable grant obligations in enforceable grant arrangements

- AG24.18 Figure 24.2 provides an overview of the recognition and measurement principles for grant expenses from transactions with EGAs. As highlighted, identifying grant fulfilment rights and EGOs, determining their stand-alone amounts and understanding when they have been met are key issues where an EGA exists.

Figure 24.2: The recognition and measurement of grant expenses from transactions with enforceable grant arrangements



Grant fulfilment rights, enforceable grant obligations and other constraints

AG24.19 An EGA must have at least one grant fulfilment right held by the grant-providing NPO and one EGO required of the grant recipient. A grant fulfilment right is an enforceable right to have the grant recipient satisfy its obligations in the EGA. It arises when the grant-providing NPO has transferred resources to the grant recipient prior to the grant recipient satisfying its EGOs within the EGA.

AG24.20 EGOs are distinct undertakings by the grant recipient to achieve a specified outcome, carry out a specified activity, or use resources internally for distinct services, goods or other assets or to transfer distinct services, goods, cash or other assets to a purchaser or third-party recipient in order that the grant-providing NPO's grant fulfilment right is met. For example, an entity whose purpose is to improve educational outcomes in a community may have an EGO of supporting a named group of children with their annual school fees by paying those school fees on behalf of those children, with funds provided by the grant-providing NPO. Or an individual in receipt of financial support may have an EGO to spend cash provided to them by the grant-providing NPO only on purchasing food products.

- AG24.21 It may not always be easy to determine distinct grant fulfilment rights and EGOs within an EGA. A grant fulfilment right is a distinct right that can be enforced separately from other rights in the EGA. Where a right is not distinct, the grant-providing NPO may aggregate related rights until this produces a distinct grant fulfilment right that can be enforced separately. This may result in the EGA having only one grant fulfilment right and one EGO.
- AG24.22 Requirements that constrain the use of resources by the grant recipient to its overall mission or a general purpose but do not specify separate outcomes, activities or distinct services, goods and other assets will usually be insufficient to create an EGO for the grant recipient. As these requirements do not give rise to a present obligation for the grant recipient when resources are transferred, they do not result in a distinct grant fulfilment right for the grant-providing NPO.
- AG24.23 For example, if the grant recipient is the entity in paragraph AG24.20 that exists to improve educational outcomes in a society, a grant-providing NPO may include a requirement that cash provided to the grant recipient must be spent on the broad promotion of education. Or if the grant recipient is the individual in paragraph AG24.20, a grant-providing NPO may include a requirement that cash provided to them must be spent on improving their family's welfare. In these cases, the outcomes, activities and the collective set of services, goods or other assets for internal use or external transfer will not be distinct, even if they will be incremental to what would have been available without the resource transfer from the grant-providing NPO. Requirements that impose constraints that do not lead to distinct grant fulfilment rights and EGOs, and hence are not part of an EGA, shall be accounted for in accordance with paragraphs G24.11– G24.12, being a constraint within an OFA rather than an EGA.

Payment of grants over more than one financial year

- AG24.24 Even where an EGA is payable over a period of more than one year, a liability and grant expense must be recognised by the grant-providing NPO for the total amount of the resources that must be transferred under the EGA to the grant recipient for the obligations it has met. The requirement to recognise the liability and the grant expense only exists where the grant-providing NPO has a present obligation to transfer resources at the reporting date.
- AG24.25 Where payments for later years are subject to the grant recipient meeting obligations that have not yet been met, the grant-providing NPO may under the terms of the EGA be able recognise the amounts transferred in each year. This is because the grant-providing NPO does not have a present obligation to transfer all the resources at the reporting date.
- AG24.26 Where the EGA provides the grant-providing NPO with the discretion to avoid grant expenditure, a liability should not be recognised because the grant-providing NPO does not have a present obligation to transfer the resources. For example, a grant-providing NPO may have made a commitment to provide grant funding over a number of years but have the right to terminate the EGA. If the real possibility of termination is clear, then a constructive liability is unlikely to arise for payments related to periods after the review date.
- AG24.27 Alternatively, if there are no requirements in the EGA that enable the grant-providing NPO to realistically avoid the transfer of resources, a grant payment liability and grant expense must be recognised for the **present value** of the full grant payment amount, even if payment will occur over a number of financial years. The time adjusted value of the full grant payment is only required where the amount is material.

Grant recipient obligations

- AG24.28 EGAs may contain rights and obligations that are outside of the control of the grant-providing NPO. For example, a transfer of resources by a grant-providing NPO may be subject to the grant recipient obtaining match funding. Where obligations are outside the control of the grant-providing NPO, it should assess whether or not the transfer of resources is probable. For example, if the grant recipient has notified the grant-providing NPO that it is in advanced stages with another entity to secure match funding, this may mean that the requirement to transfer resources is likely to occur. Where the grant-providing NPO determines that the transfer of resources is probable, it should follow the requirements

of paragraph G21.4 of Section 21 *Provisions and contingencies*, with any grant payment provision initially and subsequently measured in accordance with paragraphs G21.8–G21.12.

Performance-related rights and obligations

AG24.29 EGAs may contain performance-related rights and obligations, such as payment being conditional on a specific level of service or varying depending on units of output. Where this results in variable consideration, this can result in a liability of uncertain timing or amount for the grant-providing NPO. Such a liability meets the definition of a provision and shall initially and subsequently be measured in accordance with paragraphs G21.8–G21.12 of Section 21 *Provisions and contingencies*.

Capital grants

AG24.30 An EGA that requires the grant recipient to acquire or construct a non-current asset that the grant recipient will then control is a **capital grant**.

AG24.31 The same approach to recognising a grant expense involving a capital grant is followed as with any other grant expense. A transfer of cash from a grant-providing NPO to a grant recipient to acquire or construct a non-current asset results in the grant-providing NPO derecognising cash and recognising a prepayment asset. This prepayment asset represents the grant-providing NPO's enforceable right to have the grant recipient satisfy its obligation to purchase or acquire the non-current asset. This prepayment asset is derecognised and a grant expense recognised when the grant fulfilment rights are met in accordance with the terms of the EGA. The grant-providing NPO would therefore derecognise the prepayment asset and recognise a grant expense, as the non-current asset is constructed or acquired by the grant recipient.

AG24.32 Where the grant recipient constructs a non-current asset, the grant fulfilment right will be met as the asset is being built, with a grant expense recognised by the grant-providing NPO based on an agreed methodology for the measurement of progress made by the grant recipient.

AG24.33 If the grant recipient acquires or constructs the asset prior to the transfer of resources from the grant-providing NPO, the grant-providing NPO will recognise a liability and a grant expense for its obligation to transfer resources. This could be for the full amount (if the asset is acquired) or based on the extent of progress towards the construction of the asset. The liability will be derecognised once the transfer of resources is made from the grant-providing NPO to the grant recipient.

AG24.34 If the grant recipient subsequently disposes of an acquired asset or constructed asset against the terms of the EGA, the grant-providing NPO shall consider whether it has an enforceable unconditional right to a refund of the value of transferred resources and apply paragraphs G24.27–G24.28.

AG24.35 Where this right exists, the grant-providing NPO shall recognise and measure a financial asset in accordance with Section 11 *Financial instruments* and a reduction in grant expenses. Note, however, that such a right might indicate an agency relationship if the grant-providing NPO had retained control of the asset. In this case, no grant expense should have been initially recognised by the grant-providing NPO and instead the grant-providing NPO should have recognised the construction or purchase of its own non-current asset.

Modifications to an enforceable grant arrangement

AG24.36 A modification to an EGA may be so significant that it requires the grant-providing NPO to account for the modification as a separate enforceable grant arrangement. A grant-providing NPO shall account for a modification to an EGA as a separate EGA if both of the following factors are present:

- (a) the scope of the EGA increases, providing the grant-providing NPO with one or more additional grant fulfilment rights, because the grant recipient accepts one or more additional EGOs or an increase in one or more existing EGOs; and

- (b) the grant payment consideration increases by an amount that is intended to reflect the value of the additional grant fulfilment rights by compensating the grant recipient for the additional or increased EGOs assumed.

Foreign exchange gains and losses

- AG24.37 Depending on the terms of an arrangement, a grant-providing NPO may be required to recognise assets or liabilities that need to be denominated in a foreign currency.
- AG24.38 Non-monetary items such as prepayments related to unmet EGOs that are denominated in a foreign currency shall be measured in the reporting currency at their historical cost using the exchange rate at the date of the transaction in accordance with paragraphs G30.9–G30.10 of Section 30 *Foreign currency translations*.
- AG24.39 **Monetary items** such as grant payables denominated in a foreign currency shall be restated into the reporting currency using the applicable exchange rates as at the reporting date in accordance with G30.10.
- AG24.40 Any exchange differences arising on the settlement of assets or liabilities denominated in a foreign currency during the reporting period or on their restatement at the reporting date should be recognised in accordance with paragraphs G30.11–G30.13.

Principal versus agent considerations

- AG24.41 A formal agreement between the grant-providing NPO and another entity or entities will usually provide clarity as to whether the grant-providing NPO is acting as a principal or as an agent on behalf of another entity. In the absence of a formal agreement, or in more complex arrangements such as partnerships, consortia or sub-contractor relationships, this may be more difficult to determine.
- AG24.42 A consortium or similar arrangement involves a grant-providing NPO cooperating with other entities. Such arrangements may include:
- formal joint venture arrangements;
 - the creation of a formal joint venture entity;
 - a grant-providing NPO that is a principal entering into contracting arrangements and then sub-contracting with other parties to deliver parts of the contract;
 - a grant-providing NPO acting as an agent for the consortium members by administering contractual arrangements on behalf of all other members.
- AG24.43 A lead NPO that acts as agent for members of a consortium by administering contractual arrangements on behalf of all other members such as invoicing and making payments does not take over the contractual obligations and rights of other members.
- AG24.44 A lead NPO that is subcontracting work to third parties, including other NPOs, in order to satisfy its contractual obligations is likely to be the principal because of the contract arrangements rather than an agent of other members.

Comparison of Section 24 Part I with IPSAS 48

Section 24 Part I is new material for NPOs that has been informed by IPSAS 48 *Transfer Expenses*. The main differences to IPSAS 48 are as follows:

- INPAG Section 24 Part I uses different terminology, referring specifically to grants rather than transfers and grant-providing NPOs rather than entities more generally.
- INPAG Section 24 Part I also uses the terms EGA and EGO rather than binding arrangement and compliance obligations. These permit the concept of a grant recipient undertaking to meet obligations within the arrangement rather than a promise as used in IPSAS 48, and also the possibility that its obligations can be to deliver a specific outcome or activity in addition to using resources for distinct services, goods and other assets.
- Guidance on the enforceability of an arrangement has been adapted for INPAG Section 24 Part I to the non-profit sector, including the addition of content on regulatory oversight, customary practices and general statements of intent.
- INPAG Section 24 Part I includes guidance on principal versus agent considerations consistent with the approach of INPAG to include such guidance in each section where relevant.
- The disclosure requirements in INPAG Section 24 Part I have been adapted to the nature of NPOs and grant arrangements, including the introduction of a sensitive information exemption.

Specific matter for comment	
Question 5: Expenses on grants and donations	References
(a) Section 24 Part I and Section 23 Part I introduce new terminology relating to grant arrangements. ⁴ Do you agree with the terms EGA and EGO 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?	G24.3–G24.4, G23.23–G23.30
(b) Do you agree that all expenses on grants and donations can be classified as an EGA or as an OFA? 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
(c) EGAs 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 EGA? If not, why not? What weight should be applied to these mechanisms?	G24.3, AG24.9, AG24.13–AG24.15
(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?	G24.17–G24.18, AG24.24–AG24.27
(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?	AG24.30–AG24.35
(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?	G24.32–G24.41

⁴ Sections 23 and 24 both include this question, which you can answer under either section or cover the grantor and grantee perspectives separately.

Specific matter for comment	
<p>Question 5: Expenses on grants and donations</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 EGA are generally not an EGO 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>References</p> <p>G24.11</p> <p>Section 24</p>

Section 25 – Borrowing costs

Scope of this section

- 25.1 This section specifies the accounting for **borrowing costs**. Borrowing costs are interest and other costs that an NPO incurs in connection with the borrowing of funds. Borrowing costs include:
- (a) interest **expense** calculated using the **effective interest method** as described in Section 11 *Financial instruments*;
 - (b) finance charges in respect of **finance leases** recognised in accordance with Section 20 *Leases*; and
 - (c) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Recognition

- 25.2 An NPO shall recognise all borrowing costs as an expense in **surplus or deficit** in the period in which they are incurred.

Disclosures

- 25.3 Paragraph G5.7(b) requires disclosure of finance costs. Paragraph G11.57(b) requires disclosure of total interest expense (using the effective interest method) for **financial liabilities** that are not at **fair value** through surplus or deficit. This section does not require any additional disclosure.

Comparison of Section 25 with the *IFRS for SMEs Accounting Standard*

Section 25 of INPAG has been drawn from Section 25 of the *IFRS for SMEs Accounting Standard*, with changes only to terminology and to align with the statements required by INPAG. The main differences between Section 25 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 25 of INPAG are as follows:

- INPAG Section 25 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Specific matter for comment

Question 6: Borrowing costs

- (i) 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 26 – Share-based payments

Given the nature of NPOs, it is proposed that guidance on share-based payments is not required. As a consequence, the equivalent section from the *IFRS for SMEs* Accounting Standard has been removed from INPAG.

Comparison of Section 26 with the *IFRS for SMEs* Accounting Standard

It is proposed to not include *Share-based payments* as a section within INPAG. As a consequence Section 26 of the draft Third edition of the *IFRS for SMEs* Accounting Standard has been removed in its entirety. A paragraph has been included to explain why this section is not part of INPAG.

Specific matter for comment

Question 7: Share-based payments

- (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.

Section 27 – Impairment of assets

Section 27 will be included in ED3.

Section 28 – Employee benefits

Scope of this section

- G28.1 **Employee benefits** are all forms of consideration given by an NPO in exchange for service rendered by employees, including directors and management. Employee benefits covered by this section will be one of the following four types:
- (a) short-term employee benefits, which are employee benefits (other than **termination benefits**) that are wholly due within twelve months after the end of the period in which the employees render the related service;
 - (b) **post-employment benefits**, which are employee benefits (other than termination benefits) that are payable after the completion of employment;
 - (c) other long-term employee benefits, which are employee benefits (other than post-employment benefits and termination benefits) that are not wholly due within twelve months after the end of the period in which the employees render the related service; and
 - (d) termination benefits, which are employee benefits payable as a result of either:
 - (i) an NPO's decision to terminate an employee's employment before the normal retirement date; or
 - (ii) an employee's decision to accept an offer of benefits in exchange for the termination of employment.

General recognition principle for all employee benefits

- G28.2 An NPO shall recognise the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the NPO during the **reporting period**:
- (a) as a **liability**, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund. If the amount paid exceeds the obligation arising from service before the **reporting date**, an entity shall recognise that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.
 - (b) as an **expense**, unless another section of this Guidance requires the cost to be recognised as part of the cost of an asset such as **inventories** or **property, plant and equipment**.

Short-term employee benefits

Examples

- G28.3 Short-term employee benefits include items such as:
- (a) wages, salaries and social security contributions;
 - (b) short-term compensated absences (such as paid annual leave and paid sick leave) when the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service;
 - (c) bonuses payable within twelve months after the end of the period in which the employees render the related service; and
 - (d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

Measurement of short-term benefits

G28.4 When an employee has rendered service to an NPO during the reporting period, the NPO shall measure the amounts recognised in accordance with paragraph G28.2 at the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

Recognition and measurement – short-term compensated absences

G28.5 An NPO may compensate employees for absence for various reasons including annual vacation leave and sick leave. Some short-term compensated absences accumulate – they can be carried forward and used in future periods if the employee does not use the current period's entitlement in full. Examples include annual vacation leave and sick leave. An NPO shall recognise the expected cost of **accumulating compensated absences** when the employees render service that increases their entitlement to future compensated absences. The NPO shall measure the expected cost of accumulating compensated absences at the undiscounted additional amount that the NPO expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period. The NPO shall present this amount as a current liability at the reporting date.

G28.6 An NPO shall recognise the cost of other (non-accumulating) compensated absences when the absences occur. The NPO shall measure the cost of non-accumulating compensated absences at the undiscounted amount of salaries and wages paid or payable for the period of absence.

Recognition – bonus plans

G28.7 An NPO shall recognise the expected cost of bonus payments only when:

- (a) the NPO has a present legal or **constructive obligation** to make such payments as a result of past events (this means that the NPO has no realistic alternative but to make the payments); and
- (b) a reliable estimate of the obligation can be made.

Post-employment benefits – distinction between defined contribution plans and defined benefit plans

G28.8 Post-employment benefits include, for example:

- (a) retirement benefits, such as pensions; and
- (b) other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Arrangements whereby an NPO provides post-employment benefits are **post-employment benefit plans**. An NPO shall apply this section to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits. In some cases, these arrangements are imposed by law instead of by action of the NPO. In some cases, these arrangements arise from actions of the NPO even in the absence of a formal, documented plan.

G28.9 Post-employment benefit plans are classified as either **defined contribution plans** or **defined benefit plans**, depending on their principal terms and conditions:

- (a) defined contribution plans are post-employment benefit plans under which an NPO pays fixed contributions into a separate entity (a fund) and has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an NPO (and perhaps also the employee) to a post-employment benefit plan or to an insurer, together with investment returns arising from the contributions.

- (b) defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the NPO's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the NPO. If actuarial or investment experience is worse than expected, the NPO's obligation may be increased, and vice versa if actuarial or investment experience is better than expected.

Multi-employer plans and state plans

G28.10 **Multi-employer plans** and state plans are classified as defined contribution plans or defined benefit plans on the basis of the terms of the plan, including any constructive obligation that goes beyond the formal terms. However, if sufficient information is not available to use defined benefit accounting for a multi-employer plan or a state plan that is a defined benefit plan, an NPO shall account for the plan in accordance with paragraph G28.12 as if it was a defined contribution plan and make the disclosures required by paragraph G28.39.

Insured benefits

- G28.11 An NPO may pay insurance premiums to fund a post-employment benefit plan. The NPO shall treat such a plan as a defined contribution plan unless the NPO has a legal or constructive obligation either:
- (a) to pay the employee benefits directly when they become due; or
 - (b) to pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

A constructive obligation could arise indirectly through the plan, through the mechanism for setting future premiums, or through a **related party** relationship with the insurer. If the NPO retains such a legal or constructive obligation, the NPO shall treat the plan as a defined benefit plan.

Post-employment benefits – defined contribution plans

Recognition and measurement

- G28.12 An NPO shall recognise the contribution payable for a period:
- (a) as a liability, after deducting any amount already paid. If contribution payments exceed the contribution due for service before the reporting date, an NPO shall recognise that excess as an asset.
 - (b) as an expense, unless another section of this Guidance requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

Post-employment benefits – defined benefit plans

Recognition

- G28.13 In applying the general **recognition** principle in paragraph G28.2 to defined benefit plans, an NPO shall recognise:
- (a) a liability for its obligations under defined benefit plans net of **plan assets** – its '**defined benefit liability**' (see paragraphs G28.14–G28.21); and
 - (b) the net change in that liability during the period as the cost of its defined benefit plans during the period (see paragraphs G28.22–G28.25).

Measurement of the defined benefit liability

- G28.14 An NPO shall measure a defined benefit liability for its obligations under defined benefit plans at the net total of the following amounts:
- (a) the **present value** of its obligations under defined benefit plans (its **defined benefit obligation**) at the reporting date (paragraphs G28.15–G28.20 provide guidance for measuring this obligation)
 - (b) minus the **fair value** at the reporting date of plan assets (if any) out of which the obligations are to be settled directly. Section 12 *Fair value measurement* provides guidance for determining the fair values of those plan assets.

Inclusion of both vested and unvested benefits

- G28.15 The present value of an NPO's obligations under defined benefit plans at the reporting date shall reflect the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, including benefits that are not yet **vested** (see paragraph G28.24) and including the effects of benefit formulas that give employees greater benefits for later years of service. This requires the NPO to determine how much benefit is attributable to the current and prior periods on the basis of the plan's benefit formula and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that influence the cost of the benefit. The actuarial assumptions shall be unbiased (neither imprudent nor excessively conservative), mutually compatible and selected to lead to the best estimate of the future **cash flows** that will arise under the plan.

Discounting

- G28.16 The NPO shall determine the rate used to discount the future payments by reference to market yields at the reporting date on high quality corporate bonds. In jurisdictions with no deep market in such bonds, the NPO shall use the market yields (at the reporting date) on **government** bonds. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated period of the future payments.

Actuarial valuation method

- G28.17 An NPO shall use the **projected unit credit method** to measure its defined benefit obligation and the related expense. If defined benefits are based on future salaries, the projected unit credit method requires an NPO to measure its defined benefit obligations on a basis that reflects estimated future salary increases. Additionally, the projected unit credit method requires an NPO to make various actuarial assumptions in measuring the defined benefit obligation, including discount rates, the expected rates of return on plan assets, expected rates of salary increases, employee turnover, mortality and (for defined benefit medical plans) medical cost trend rates.
- G28.18 This Guidance does not require an NPO to engage an independent actuary to perform the comprehensive actuarial valuation needed to calculate its defined benefit obligation. Nor does it require that a comprehensive actuarial valuation must be done annually. In the periods between comprehensive actuarial valuations, if the principal actuarial assumptions have not changed significantly, the defined benefit obligation can be measured by adjusting the prior period measurement for changes in employee demographics such as number of employees and salary levels.

Plan introductions, changes, curtailments and settlements

- G28.19 If a defined benefit plan has been introduced or changed in the current period, the NPO shall increase or decrease its defined benefit liability to reflect the change, and shall recognise the increase (decrease) as an expense (**income**) in measuring **surplus or deficit** in the current period. Conversely, if a plan has been curtailed (ie benefits or group of covered employees are reduced) or settled (the employer's obligation is completely discharged) in the current period, the defined benefit obligation shall be decreased or eliminated and the NPO shall recognise the resulting gain or loss in surplus or deficit in the current period.

Defined benefit plan asset

G28.20 If the present value of the defined benefit obligation at the reporting date is less than the fair value of plan assets at that date, the plan has a surplus. An NPO shall recognise a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus, either through reduced contributions in the future or through refunds from the plan.

Cost of a defined benefit plan

G28.21 An NPO shall recognise the net change in its defined benefit liability during the period, other than a change attributable to benefits paid to employees during the period or to contributions from the employer, as the cost of its defined benefit plans during the period. That cost is recognised either entirely in surplus or deficit as an expense or partly in surplus or deficit and partly as an item of income and expense recognised directly in changes in net assets (see paragraph G28.22) unless another section of this Guidance requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

Recognition – accounting policy election

G28.22 An NPO is required to recognise all actuarial gains and losses in the period in which they occur. An NPO shall:

- (a) recognise all actuarial gains and losses in surplus or deficit; or
- (b) recognise all actuarial gains and losses through income and expenses recognised directly in changes in net assets

as an accounting policy election. The NPO shall apply its chosen accounting policy consistently to all of its defined benefit plans and all of its actuarial gains and losses.

G28.23 The net change in the defined benefit liability that is recognised as the cost of a defined benefit plan includes:

- (a) the change in the defined benefit liability arising from employee service rendered during the reporting period;
- (b) interest on the defined benefit obligation during the reporting period;
- (c) the returns on any plan assets and the net change in the fair value of recognised reimbursement rights (see paragraph G28.26) during the reporting period;
- (d) actuarial gains and losses arising in the reporting period;
- (e) increases or decreases in the defined benefit liability resulting from introducing a new plan or changing an existing plan in the reporting period (see paragraph G28.19); and
- (f) decreases in the defined benefit liability resulting from curtailing or settling an existing plan in the reporting period (see paragraph G28.19).

G28.24 Employee service gives rise to an obligation under a defined benefit plan, even if the benefits are conditional on future employment (in other words, they are not yet vested). In measuring its defined benefit obligation, an NPO considers the probability that some employees may not satisfy vesting requirements. Similarly, although some post-employment benefits (such as post-employment medical benefits) become payable only if a specified event occurs when an employee is no longer employed (such as an illness), an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation but does not determine whether the obligation exists.

G28.25 If defined benefits are reduced for amounts that will be paid to employees under government-sponsored plans, an NPO shall measure its defined benefit obligations on a basis that reflects the benefits payable under the government plans, but only if:

- (a) those plans were enacted before the reporting date; or

- (b) past history or other reliable evidence indicates that those state benefits will change in some predictable manner – for example, in line with future changes in general price levels or general salary levels.

Reimbursements

G28.26 If an NPO is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the NPO shall recognise its right to reimbursement as a separate asset. The NPO shall measure the asset at fair value. In the **Statement of Income and Expenses**, the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.

Other long-term employee benefits

G28.27 Other long-term employee benefits include, for example:

- (a) long-term compensated absences such as long-service or sabbatical leave;
- (b) long-service benefits;
- (c) long-term disability benefits;
- (d) bonuses payable twelve months or more after the end of the period in which the employees render the related service; and
- (e) deferred compensation paid twelve months or more after the end of the period in which it is earned.

G28.28 An NPO shall recognise a liability for other long-term employee benefits measured at the net total of the following amounts:

- (a) the present value of the benefit obligation at the reporting date; minus
- (b) the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

An NPO shall recognise the net change in the liability during the period, other than a change attributable to benefits paid to employees during the period or to contributions from the employer, as the cost of its other long-term employee benefits during the period. That cost is recognised entirely in surplus or deficit as an expense unless another section of this Guidance requires it to be recognised as part of the cost of an asset, such as inventories or property, plant and equipment.

Termination benefits

G28.29 An NPO may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on sector practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits.

Recognition

G28.30 Because termination benefits do not provide an NPO with future economic benefits, an NPO shall recognise them as an expense in surplus or deficit immediately.

G28.31 When an NPO recognises termination benefits, the NPO may also have to account for a curtailment of retirement benefits or other employee benefits.

G28.32 An NPO shall recognise a liability and an expense for termination benefits at the earlier of the following dates:

- (a) when the NPO can no longer withdraw the offer of those benefits; and

- (b) when the NPO recognises costs for a restructuring that is within the scope of Section 21 *Provisions and contingencies* and involves the payment of termination benefits.

G28.33 For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when an NPO can no longer withdraw the offer of termination benefits is the earlier of:

- (a) when the employee accepts the offer.
- (b) when a restriction (for example, a legal, regulatory or contractual requirement or other restriction) on the NPO's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.

G28.34 For termination benefits payable as a result of an NPO's decision to terminate an employee's employment, the NPO can no longer withdraw the offer when the NPO has communicated to the affected employees a plan of termination meeting all of the following criteria:

- (a) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made;
- (b) the plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date; and
- (c) the plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

Measurement

G28.35 An NPO shall measure termination benefits at the best estimate of the expenditure that would be required to settle the obligation at the reporting date. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

G28.36 When termination benefits are due more than twelve months after the end of the reporting period, they shall be measured at their present value.

Group plans

G28.37 If a **controlling NPO** provides benefits to the employees of one or more **controlled entities** in the **group**, and the controlling NPO presents **consolidated financial statements** using this Guidance, such controlled entities are permitted to recognise and measure employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group.

Disclosures

Disclosures about short-term employee benefits

G28.38 This section does not require specific disclosures about short-term employee benefits.

Disclosures about defined contribution plans

G28.39 An NPO shall disclose the amount recognised in surplus or deficit as an expense for defined contribution plans. If an NPO treats a defined benefit multi-employer or state plan as a defined contribution plan because sufficient information for defined benefit accounting is not available (see paragraph G28.10), it shall disclose the fact that the plan is a defined benefit plan and the reason why it is being accounted for as a defined contribution plan, along with any available information about the plan's surplus or deficit and the implications, if any, for the NPO.

Disclosures about defined benefit plans

G28.40 Except for any defined benefit multi-employer or state plan that is accounted for as a defined contribution plan in accordance with paragraph G28.10, and in relation to which paragraph G28.39 requires different disclosures, an NPO shall disclose the following information about defined benefit plans:

- (a) a general description of the type of plan, including **funding** policy;
- (b) the NPO's accounting policy for recognising actuarial gains and losses (either in surplus or deficit or as an item of income and expense recognised directly in changes in net assets) and the amount of actuarial gains and losses recognised during the period;
- (c) the date of the most recent comprehensive actuarial valuation and, if it was not as of the reporting date, a description of the adjustments that were made to measure the defined benefit obligation at the reporting date;
- (d) a reconciliation of opening and closing balances of the defined benefit obligation showing separately:
 - (i) change in the defined benefit liability arising from employee service rendered during the reporting period;
 - (ii) interest on the defined benefit obligation during the reporting period;
 - (iii) actuarial gains and losses arising in the reporting period;
 - (iv) changes resulting from introducing a new plan or changing an existing plan in the reporting period;
 - (v) benefits paid; and
 - (vi) all other changes.
- (e) a reconciliation of the opening and closing balances of the plan assets and of the opening and closing balances of any reimbursement right recognised as an asset, showing separately:
 - (i) contributions;
 - (ii) benefits paid;
 - (iii) the return on plan assets and the net change in the fair value of recognised reimbursement rights (see paragraph G28.26) during the reporting period; and
 - (iv) other changes in plan assets.
- (f) for each major class of plan assets, which shall include but is not limited to equity instruments, debt instruments, property and all other assets, the percentage or amount that each major class of plan assets constitutes of the fair value of the total plan assets at the reporting date;
- (g) the amounts included in the fair value of plan assets for:
 - (i) each class of the NPO's own **financial instruments**; and
 - (ii) any property occupied by, or other assets used by, the NPO.
- (h) the principal actuarial assumptions used, including:
 - (i) the discount rates;
 - (ii) the expected rates of return on any plan assets for the periods presented in the **financial statements**;
 - (iii) the expected rates of salary increases;
 - (iv) medical cost trend rates; and
 - (v) any other **material** actuarial assumptions used.

- G28.41 The reconciliations in G28.40(e) and G28.40(f) need not be presented for prior periods.
- G28.42 If an NPO has more than one defined benefit plan, the disclosures required by paragraph G28.40 may be made in total, separately for each plan, or in such groupings the NPO considers to be the most useful.
- G28.43 If an NPO participates in a defined benefit plan that is a group plan, it shall disclose:
- (a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy;
 - (b) the policy for determining the contribution to be paid by the NPO; and
 - (c) if the NPO accounts for an allocation of the net defined benefit cost as noted in paragraph G28.37, all the information about the plan as a whole required by paragraph G28.40.
- G28.44 The information required by paragraph G28.43(c) can be disclosed by cross-reference to disclosures required by these subparagraphs in another group entity's financial statements if:
- (a) that group entity's financial statements separately identify and disclose the information required about the plan; and
 - (b) that group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the NPO and at the same time as, or earlier than, the financial statements of the NPO.
- G28.45 When required by Section 21, an NPO discloses information about contingent liabilities arising from post-employment benefit obligations.

Disclosures about other long-term employee benefits

- G28.46 For each category of other long-term employee benefits that an NPO provides to its employees, the NPO shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.

Disclosures about termination benefits

- G28.47 For each category of termination benefits that an NPO provides to its employees, the NPO shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.

Comparison of Section 28 with the *IFRS for SMEs Accounting Standard*

Section 28 of INPAG has been drawn from Section 28 of the *IFRS for SMEs Accounting Standard*, with changes only to terminology and to align with the statements required by INPAG. The main differences between Section 28 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 28 of INPAG are as follows:

- Any references to share-based payments have been removed from this section, as it is proposed that a section on share-based payments is not included in INPAG. Share-based employee remuneration is not expected to be a feature of NPOs.
- References to profit-sharing arrangements have been removed from this section. Given the characteristics of NPOs, it is not expected that profit sharing will exist.
- The requirement that actuarial gains and losses recognised in other comprehensive income shall be presented in the statement of comprehensive income has been removed as this statement is not a primary statement in INPAG.
- References to the *IFRS for SMEs Accounting Standard* or full IFRS Accounting Standards have been removed in the context of a controlling NPO providing benefits to employees of controlled entities in the group, as the accounts will be prepared using INPAG.
- INPAG Section 28 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Specific matter for comment	
<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>References</p> <p>G28.3, G28.27</p> <p>G28.21</p>

Section 29 – Income tax

Scope of this section

- G29.1 For the purpose of this Guidance, **income tax** includes all domestic and foreign taxes that are based on **taxable profit**. Income tax also includes taxes such as withholding taxes that are payable by a **controlled entity, associate** or **joint arrangement** on distributions to the **reporting NPO**.
- G29.2 This section covers accounting for income tax. It requires an NPO to recognise the current and future tax consequences of transactions and other events that have been recognised in the **financial statements**. These recognised tax amounts comprise **current tax** and **deferred tax**. Current tax is income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period or past periods. Deferred tax is income tax payable or recoverable in future periods, generally as a result of the NPO recovering or settling its **assets** and **liabilities** for their current **carrying amount**, and the tax effect of the carryforward of currently unused tax losses and tax credits.

Recognition and measurement of current tax

- G29.3 An NPO shall recognise a current tax liability for tax payable on taxable surplus for the current and past periods. If the amount paid for the current and past periods exceeds the amount payable for those periods, the NPO shall recognise the excess as a current tax asset.
- G29.4 An NPO shall recognise a current tax asset for the benefit of a tax loss that can be carried back to recover tax paid in a previous period.
- G29.5 An NPO shall measure a current tax liability (asset) at the amount it expects to pay (recover) using the tax rates and laws that have been enacted or **substantively enacted** by the **reporting date**. An NPO shall regard tax rates and tax laws as substantively enacted when the remaining steps in the enactment process have not affected the outcome in the past and are unlikely to do so. Paragraphs G29.33–G29.34 provide additional measurement guidance.

Recognition of deferred tax

General recognition principle

- G29.6 It is inherent in the **recognition** of an asset or a liability that the reporting NPO expects to recover or settle the carrying amount of that asset or liability. If it is **probable** that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this section requires an NPO to recognise a **deferred tax liability (deferred tax asset)** with certain limited exceptions. If the NPO expects to recover the carrying amount of an asset or settle the carrying amount of a liability without affecting taxable profit, no deferred tax arises in respect of the asset or liability.
- G29.7 An NPO shall recognise a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events. Such tax arises from the differences between the carrying amounts of the NPO's assets and liabilities in the **Statement of Financial Position** and the amounts attributed to those assets and liabilities by the tax authorities (such differences are called 'temporary differences'), and the carryforward of currently unused tax losses and tax credits.

Tax bases and temporary differences

- G29.8 The **tax base** of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an NPO when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

- G29.9 The tax base of a liability is its carrying amount less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of **revenue** that is received in advance, the tax base of the resulting liability is its carrying amount less any amount of the revenue that will not be taxable in future periods.
- G29.10 Some items have a tax base but are not recognised as assets and liabilities in the Statement of Financial Position. For example, **research** and **development** costs are recognised as an **expense** when determining **accounting surplus** in the period in which they are incurred but may not be permitted as a deduction when determining taxable profit (tax loss) until a later period. The difference between the tax base of the research and development costs, being the amount that the taxation authorities will permit as a deduction in future periods, and the carrying amount of nil is a **deductible temporary difference** that results in a deferred tax asset.
- G29.11 Temporary differences are differences between the carrying amount of an asset or liability in the Statement of Financial Position and its tax base. In **consolidated financial statements**, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to a consolidated tax return in those jurisdictions in which such a return is filed. In other jurisdictions, the tax base is determined by reference to the tax returns of each entity in the **group**.
- G29.12 Examples of situations in which temporary differences arise include:
- (a) the identifiable assets acquired and liabilities assumed in a **business combination** are recognised at their **fair values** in accordance with Section 19 *Business combinations and goodwill*, but no equivalent adjustment is made for tax purposes (for example, the tax base of an asset may remain at cost to the previous owner). The resulting deferred tax asset or liability affects the amount of **goodwill** that an NPO recognises.
 - (b) assets are remeasured but no equivalent adjustment is made for tax purposes. For example, this Guidance permits or requires certain assets to be remeasured at fair value or to be revalued (for example, Section 16 *Investment Property* and Section 17 *Property, plant and equipment*).
 - (c) goodwill arises in a business combination – for example, the tax base of goodwill will be nil if taxation authorities do not allow the **amortisation** or the **impairment** of goodwill as a deductible expense when taxable profit is determined and do not permit the cost of goodwill to be treated as a deductible expense on disposal of the controlled entity.
 - (d) the tax base of an asset or a liability on initial recognition differs from its initial carrying amount.
 - (e) the carrying amount of investments in controlled entities, branches and associates or interests in joint arrangements becomes different from the tax base of the investment or interest.

Not all of these temporary differences will give rise to deferred tax assets and liabilities (see paragraphs G29.13 and G29.15).

Taxable temporary differences

- G29.13 A deferred tax liability shall be recognised for all **taxable temporary differences**, except to the extent that the deferred tax liability arises from:
- (a) the initial recognition of goodwill; or
 - (b) the initial recognition of an asset or a liability in a transaction that:
 - (i) is not a business combination; and
 - (ii) at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

However, for taxable temporary differences associated with investments in controlled entities, branches and associates, and interests in joint arrangements, a deferred tax liability shall be recognised in accordance with paragraph G29.26.

G29.14 Some temporary differences arise when **income** or expense is included in accounting surplus in one period but is included in taxable profit in a different period. Such temporary differences are often described as **timing differences**. The following are examples of temporary differences of this kind that are taxable temporary differences and that therefore result in deferred tax liabilities:

- (a) interest revenue is included in accounting surplus on a time-proportion basis but may, in some jurisdictions, be included in taxable profit when cash is collected. The tax base of any receivable with respect to such revenues is nil, because the revenues do not affect taxable profit until cash is collected.
- (b) **depreciation** used when determining taxable profit (tax loss) may differ from that used when determining accounting surplus. The temporary difference is the difference between the carrying amount of the asset and its tax base, which is the original cost of the asset less all deductions in respect of that asset permitted by the taxation authorities when determining taxable profit of the current and prior periods. A taxable temporary difference arises, and results in a deferred tax liability, when tax depreciation is accelerated. If the tax depreciation is less rapid than the accounting depreciation, a deductible temporary difference arises resulting in a deferred tax asset (see paragraph G29.15).

Deductible temporary differences

G29.15 A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or a liability in a transaction that:

- (a) is not a business combination; and
- (b) at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

However, for deductible temporary differences associated with investments in controlled entities, branches and associates and for interests in joint arrangements, a deferred tax asset shall be recognised in accordance with paragraph G29.27.

G29.16 An NPO considers:

- (a) the extent that it is probable that taxable profit will be available; and
- (b) whether tax law restricts the sources of taxable profits against which the deductible temporary difference can be utilised.

G29.17 The following are examples of deductible temporary differences that result in deferred tax assets:

- (a) retirement benefit costs may be deducted when determining accounting surplus at the time that the service is provided by the employee, but deducted when determining taxable profit either when contributions are paid to a fund by the NPO or when retirement benefits are paid by the NPO. A temporary difference exists between the carrying amount of the liability and its tax base; the tax base of the liability is usually nil. Such a deductible temporary difference results in a deferred tax asset because economic benefits will flow to the NPO in the form of a deduction from taxable profits when contributions or retirement benefits are paid.
- (b) certain assets may be carried at fair value, without an equivalent adjustment being made for tax purposes. A deductible temporary difference arises if the tax base of the asset exceeds its carrying amount.

G29.18 The reversal of deductible temporary differences results in deductions when taxable profits of future periods are determined. It is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity that are expected to reverse:

- (a) in the same period as the expected reversal of the deductible temporary difference; or

(b) in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

In such circumstances, the deferred tax asset is recognised in the period in which the deductible temporary differences arise.

G29.19 When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that:

- (a) it is probable that the NPO will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). When evaluating whether it will have sufficient taxable profit in future periods, an NPO:
 - (i) compares the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. This comparison shows the extent to which the future taxable profit is sufficient for the NPO to deduct the amounts resulting from the reversal of those deductible temporary differences.
 - (ii) ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from those deductible temporary differences will itself require future taxable profit in order to be utilised.
- (b) tax planning opportunities are available to the NPO that will create taxable profit in appropriate periods.

G29.20 The estimate of probable future taxable profit may include the recovery of some of an NPO's assets for more than their carrying amount if there is sufficient evidence that it is probable that the NPO will achieve this.

G29.21 When an NPO has a history of recent losses, the NPO considers the guidance in paragraphs G29.22–G29.23.

Unused tax losses and unused tax credits

G29.22 A deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. When assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, an NPO considers the following criteria:

- (a) whether the NPO has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;
- (b) whether it is probable that the NPO will have taxable profits before the unused tax losses or unused tax credits expire;
- (c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and
- (d) whether tax planning opportunities are available to the NPO that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

G29.23 The existence of unused tax losses is strong evidence that future taxable profit may not be available. Consequently, when an NPO has a history of recent losses, the NPO recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the NPO has sufficient taxable temporary differences or to the extent that there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the NPO.

Reassessment of unrecognised deferred tax assets

G29.24 At the end of each **reporting period**, an NPO reassesses any unrecognised deferred tax assets. The NPO recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Investments in subsidiaries, branches and associates and interests in joint arrangements

G29.25 Temporary differences arise when the carrying amount of investments in controlled entities, branches and associates and interests in joint arrangements (for example, in the **controlling NPO's** consolidated financial statements the carrying amount of a controlled entity is the net consolidated assets of that controlled entity, including the carrying amount of any related goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:

- (a) the existence of undistributed surpluses of controlled entities, branches, associates and joint arrangements;
- (b) changes in foreign exchange rates when a controlling NPO and its controlled entity are based in different countries; and
- (c) a reduction in the carrying amount of an investment in an associate to its **recoverable amount**.

Investments may be accounted for differently in the controlling NPO's **separate financial statements** compared to the consolidated financial statements, in which case the temporary difference associated with that investment may also differ. For example, in the controlling NPO's separate financial statement the carrying amount of a controlled entity will depend on the accounting policy chosen in paragraph G9.45.

G29.26 An NPO shall recognise a deferred tax liability for all taxable temporary differences associated with investments in controlled entities, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:

- (a) the controlling NPO, investor or party to the joint arrangement is able to control the timing of the reversal of the temporary difference; and
- (b) it is probable that the temporary difference will not reverse in the foreseeable future.

G29.27 An NPO shall recognise a deferred tax asset for all deductible temporary differences arising from investments in controlled entities, branches and associates and interests in joint arrangements, only to the extent that it is probable that:

- (a) the temporary difference will reverse in the foreseeable future; and
- (b) taxable profit will be available against which the temporary difference can be utilised.

Measurement of deferred tax

G29.28 An NPO shall measure a deferred tax liability (asset) using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. An NPO shall regard tax rates and tax laws as substantively enacted when the remaining steps in the enactment process have not affected the outcome in the past and are unlikely to do so.

G29.29 When different tax rates apply to different levels of taxable profit, an NPO shall measure deferred tax liabilities (assets) using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit (tax loss) of the periods in which it expects the deferred tax liability to be settled (deferred tax asset to be realised).

G29.30 The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of the related assets and liabilities. Consequently, an NPO measures deferred

tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement. For example, if the temporary difference arises from an item of income that is expected to be taxable as a capital gain in a future period, the deferred **tax expense** is measured using the capital gain tax rate and the tax base that is consistent with recovering the carrying amount through sale.

- G29.31 If a deferred tax liability or deferred tax asset arises from a non-depreciable asset measured using the revaluation model in Section 17, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the non-depreciable asset through sale. If a deferred tax liability or asset arises from **investment property** that is measured at fair value, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liability or the deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, instead of through sale. If the presumption is rebutted, the requirements of paragraph G29.30 shall be followed.
- G29.32 The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An NPO shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that recognised deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Measurement of both current and deferred tax

- G29.33 An NPO shall not discount current or deferred tax assets and liabilities.
- G29.34 In some jurisdictions, income tax is payable at a higher or lower rate if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In other jurisdictions, income tax may be refundable or payable if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In both of those circumstances, an NPO shall measure current and deferred tax at the tax rate applicable to undistributed profits until the NPO recognises a liability to make a capital distribution. When the NPO recognises a liability to make a capital distribution, it shall recognise the resulting current or deferred tax liability (asset) and the related tax expense (income).

Withholding tax on distributions

- G29.35 When an NPO makes a capital distribution, it may be required to pay a portion of the distribution to taxation authorities on behalf of holders of **equity claims**. Such an amount paid or payable to taxation authorities is charged to **equity** as a part of the capital distribution.

Uncertainty over income tax treatments

- G29.36 It may be unclear how tax law applies to a particular transaction or circumstance. An uncertain tax treatment is a tax treatment whose acceptability by the relevant taxation authority under tax law is uncertain.
- G29.37 An NPO shall determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty.
- G29.38 An NPO shall assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an NPO concludes either:

- (a) it is probable that the taxation authority will accept an uncertain tax treatment, the NPO shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings; or
- (b) it is not probable that the taxation authority will accept an uncertain tax treatment, the NPO shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates by using either of the following methods, depending on which better predicts the resolution of the uncertainty:
 - (i) the most likely amount – the single most likely amount in a range of possible outcomes; or
 - (ii) the expected value – the sum of the probability-weighted amounts in a range of possible outcomes.

G29.39 An NPO shall reflect the effect of a change in relevant facts and circumstances, or of new information, on its judgements or estimates about uncertain tax treatments as a change in **accounting estimate** by applying Section 10 *Accounting policies, estimates and errors*.

Presentation

Allocation in income and equity

G29.40 An entity shall recognise tax expense in the same component as the transaction or other event that resulted in the tax expense (ie surplus or loss from continuing operations or **discontinued operations**, income and expenses recognised directly in net assets or equity).

Current/non-current distinction

G29.41 When an NPO presents current and non-current assets and current and non-current liabilities as separate **classifications** in its Statement of Financial Position, it shall not classify any deferred tax assets (liabilities) as current assets (liabilities).

Offsetting

G29.42 An NPO shall offset current tax assets and current tax liabilities, if, and only if, it has a legally enforceable right to set off the amounts and the NPO can demonstrate that it plans either to settle on a net basis or to realise the asset and settle the liability simultaneously.

G29.43 An NPO shall offset deferred tax assets and deferred tax liabilities if, and only if:

- (a) it has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the NPO can demonstrate that, in each future period in which significant amounts of deferred tax liabilities or deferred tax assets are expected to be settled or recovered, it plans either to settle current tax liabilities and assets on a net basis or to realise the current tax assets and settle the current tax liabilities simultaneously.

If (b) involves undue cost or effort, then an NPO shall not offset deferred tax assets and deferred tax liabilities.

Disclosures

G29.44 An NPO shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognised transactions and other events.

G29.45 An NPO shall disclose separately the major components of tax expense (income). Such components of tax expense (income) may include:

- (a) current tax expense (income);
- (b) any adjustments recognised in the period for current tax of prior periods;
- (c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;
- (d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;
- (e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce tax expense;
- (f) adjustments to deferred tax expense (income) arising from a change in the tax status of the entity or its shareholders;
- (g) deferred tax expense (income) arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph G29.32; and
- (h) the amount of tax expense (income) relating to those changes in **accounting policies and errors** that are included in **surplus or deficit** in accordance with Section 10, because they cannot be accounted for retrospectively.

G29.46 An NPO shall disclose the following separately:

- (a) the aggregate current and deferred tax relating to items that are recognised directly in net assets.
- (b) the aggregate current and deferred tax relating to items that are charged or credited directly to equity.
- (c) an explanation of any significant differences between the tax expense (income) and accounting surplus multiplied by the applicable tax rate. For example, such differences may arise from transactions such as revenue that are exempt from taxation or expenses that are not deductible in determining taxable profit (tax loss).
- (d) an explanation of changes in the applicable tax rate(s) compared with the previous reporting period.
- (e) for each type of temporary difference and for each type of unused tax losses and tax credits:
 - (i) the amount of deferred tax liabilities and deferred tax assets at the end of the reporting period; and
 - (ii) an analysis of the change in deferred tax liabilities and deferred tax assets during the period.
- (f) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the Statement of Financial Position.
- (g) in the circumstances described in paragraph G29.34, an explanation of the nature of the potential income tax consequences that would result from making a distribution to the providers of contributed capital.

G29.47 If an NPO does not offset tax assets and liabilities in accordance with paragraph G29.43 because it is unable to demonstrate without undue cost or effort that it plans to settle them on a net basis or realise them simultaneously, the NPO shall disclose the amounts that have not been offset and the reasons why applying the requirement would involve undue cost or effort.

Comparison of Section 29 with the *IFRS for SMEs* Accounting Standard

Section 29 of INPAG has been drawn from Section 29 of the *IFRS for SMEs* Accounting Standard, with changes only to terminology and to align with the statements required by INPAG. The main differences between Section 29 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 29 of INPAG are as follows:

- The exclusion relating to government grants has been removed as Section 24 of the draft Third edition of the *IFRS for SMEs* Accounting Standard on government grants is superseded by Section 23 Part I *Revenue from grants and donations*. Section 23 Part I uses the principles of the 5 step model used for other revenue recognition.
- INPAG requires that the tax expense is recognised in the same component as the transaction or other event that resulted in the tax expense rather than references to total comprehensive income.
- INPAG Section 29 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.

Specific matter for comment	
<p>Question 9: Income tax</p> <p>(a) Are there any elements of Section 29 <i>Income tax</i> that are not required by NPOs? If so, explain which elements are not needed and why.</p>	<p>References</p> <p>Section 29</p>

Section 30 – Foreign currency translation

Scope of this section

G30.1 An NPO can conduct foreign activities in two ways. It may have transactions in foreign currencies, or it may have **foreign operations**. In addition, an NPO may present its **financial statements** in a foreign currency. This section prescribes how to include foreign currency transactions and foreign operations in the financial statements of an NPO and how to translate financial statements into a **presentation currency**. Accounting for **financial instruments** that derive their value from the change in a specified foreign exchange rate (for example, foreign currency forward exchange contracts) and hedge accounting of foreign currency items are dealt with in Part II of Section 11 *Other financial instrument issues*.

Functional currency

G30.2 Each NPO shall identify its **functional currency**. An NPO's functional currency is the currency of the primary economic environment in which the NPO operates.

G30.3 The primary economic environment in which an NPO operates is normally the one in which it primarily generates and expends cash. Consequently, the following are the most important factors an NPO considers in determining its functional currency:

- (a) the currency:
 - (i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and
 - (ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
- (b) the currency that mainly influences labour, material and other costs of providing services and goods (this will often be the currency in which such costs are denominated and settled).
- (c) the currency that mainly influences the value of grants, donations and similar income and the cost of providing grants, donations and similar expenses (this will often be the currency in which such incomes or costs are denominated and settled).

G30.4 The following factors may also provide evidence of an NPO's functional currency:

- (a) the currency in which funds from **financing activities** (issuing debt and **equity** instruments or receiving loans) are generated; and
- (b) the currency in which receipts from **operating activities** are usually retained, including cash balances retained as reserves.

G30.5 The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the **reporting NPO** (the reporting NPO in this context being the NPO that has the foreign operation as its **controlled entity**, branch, **associate** or **joint arrangement**):

- (a) whether the activities of the foreign operation are carried out as an extension of the reporting NPO instead of being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting NPO and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other **monetary items**, incurs **expenses**, generates **income** and arranges borrowings, all substantially in its local currency.
- (b) whether transactions with the reporting NPO are a high or a low proportion of the foreign operation's activities, including funding provided by the NPO to the foreign operation in the form of grants, donations and similar income.

- (c) whether **cash flows** from the activities of the foreign operation directly affect the cash flows of the reporting NPO and are readily available for remittance to it.
- (d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations or operating expenses without funds being made available by the reporting NPO, either in the form of loans or grants, donations and similar income.

Reporting foreign currency transactions in the functional currency

Initial recognition

- G30.6 A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an NPO:
- (a) buys or sells goods or services whose price is denominated in a foreign currency;
 - (b) enters into transactions such as an **enforceable grant arrangement (EGA)** or an **other funding arrangement (OFA)** (grant arrangements) that are denominated in foreign currency;
 - (c) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
 - (d) otherwise acquires or disposes of **assets**, or incurs or settles **liabilities**, denominated in a foreign currency.
- G30.7 An NPO shall record a foreign currency transaction, on initial **recognition** in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.
- G30.8 The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with this Guidance. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used – for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.
- G30.9 When an NPO pays or receives consideration in advance in a foreign currency, it recognises a non-monetary asset or non-monetary liability. The exchange rate to be used on the initial recognition of the related asset, expense or income (or part of it) is the exchange rate at the date on which the NPO initially recognised the non-monetary asset or the non-monetary liability arising from the payment or receipt of advance consideration.

Reporting at the end of the subsequent reporting periods

- G30.10 At the end of each **reporting period**, an NPO shall:
- (a) translate foreign currency monetary items using the **closing rate**;
 - (b) translate non-monetary items that are measured in terms of historical cost in a foreign currency using the exchange rate at the date of the transaction; and
 - (c) translate non-monetary items that are measured at **fair value** in a foreign currency using the exchange rates at the date when the fair value was determined.
- G30.11 An NPO shall recognise, in **surplus or deficit** in the period in which they arise, exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods, except as described in paragraph G30.15.
- G30.12 Exchange rate exchange gains or losses on monetary items such as grant receivables, cash received and held in a foreign currency and grant payables shall be presented consistent with the transaction to which the gain or loss relates. For example, if Section 36 *Fund accounting* [ED3] requires that a

transaction is presented within **funds with restrictions**, then any exchange gain or loss will also be presented within funds with restrictions.

- G30.13 When another section of this Guidance requires a gain or loss on a non-monetary item to be recognised in the **Statement of Changes in Net Assets**, an NPO shall recognise any exchange component of that gain or loss in the Statement of Changes in Net Assets. Conversely, when a gain or loss on a non-monetary item is recognised in surplus or deficit, an NPO shall recognise any exchange component of that gain or loss in surplus or deficit.

Net investment in a foreign operation

- G30.14 An NPO may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the NPO's net investment in that foreign operation and is accounted for in accordance with paragraph G30.15. Such monetary items may include long-term receivables or loans. They do not include receivables or payables.
- G30.15 Exchange differences arising on a monetary item that forms part of a reporting NPO's net investment in a foreign operation shall be recognised in surplus or deficit in the **separate financial statements** of the reporting NPO or the individual financial statements of the foreign operation as appropriate. In the financial statements that include the foreign operation and the reporting NPO (for example, **consolidated financial statements** when the foreign operation is a controlled entity), such exchange differences shall be recognised in the Statement of Changes in Net Assets and reported as a component of **funds without restrictions**. They shall not be recognised in surplus or deficit on disposal of the net investment.

Change in functional currency

- G30.16 When there is a change in an NPO's functional currency, the NPO shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.
- G30.17 As noted in paragraphs G30.2–G30.5, the functional currency of an NPO reflects the underlying transactions, events and conditions that are relevant to the NPO. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions. For example, a change in the currency that mainly influences the sales prices of goods and services may lead to a change in an NPO's functional currency.
- G30.18 The effect of a change in functional currency is accounted for prospectively. In other words, an NPO translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.

Use of a presentation currency other than the functional currency

Translation to the presentation currency

- G30.19 An NPO may present its financial statements in any currency (or currencies). If the presentation currency differs from the NPO's functional currency, the NPO shall translate its items of income and expense and **financial position** into the presentation currency. For example, when a **group** contains individual entities with different functional currencies, the items of income and expense and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.
- G30.20 An NPO whose functional currency is not the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the following procedures:

- (a) assets and liabilities for each **Statement of Financial Position** presented (ie including comparatives) shall be translated at the closing rate at the date of that Statement of Financial Position;
- (b) income and expenses for each **Statement of Income and Expenses** (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and
- (c) all resulting exchange differences shall be recognised in the Statement of Changes in Net Assets and reported as part of funds without restrictions in the Statement of Income and Expenses unless otherwise specified. They shall not subsequently be reclassified to surplus or deficit.

G30.21 For practical reasons, an NPO may use a rate that approximates the exchange rates at the dates of the transactions – for example, an average rate for the period – to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

G30.22 The exchange differences referred to in paragraph G30.20(c) result from:

- (a) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate; and
- (b) translating the opening net assets at a closing rate that differs from the previous closing rate.

When the exchange differences relate to a foreign operation that is consolidated but not fully controlled, accumulated exchange differences arising from translation and attributable to the **non-controlling interest** are allocated to, and recognised as part of, non-controlling interest in the consolidated Statement of Financial Position.

G30.23 An NPO whose functional currency is the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the procedures specified in Section 31 *Hyperinflation*.

Translation of a foreign operation into the controlling NPO's presentation currency

G30.24 In incorporating the assets, liabilities, income and expenses of a foreign operation with those of the reporting NPO, the NPO shall follow normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a controlled entity (see Section 9 *Consolidated and separate financial statements*) and the translation procedures set out in paragraphs G30.20–G30.22. However, an intragroup monetary asset (or liability), whether short term or long term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting NPO to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements, a reporting NPO continues to recognise such an exchange difference in surplus or deficit, or if it arises from the circumstances described in paragraph G30.15, the NPO shall recognise it in the Statement of Changes in Net Assets.

G30.25 Any **goodwill** arising on the acquisition of a foreign operation and any fair value adjustments to the **carrying amounts** of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus, they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraph G30.20.

Disclosures

G30.26 In paragraphs G30.28 and G30.29, references to 'functional currency' apply, in the case of a group, to the functional currency of the **controlling NPO**.

G30.27 An NPO shall disclose the following:

- (a) the amount of exchange differences recognised in surplus or deficit during the period, except for those arising on financial instruments measured at fair value through surplus or deficit in accordance with Section 11 *Financial instruments*;
- (b) the amount of exchange differences arising during the period and classified in a separate component of net assets at the end of the period.

- G30.28 An NPO shall disclose the currency in which the financial statements are presented. When the presentation currency is different from the functional currency, an NPO shall state that fact and shall disclose the functional currency and the reason for using a different presentation currency.
- G30.29 When there is a change in the functional currency of either the reporting NPO or a significant foreign operation, the NPO shall disclose that fact and the reason for the change in functional currency.
- G30.30 The exchange rate gains and losses that contribute to a deficit or surplus on an individual grant arrangement that is required by Section 36 to be presented within funds with restrictions shall be disclosed. The disclosure should provide details of the gain or loss in the period, and where the grant arrangement covers more than one financial reporting period, the cumulative amount of exchange rate gains and losses brought forward from previous reporting periods and carried forward to the next reporting period.

Application Guidance: Section 30 – Foreign currency translation

- AG30.1 Section 30 *Foreign currency translation* sets out how an NPO accounts for activities carried out in currencies other than its own functional currency and sets out the principles to apply. Further guidance and illustrative examples are provided in the Implementation Guidance.
- AG30.2 The functional currency is the main currency of the NPO's activity. There are two ways in which an NPO may have activities in other currencies:
- (a) it may enter into transactions, such as selling or buying goods or services, receiving or paying money, receiving or making grants or donations, borrowing or lending in currencies other than its functional currency.
 - (b) it may have foreign operations such as a foreign branch, controlled entity, associate or joint venture, which mainly carry out their activities in a different principal currency and hence have a different functional currency to the NPO itself.
- AG30.3 In addition, an NPO may choose to prepare its financial statements in a currency that differs from its functional currency. In this event, the currency used for preparing and reporting the financial statements is defined as the presentation currency.

Functional currency

- AG30.4 The functional currency of an NPO shall be identified when the NPO is established. In practice, this may occur when its general ledger is set up or when the first financial statements are prepared. Functional currency is identified through an assessment. It is not an accounting policy choice. Once the functional currency of an NPO has been identified, it shall only be changed if the circumstances considered in the assessment change.
- AG30.5 The functional currency of the NPO shall be identified by considering its primary economic environment, as set out in G30.3–G30.4. The primary economic environment in which the NPO mainly operates is normally the one in which it primarily generates an expends cash. For some NPOs, this may be relatively straightforward, and the functional currency will be the domestic currency of the country of operation of the NPO. For others that have significant foreign currency transactions or foreign operations, the identification may require further analysis.
- AG30.6 The most significant indicators of the economic environment are the currency that impacts grants and donations (both received and paid), the prices of its sales of goods and services, its purchases of goods

and services, and its payment of other costs such as employees' costs. Usually this will be the currency in which these transactions are denominated and paid. If these indicators alone do not give a clear identification of the functional currency, other indicators relating to the financing of the NPO shall be considered, such as the currency of funding through equity or borrowings and the currency in which the NPO chooses to retain any significant cash surpluses.

- AG30.7 If an NPO receives the majority of its funding in a currency other than its domestic currency, then it shall perform a detailed assessment to identify its functional currency.
- AG30.8 Where the NPO has foreign operations such as a branch, controlled entity, associate or joint arrangement, the functional currency of the foreign operation shall also be identified. As set out in G30.5, the initial consideration is to decide whether the foreign operation has a separate economic environment to the NPO holding the foreign operation (the controlling NPO).
- AG30.9 If the foreign operation has a separate economic environment, the functional currency of the foreign operation shall be assessed independently from that of the controlling NPO. This shall be assessed using the same approach as for any stand-alone NPO, as set out in G30.3–G30.4.
- AG30.10 If the foreign operation does not have a separate economic environment, then the functional currency of the controlling NPO and foreign operation will be the same.
- AG30.11 The factors to consider when identifying if the economic environment of the foreign operation is different from that of the controlling NPO are set out in G30.5. The four factors listed are means to assess the degree of financial interaction and dependency between the controlling NPO and the foreign operation. If there is very little interaction, so that the foreign operation mostly manages its own finances, it is **probable** that they have a separate economic environment. If there is a significant transfer of cash or funds between the controlling NPO and the foreign operation in the form of investment, remittances, payments or receipts for goods and services, or grants or donations, it is probable that they have the same economic environment.

Reporting foreign currency transactions in the functional currency

- AG30.12 At each balance sheet date, foreign currency monetary items should be translated using the closing exchange rate, which is the spot exchange rate at the balance sheet date. Monetary items are items either held in cash or items that will result in a future inflow or outflow of cash – for example, debtors, grant receivables, creditors, grant payables, loans or borrowings.
- AG30.13 Where another section of INPAG – for example, Section 36 *Fund accounting* [ED3] – requires a transaction to be presented within funds with restrictions, the exchange rate differences arising from retranslation of monetary items relating to that transaction (such as grant receivables or grant payables) shall be presented consistent with that transaction. The underlying principle is that exchange differences follow the presentation of the transaction to which it relates.
- AG30.14 Where a monetary item such as a foreign currency bank account includes a number of transactions, it might not be possible to identify the retranslated balance relating to an individual grant arrangement. Where this is the case, the total exchange gain or loss should be allocated, with the allocation method being a suitable proxy for the cash balance on an individual grant arrangement.
- AG30.15 Non-monetary items such as property, plant and equipment or **intangible assets** measured at historical cost shall continue to be translated at the exchange rate used at the date of the initial transaction. As a result, no further foreign exchange translation arises on these items after their initial recognition.
- AG30.16 Non-monetary items that are measured at fair value (for example, property plant and equipment held at fair value) shall be translated using the exchange rate when the fair value was determined. Hence, these items will be re-translated at subsequent balance sheet dates.

- AG30.17 Payments made in advance by grant providers under an EGA that has unfulfilled **enforceable grant obligations (EGOs)** (grant arrangement liabilities) and amounts received in advance by a grant recipient under an EGA that has unfulfilled EGOs (grant arrangement assets) are non-monetary items.
- AG30.18 If an EGO increases, or a new obligation under an EGA is recognised due to the effect of changes in exchange rates, the additional obligation is recognised as a **provision (onerous contract)** in accordance with Section 21 *Provisions and contingencies*. The corresponding expense shall be presented in the financial statements and the **notes** to the financial statements consistent with the transaction to which it relates.
- AG30.19 If the impact of the change in exchange rates is to require a refund to the grantor or donor, the refund shall be a reduction to revenue. The reduction to revenue shall follow the presentation required for the EGA or OFA (grant arrangement) to which it relates. If insufficient revenue has been recognised, the balance shall:
- (i) be deducted from the grant arrangement liability for the unfulfilled EGOs relating to the EGA; or
 - (ii) create a liability and a new expense if insufficient revenue has been recognised.
- AG30.20 The terms of an EGA may require the NPO to spend all the money it received under that EGA, including any exchange gains on specified activities, even if all EGOs have been met. This requirement shall have no impact on the reported results of the NPO as it relates to future expenses.
- AG30.21 Exchange gains or losses arising from a grant arrangement that is presented within funds with restrictions, to the extent that they are not offset by any other impacts unrelated to a change in exchange rates, shall be transferred to/from funds without restrictions. Transfers should be recognised only when the funds no longer meet the definition of restricted funds under G2.74.

Use of a presentation currency other than the functional currency

- AG30.22 It is permitted to present the financial statements in any currency. This may be desirable where the functional currency is not the domestic currency of the NPO or if the NPO needs financial statements in a particular currency for a specific purpose – for example, where this has been requested by a donor. Hence, the presentation currency used for a set of financial statements is a choice. Where a presentation currency other than the functional currency is used to present the financial statements, the approach set out in G30.20–G30.23 shall be applied to the financial statements in their entirety. Presentation of a part of the financial statements – for example, just the Statement of Income and Expense in the donor’s currency – is not permissible within the primary financial statements. Any partial presentation shall be presented outside the financial statements. This can be either in supplementary statements [ED3] or in special purpose financial information.
- AG30.23 A frequent application of the use of a presentation currency is for the translation of the results of a foreign operation with a different functional currency to the controlling NPO. This allows the financial statements to be presented in a common currency, which is usually the functional currency of the controlling NPO.
- AG30.24 Where monetary assets or liabilities are held between the controlling NPO and a foreign operation (for example, a loan or short-term payable from one party to the other), consolidation in a common currency will not eliminate any foreign exchange gain or loss arising in the financial statements of the party holding the foreign currency item. As a result, any foreign exchange gain or loss arising will be reported in the consolidated financial statements, even though the intergroup assets or liabilities themselves are eliminated on consolidation.

Disclosure

- AG30.25 Where grantors or donors do not accept exchange rate risk, exchange rate losses will ultimately be funded by the NPO from its funds without restrictions. Where a transfer is required between funds with restrictions and funds without restrictions as a result of an exchange rate loss on a grant arrangement, these movements shall be separately presented from all other movements, as required by G30.30.

Comparison of Section 30 with the *IFRS for SMEs* Accounting Standard

Section 30 of INPAG has been drawn from Section 30 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 30 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 30 of INPAG are as follows:

- INPAG Section 30 uses different terminology, referring specifically to NPOs rather than entities more generally. It also uses the names of the primary statements proposed in INPAG and uses surplus or deficit instead of profit or loss.
- The factors for determining the functional currency for the NPO and its foreign operations have been broadened from the draft Third edition of the *IFRS for SMEs* Accounting Standard to include grants and donations.
- Similarly, the types of foreign currency transactions that might be relevant have been broadened to include EGAs and OFAs (grant arrangements).
- INPAG Section 30 requires exchange rate gains and losses on monetary items to be presented in the financial statements and in the accompanying notes in accordance with the transaction to which it relates.
- INPAG Section 30 has replaced 'component of equity' with 'net assets' in describing where exchange gains and losses should be disclosed.
- INPAG Section 30 includes additional disclosures where there are surpluses or deficits arising from exchange rate gains and losses on an individual grant arrangement where that grant arrangement is required to be presented within funds with restrictions.

Specific matter for comment	
<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>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>

Section 31 – Hyperinflation

Scope of this section

G31.1 This section applies to an NPO whose **functional currency** is the currency of a hyperinflationary economy. It requires such an NPO to prepare **financial statements** that have been adjusted for the effects of hyperinflation.

Hyperinflationary economy

G31.2 This section does not establish an absolute rate at which an economy is deemed hyperinflationary. An NPO shall make that judgement by considering all available information, including but not limited to the following possible indicators of hyperinflation:

- (a) the general population prefers to keep its wealth in non-monetary **assets** or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power.
- (b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency.
- (c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short.
- (d) interest rates, wages and prices are linked to a price index.
- (e) the cumulative inflation rate over three years is approaching or exceeds 100 per cent.

Measuring unit in the financial statements

G31.3 All amounts in the financial statements of an NPO whose functional currency is the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the end of the **reporting period**. The comparative information for the previous period required by paragraph G3.14, and any information presented in respect of earlier periods, shall also be stated in terms of the measuring unit current at the **reporting date**.

G31.4 The restatement of financial statements in accordance with this section requires the use of a general price index that reflects changes in general purchasing power. In most economies, there is a recognised general price index, normally produced by the **government**, that entities will follow.

Procedures for restating historical cost financial statements

Statement of Financial Position

G31.5 **Statement of Financial Position** amounts not expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index.

G31.6 **Monetary items** are not restated because they are expressed in terms of the measuring unit current at the end of the reporting period. Monetary items are money held and items to be received or paid in money.

G31.7 Assets and **liabilities** linked by agreement to changes in prices, such as index-linked bonds and loans, are adjusted in accordance with the agreement and presented at this adjusted amount in the restated Statement of Financial Position.

G31.8 All other assets and liabilities are non-monetary:

- (a) some non-monetary items are carried at amounts current at the end of the reporting period, such as net realisable value and **fair value**, so they are not restated. All other non-monetary assets and liabilities are restated.
- (b) most non-monetary items are carried at cost or cost less **depreciation**; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the end of the reporting period.
- (c) some non-monetary items are carried at amounts current at dates other than that of acquisition or the reporting date – for example, **property, plant and equipment** that has been revalued at some earlier date. In these cases, the **carrying amounts** are restated from the date of the revaluation.
- (d) the restated amount of a non-monetary item is reduced in accordance with Section 27 *Impairment of assets* when it exceeds its **recoverable amount**.

G31.9 At the beginning of the first period of application of this section, the components of **net assets**, except **funds with restrictions** and **funds without restrictions** (including any revaluation surplus), are restated by applying a general price index from the dates the components were contributed or otherwise arose. Any revaluation surplus that arose in previous periods is eliminated. Restated funds with restrictions and funds without restrictions are derived from all the other amounts in the restated Statement of Financial Position.

G31.10 At the end of the first period and in subsequent periods, all components of **equity claims** are restated by applying a general price index from the beginning of the period or the date of contribution, if later. The changes for the period in equity claims are disclosed in accordance with Section 6 *Statement of Changes in Net Assets*.

Statement of Income and Expenses and Statement of Changes in Net Assets

G31.11 All items in the **Statement of Income and Expenses** and **Statement of Changes in Net Assets** shall be expressed in terms of the measuring unit current at the end of the reporting period. Consequently, all amounts need to be restated by applying the change in the general price index from the dates when the items of **income** and **expenses** were initially recognised in the financial statements. If general inflation is approximately even throughout the period, and the items of income and expense arose approximately evenly throughout the period, an average rate of inflation may be appropriate.

Statement of Cash Flows

G31.12 An NPO shall express all items in the **Statement of Cash Flows** in terms of the measuring unit current at the end of the reporting period.

Gain or loss on net monetary position

G31.13 In a period of inflation, an NPO holding an excess of monetary assets over monetary liabilities loses purchasing power, and an NPO with an excess of monetary liabilities over monetary assets gains purchasing power, to the extent the assets and liabilities are not linked to a price level. An NPO shall include in **surplus or deficit** the gain or loss on the net monetary position. An NPO shall offset the adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph G31.7 against the gain or loss on net monetary position.

Economies ceasing to be hyperinflationary

G31.14 When an economy ceases to be hyperinflationary and an NPO discontinues the preparation and presentation of financial statements prepared in accordance with this section, it shall treat the amounts expressed in the **presentation currency** at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.

Disclosures

G31.15 An NPO to which this section applies shall disclose the following:

- (a) the fact that financial statements and other prior period data have been restated for changes in the general purchasing power of the functional currency;
- (b) the identity and level of the price index at the reporting date and changes during the current reporting period and the previous reporting period; and
- (c) amount of gain or loss on monetary items.

Comparison of Section 31 with the *IFRS for SMEs Accounting Standard*

Section 31 of INPAG has been drawn from Section 31 of the *IFRS for SMEs Accounting Standard*, with changes only to terminology and to align with the statements required by INPAG. The main differences between Section 31 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 31 of INPAG are as follows:

- Reference to the statement of comprehensive income and income statement have been replaced by the Statement of Income and Expenses and the Statement of Changes in Net Assets.
- INPAG Section 31 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Specific matter for comment	
<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 that has already been changed? If not, describe any further alignment changes required.</p>	<p>References</p> <p>Section 31</p>

Section 32 – Events after the end of the reporting period

Scope of this section

G32.1 This section defines events after the end of the **reporting period** and sets out principles for recognising, measuring and disclosing those events.

Events after the end of the reporting period defined

G32.2 Events after the end of the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the **financial statements** are authorised for issue. There are two types of events:

- (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the end of the reporting period); and
- (b) those that are indicative of conditions that arose after the end of the reporting period (non-adjusting events after the end of the reporting period).

G32.3 Events after the end of the reporting period include all events up to the date when the financial statements are authorised for issue, even if those events occur after the public announcement of **surplus or deficit** or other selected financial information.

Recognition and measurement

Adjusting events after the end of the reporting period

G32.4 An NPO shall adjust the amounts recognised in its financial statements, including related disclosures, to reflect adjusting events after the end of the reporting period.

G32.5 The following are examples of adjusting events after the end of the reporting period that require an NPO to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

- (a) the settlement after the end of the reporting period of a court case that confirms that the NPO had a present obligation at the end of the reporting period. The NPO adjusts any previously recognised **provision** related to this court case in accordance with Section 21 *Provisions and contingencies* or recognises a new provision. The NPO does not merely disclose a **contingent liability**. Instead, the settlement provides additional evidence to be considered in determining the provision that should be recognised at the end of the reporting period in accordance with Section 21.
- (b) the receipt of information after the end of the reporting period indicating that an **asset** was impaired at the end of the reporting period or that the amount of a previously recognised **impairment loss** for that asset needs to be adjusted. For example:
 - (i) the bankruptcy of a customer or **grant provider** that occurs after the end of the reporting period usually confirms that a loss existed at the end of the reporting period on a receivable and that the NPO needs to adjust the **carrying amount** of the receivable; and
 - (ii) the sale of **inventories** after the end of the reporting period may give evidence about their selling price at the end of the reporting period for the purpose of assessing impairment at that date.
- (c) the determination after the end of the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.

- (d) the determination after the end of the reporting period of the amount of bonus payments, if the entity had a legal or **constructive obligation** at the end of the reporting period to make such payments as a result of events before that date (see Section 28 *Employee benefits*).
- (e) the discovery of fraud or **errors** that show that the financial statements are incorrect.

Non-adjusting events after the end of the reporting period

G32.6 An NPO shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the end of the reporting period.

G32.7 Examples of non-adjusting events after the end of the reporting period include:

- (a) a decline in market value of investments between the end of the reporting period and the date when the financial statements are authorised for issue. The decline in market value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. Consequently, an NPO does not adjust the amounts recognised in its financial statements for the investments. Similarly, the NPO does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure in accordance with paragraph G32.10.
- (b) an amount that becomes receivable as a result of a favourable judgement or settlement of a court case after the **reporting date** but before the financial statements are authorised for issue. This would be a **contingent asset** at the reporting date (see paragraph G21.14) and disclosure may be required by paragraph G21.17. However, agreement on the amount of damages for a judgment that was reached before the reporting date but was not previously recognised because the amount could not be measured reliably may constitute an adjusting event.

Distributions

G32.8 If an NPO declares a distribution to holders of **equity claims** after the end of the reporting period, the NPO shall not recognise those distributions as a **liability** at the end of the reporting period. The amount of the distribution may be presented as a segregated component of **funds with restrictions** or **funds without restrictions** at the end of the reporting period.

Disclosure

Date of authorisation for issue

G32.9 An NPO shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If others have the power to amend the financial statements after issue, the NPO shall disclose that fact.

Non-adjusting events after the end of the reporting period

G32.10 An NPO shall disclose the following for each category of non-adjusting event after the end of the reporting period:

- (a) the nature of the event; and
- (b) an estimate of its financial effect or a statement that such an estimate cannot be made.

G32.11 The following are examples of non-adjusting events after the end of the reporting period that would generally result in disclosure; the disclosures will reflect information that becomes known after the end of the reporting period but before the financial statements are authorised for issue:

- (a) a major **business combination** or disposal of a major **controlled entity**;
- (b) announcement of a plan to discontinue an operation;

- (c) major purchases of assets, disposals or plans to dispose of assets, or expropriation of major assets by **government**;
- (d) the destruction of a major production plant by a fire;
- (e) announcement, or commencement of the implementation, of a major restructuring;
- (f) issues or repurchases of an NPO's debt or equity claims;
- (g) abnormally large changes in asset prices or foreign exchange rates;
- (h) changes in tax rates or tax laws enacted or announced that have a significant effect on current and deferred tax assets and liabilities;
- (i) entering into significant commitments or contingent liabilities – for example, by issuing significant guarantees; and
- (j) commencement of major litigation arising solely out of events that occurred after the end of the reporting period.

Comparison of Section 32 with the *IFRS for SMEs Accounting Standard*

Section 32 of INPAG has been drawn from Section 32 of the *IFRS for SMEs Accounting Standard*, with changes only to terminology and to align with the statements required by INPAG. The main differences between Section 32 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 32 of INPAG are as follows:

- References to profit sharing have been removed, as they are not expected to be a feature of NPO remuneration arrangements.
- References to 'trade receivables' have been changed to 'receivables' as the primary objective of NPO is not expected to be 'trade'.
- A specific reference to the 'entity's owners' as having the power to amend the financial statements after issue has been removed.
- INPAG Section 32 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Specific matter for comment	
<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, set out alignment changes required.</p>	<p>References</p> <p>Section 32</p>

Sections 33–38

33	Related parties	ED3
34	Specialised activities	ED3
35	Narrative reporting	ED1
36	Fund accounting	ED3
37	Supplementary information	ED3
38	Transition to INPAG	ED3

Section 35 was included in **Exposure Draft 1** for comment: Section 35 *Narrative reporting*. The feedback received will be incorporated into the final version of INPAG.

Sections 33, 34, 36, 37 and 38 will be included in ED3.

Glossary of terms

This glossary is an integral part of INPAG.

Not all of the terms included in this glossary are used in ED2. Additional terms may be added as INPAG is developed. All terms will be used in the final INPAG.

accounting estimates	Monetary amounts in financial statements that are subject to measurement uncertainty.
accounting policies	The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
accounting profit	Profit or loss for a period before deducting tax expense.
accumulating compensated absences	Compensated absences that are carried forward and can be used in future periods if the current period's entitlement is not used in full.
active market	A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
acquiree	The business or businesses that the acquirer obtains control of in a business combination.
acquirer	The entity that obtains control of the acquiree.
aggregation	The adding together of assets, liabilities, equity, income or expenses that have shared characteristics and are included in the same classification.
agricultural activity	The management by an entity of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets.
agricultural produce	The harvested product of the entity's biological assets.
amortisation	The systematic allocation of the depreciable amount of an asset over its useful life.
amortised cost of a financial asset or financial liability	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.
asset	A present economic resource controlled by the entity as a result of past events.
associate	An entity, including an unincorporated entity such as a partnership, over which the controlling NPO has significant influence and that is neither a controlled entity nor an interest in a joint arrangement.
bearer plant	A bearer plant is a living plant that: <ul style="list-style-type: none"> (a) is used in the production or supply of agricultural produce; (b) is expected to bear produce for more than one period; and (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.
beneficial interest	An interest resulting from the control of another entity that arises other than through equity ownership.
biological asset	A living animal or plant.
borrowing costs	Interest and other costs incurred by an entity in connection with the borrowing of funds.
business	An integrated set of activities and assets that is capable of being conducted and managed for the purpose of: <ul style="list-style-type: none"> (a) providing goods or services to customers; (b) generating investment income (such as dividends or interests); or (c) generating other income from ordinary activities.
business combination	A transaction or other event in which an acquirer obtains control of one or more businesses.

capital grant	An inflow that arises from an EGA of cash or another asset with a specification that the NPO acquires or constructs a non-financial asset that will be controlled by the NPO.
carrying amount	The amount at which an asset, liability or equity is recognised in the Statement of Financial Position.
cash	Cash on hand and demand deposits.
cash equivalent	Short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.
cash flows	Inflows and outflows of cash and cash equivalents.
cash-generating unit	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.
cash-settled share-based payment transaction	A share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity.
class of assets	A grouping of assets of a similar nature and use in an entity's operations.
classification	The sorting of assets, liabilities, equity, funds in net assets, income or expenses on the basis of shared characteristics for presentation and disclosure purposes.
close members of the family of a person	Those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity, including: <ul style="list-style-type: none">(a) that person's children and spouse or domestic partner;(b) children of that person's spouse or domestic partner; and(c) dependants of that person or that person's spouse or domestic partner.
combined financial statements	Financial statements of a reporting entity that comprises two or more entities that are not all linked by a parent–subsidiary (controlling NPO-controlled entity) relationship.
component of an entity	Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.
compound financial instrument	A financial instrument that, from the issuer's perspective, contains both a liability and an equity element.
consolidated financial statements	The financial statements of a controlling NPO and its controlled entities presented as those of a single economic entity.
construction contract	A contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.
constructive obligation	An obligation that derives from an entity's actions where: <ul style="list-style-type: none">(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
contingent asset	A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
contingent consideration	Usually, an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

contingent liability	<p>(a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or</p> <p>(b) a present obligation that arises from past events but is not recognised because:</p> <p>(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or</p> <p>(ii) the amount of the obligation cannot be measured with sufficient reliability.</p>
contract	An agreement between two or more parties that creates enforceable rights and obligations.
contract asset	An NPO's right to consideration in exchange for goods or services that the NPO has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the NPO's future performance).
contract liability	An NPO's obligation to transfer goods or services to a customer for which the NPO has received consideration (or the amount is due) from the customer.
contributions from holders of equity claims	An inflow of resources to an NPO, contributed by parties external to the NPO, which establishes or increases a financial interest in the net assets of the NPO.
control (of an entity)	A controlling NPO controls an investee (controlled entity) when the controlling NPO is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
controlled entity	An entity that is controlled by another entity.
controlling NPO	The NPO that has control of an entity as a result of the application of the principles of control.
credit loss	The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (that is, all cash shortfalls), discounted at the original effective interest rate.
current tax	The amount of income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period or past periods.
customer	A party that has contracted with an NPO to obtain goods or services that are an output of the NPO's ordinary activities in exchange for consideration.
date of initial application	The date an entity first applies the first edition of INPAG.
date of transition to INPAG	The beginning of the earliest period for which an NPO presents full comparative information under INPAG in its first financial statements that comply with INPAG.
deductible temporary differences	Temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
deferred tax	Income tax payable (recoverable) in respect of the taxable profit (tax loss) for future periods as a result of past transactions or events.
deferred tax assets	The amounts of income tax recoverable in future periods in respect of: <ul style="list-style-type: none"> (a) deductible temporary differences; (b) the carry forward of unused tax losses; and (c) the carry forward of unused tax credits.
deferred tax liabilities	The amounts of income tax payable in future periods in respect of taxable temporary differences.
defined benefit liability	The present value of the defined benefit obligation at the reporting date minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.
defined benefit obligation	The expected future payments, without deducting any plan assets, required to settle the obligation resulting from employee service in the current and prior periods.
defined benefit plans	Post-employment benefit plans other than defined contribution plans.
defined contribution plans	Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

depreciable amount	The cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value.
depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
derecognition	The removal of all or part of a recognised asset or liability from an entity's Statement of Financial Position.
development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.
discontinued operation	A component of an entity that either has been disposed of or is held for sale and: <ul style="list-style-type: none"> (a) represents a separate major line of business or geographical area of operations; (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a controlled entity acquired exclusively with a view to resale.
distributions to holders of equity claims	An outflow of resources from an NPO, distributed to parties external to the NPO, which returns or reduces a financial interest in the net assets of the NPO. It may also be an inflow of resources to an NPO in return for its financial interest in the net assets of another entity (for example, a dividend received).
dividends	Distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital.
economic phenomena	Economic phenomena are economic resources, claims against those resources, and the effects of transactions and other events and conditions that change those resources and claims.
economic resource	A right that has the potential to produce economic benefits or service potential.
effective interest method	A method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
effective interest rate	The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.
effectiveness of a hedge	The degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.
employee benefits	All forms of consideration given by an entity in exchange for service rendered by employees.
enforceable grant arrangement (EGA)	A grant arrangement where both a donor and grant recipient have both rights and obligations, enforceable through legal or equivalent means. A grant recipient's undertakings under an EGA are EGOs. An EGA must have at least one EGO.
enforceable grant arrangement asset	An NPO's right to a grant amount for satisfying its EGOs in an EGA prior to the grant provider transferring resources.
enforceable grant arrangement liability	An NPO's obligation to satisfy its EGO in an EGA for which the NPO has received consideration (or the amount is due) from the grant provider.
enforceable grant obligation (EGO)	A grant recipient's undertaking in an EGA to achieve a specified outcome, to carry out a specified activity, to use distinct services, goods or other assets internally for a specified purpose or to transfer distinct services, goods, cash or other assets to a service recipient.
enhancing qualitative characteristic	A qualitative characteristic that makes useful information more useful. The enhancing qualitative characteristics are comparability, verifiability, timeliness and understandability.
equity	The residual interest in the assets of an entity after deducting all its liabilities.
equity claim	A claim on the residual interest in the assets of an entity after deducting all its liabilities.
equity-settled share-based payment transaction	A share-based payment transaction in which the entity: <ul style="list-style-type: none"> (a) receives goods or services as consideration for its own equity instruments (including shares or share options); or (b) receives goods or services but has no obligation to settle the transaction with the supplier.

errors	Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: <ul style="list-style-type: none"> (a) was available when financial statements for those periods were authorised for issue; and (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
executory contract	A contract, or a portion of a contract, that is equally unperformed– neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent.
existence uncertainty	Uncertainty about whether an asset or liability exists.
expenses	Decreases in assets or increases in liabilities that result in decreases in net assets, other than those relating to distributions to holders of equity claims.
fair presentation	Faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses.
fair value	The price that would be received to sell, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.
finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. A lease that is not a finance lease is an operating lease.
financial asset	Any asset that is: <ul style="list-style-type: none"> (a) cash; (b) an equity instrument of another entity; (c) a contractual right: <ul style="list-style-type: none"> (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or (d) a contract that will or may be settled in the entity's own equity instruments and: <ul style="list-style-type: none"> (i) under which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.
financial guarantee contract	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
financial instrument	A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
financial liability	Any liability that is a contractual obligation: <ul style="list-style-type: none"> (i) to deliver cash or another financial asset to another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.
financial position	The relationship of the assets, liabilities and equity of an entity as reported in the Statement of Financial Position.
financial statements	Structured representation of the financial position, income and expenses and cash flows of an entity.
financing activities	Activities that result in changes in the size and composition of the equity and borrowings of the entity.
firm commitment	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.
first-time adopter of INPAG	An entity that presents its first annual financial statements that conform to INPAG, regardless of whether its previous accounting framework was full IFRS Accounting Standards or another set of accounting standards.

forecast transaction	An uncommitted but anticipated future transaction.
foreign operation	An entity that is a controlled entity, associate, joint arrangement or branch of a reporting NPO, the activities of which are based or conducted in a country or currency other than those of the reporting entity.
full IFRS Accounting Standards	Standards and Interpretations issued by the International Accounting Standards Board (IASB). They comprise: <ul style="list-style-type: none"> (a) International Financial Reporting Standards; (b) International Accounting Standards; (c) IFRIC Interpretations; and (d) SIC Interpretations.
functional currency	The currency of the primary economic environment in which the entity operates.
functional currency normalisation date	The date when an entity's functional currency no longer has either, or both, of the two characteristics of severe hyperinflation, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.
fundamental qualitative characteristic	A qualitative characteristic that financial information must possess to be useful to the primary users of general purpose financial reports. The fundamental qualitative characteristics are relevance and faithful representation.
funding (of post-employment benefits)	Contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid.
funds with restrictions	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 arrangements placed on the NPO by a resource provider.
funds without restrictions	Funds that are freely available to be used by an NPO for any of its purposes or activities. An NPO is free to internally designate funds for a specific purpose or activity (including designation by the NPO's board of directors), but the absence of any externally imposed funding or other legal arrangement means that they are not required to be used for this purpose or activity and are therefore not funds with restrictions.
general purpose financial statements	Financial statements directed to the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.
general purpose financial reports	Financial reports that present management commentary and other narrative reporting alongside the financial information contained in the general purpose financial statements and that are directed to the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.
going concern	An entity is a going concern unless management either intends to liquidate the entity, cease operations, or has no realistic alternative but to do so.
goodwill	An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.
government	Government, government agencies and similar bodies whether local, national or international.
government grants	Assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.
grant provider	The party that provides a resource to the NPO.
gross investment in a lease	The aggregate of: <ul style="list-style-type: none"> (a) the minimum lease payments receivable by the lessor under a finance lease; and (b) any unguaranteed residual value accruing to the lessor.
group	A parent (controlling NPO) and all its controlled entities.

hedged item	<p>For the purpose of special hedge accounting by NPOs under Part II of Section 11 of this Standard, a hedged item is:</p> <ul style="list-style-type: none">(a) interest rate risk of a debt instrument measured at amortised cost;(b) foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction;(c) price risk of a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; or(d) foreign exchange risk in a net investment in a foreign operation.
hedging instrument	<p>For the purpose of special hedge accounting by NPOs under Part II of Section 11 of this Standard, a hedging instrument is a financial instrument that meets all of the following terms and conditions:</p> <ul style="list-style-type: none">(a) it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in paragraph G11.65 that is designated as the hedged risk;(b) it involves a party external to the reporting entity (ie external to the group, segment or individual entity being reported on);(c) its notional amount is equal to the designated amount of the principal or notional amount of the hedged item;(d) it has a specified maturity date not later than:<ul style="list-style-type: none">(i) the maturity of the financial instrument being hedged;(ii) the expected settlement of the commodity purchase or sale commitment; or(iii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged(e) it has no prepayment, early termination or extension features.
highly probable	Significantly more likely than probable.
impairment (loss)	<p>The amount by which the carrying amount of an asset exceeds:</p> <ul style="list-style-type: none">(a) in the case of inventories, its selling price less costs to complete and sell, or(b) in the case of other non-financial assets, its recoverable amount.
impracticable	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
imputed rate of interest	<p>The more clearly determinable of either:</p> <ul style="list-style-type: none">(a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or(b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.
income	Increases in assets, or decreases in liabilities, that result in increases in net assets, other than those relating to contributions from holders of equity claims.
income statement	A financial statement that presents all items of income and expense recognised in a reporting period, excluding the items of other comprehensive income.
income tax	All domestic and foreign taxes that are based on taxable profits. Income tax also includes taxes, such as withholding taxes, that are payable by a controlled entity, associate or joint arrangement on distributions to the reporting entity.
insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
intangible asset	<p>An identifiable non-monetary asset without physical substance. Such an asset is identifiable when it:</p> <ul style="list-style-type: none">(a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

interest rate implicit in the lease	The discount rate that, at the inception of the lease, causes the aggregate present value of (a) the minimum lease payments and (b) the unguaranteed residual value to be equal to the sum of (i) the fair value of the leased asset and (ii) any initial direct costs of the lessor.
interim financial report	A financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period.
interim period	A financial reporting period shorter than a full financial year.
International Public Sector Accounting Standards (IPSAS)	Standards and Interpretations issued by the International Public Sector Accounting Standards Board (IPSASB) for use by public sector entities other than government business enterprises. They comprise: <ul style="list-style-type: none"> (a) International Public Sector Accounting Standards; and (b) International Recommended Practice Guidelines.
intrinsic value	The difference between the fair value of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares. For example, a share option with an exercise price of CU15 on a share with a fair value of CU20 has an intrinsic value of CU5.
inventories	Assets: <ul style="list-style-type: none"> (a) held for sale in the ordinary course of operations; (b) held for distribution to service recipients in the ordinary course of operations; (c) held for use in fundraising events (or similar circumstances where the items will be transferred to another party in the course of the NPO's fundraising activities eg prizes); (d) in the process of production for such sale; or (e) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.
investment property	Property (land or a building, part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, instead of for: <ul style="list-style-type: none"> (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.
joint arrangement	An arrangement in which two or more parties have joint control. Joint arrangements can take the form of jointly controlled operations, jointly controlled assets or jointly controlled entities.
joint control	The contractually agreed sharing of control of an arrangement. It exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
jointly controlled entity	A joint arrangement that involves the establishment of a corporation, partnership or other entity in which each party has an interest. The entity operates in the same way as other entities, except that an arrangement between the parties establishes joint control.
lease	An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
lessee's incremental borrowing rate of interest	The rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.
liability	A present obligation of the entity to transfer an economic resource as a result of past events.
loans payable	Financial liabilities other than short-term trade payables on normal credit terms.

market participants	<p>Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:</p> <ul style="list-style-type: none">(a) they are independent of each other – that is, they are not related parties as defined in Section 33;(b) they are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information;(c) they are able to enter into a transaction for the asset or liability; and(d) they are willing to enter into a transaction for the asset or liability – that is, they are motivated but not forced or otherwise compelled to do so.
market vesting condition	<p>A performance condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group), such as:</p> <ul style="list-style-type: none">(a) attaining a specified share price or a specified amount of intrinsic value of a share option; or(b) achieving a specified target that is based on the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group) relative to an index of market prices of equity instruments of other entities. <p>A market condition requires the counterparty to complete a specified period of service (that is, a service condition); the service requirement can be explicit or implicit.</p>
material	<p>Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.</p>
measure	<p>The result of applying a measurement basis to an asset or liability and related income and expenses.</p>
measurement basis	<p>An identified feature – for example, historical cost, fair value or fulfilment value – of an item being measured.</p>
measurement uncertainty	<p>Uncertainty that arises when monetary amounts in financial reports cannot be observed directly and must instead be estimated.</p>
minimum lease payments	<p>The payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:</p> <ul style="list-style-type: none">(a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or(b) for a lessor, any residual value guaranteed to the lessor by:<ul style="list-style-type: none">(i) the lessee;(ii) a party related to the lessee; or(iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. <p>However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.</p>
monetary items	<p>Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.</p>
most advantageous market	<p>The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.</p>
multi-employer (benefit) plans	<p>Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:</p> <ul style="list-style-type: none">(a) pool the assets contributed by various entities that are not under common control; and(b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

net investment in a lease	The gross investment in a lease discounted at the interest rate implicit in the lease.
non-controlling interest	The equity in a controlled entity not attributable, directly or indirectly, to a controlling NPO.
notes (to financial statements)	Notes contain information in addition to that presented in the Statement of Financial Position, Statement of Income and Expenses, Statement of Changes in Net Assets and Statement of Cash Flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.
notional amount	The quantity of currency units, shares, bushels, pounds or other units specified in a financial instrument contract.
objective of financial statements	To provide information about the financial position, income and expenses and cash flows of an entity that is useful for decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.
observable inputs	Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.
offsetting	Grouping an asset and liability that are recognised and measured as separate units of account into a single net amount in the Statement of Financial Position.
onerous contract	A contract in which the unavoidable costs of meeting the obligations under the contract EGA exceed the economic benefits expected to be received under it.
operating activities	The principal activities of the entity that are not investing or financing activities.
operating lease	A lease that does not transfer substantially all the risks and rewards incidental to ownership. A lease that is not an operating lease is a finance lease.
orderly transaction	A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).
other comprehensive income	Items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by the IFRS for SMEs Accounting Standard.
outcome uncertainty	Uncertainty about the amount or timing of any inflow or outflow of economic benefits that will result from an asset or liability.
parent	An entity that has one or more subsidiaries or controlled entities. The term 'controlling NPO' is used where an NPO is a parent.
performance condition	<p>A vesting condition that requires:</p> <ul style="list-style-type: none"> (a) the counterparty to complete a specified period of service (that is, a service condition); the service requirement can be explicit or implicit; and (b) specified performance target(s) to be met while the counterparty is rendering the service required in (a). <p>The period of achieving the performance target(s):</p> <ul style="list-style-type: none"> (a) shall not extend beyond the end of the service period; and (b) may start before the service period on the condition that the commencement date of the performance target is not substantially before the commencement of the service period. <p>A performance target is defined by reference to:</p> <ul style="list-style-type: none"> (a) the entity's own operations (or activities) or the operations or activities of another entity in the same group (that is, a non-market condition); or (b) the price (or value) of the entity's equity instruments or the equity instruments of another entity in the same group (including shares and share options) (that is, a market condition). <p>A performance target might relate either to the performance of the entity as a whole or to some part of the entity (or part of the group), such as a division or an individual employee.</p>
plan assets (of an employee benefit plan)	Assets held by a long-term employee benefit fund and qualifying insurance policies.
post-employment benefits	Employee benefits (other than termination benefits) that are payable after the completion of employment.

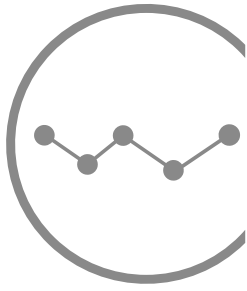
post-employment benefit plans	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.
potential to produce economic benefits	Within an economic resource, a right that already exists and that, in at least one circumstance, would produce for the entity economic benefits or service potential beyond those available to all other parties.
present value	A current estimate of the present discounted value of the future net cash flows in the normal course of operations.
presentation currency	The currency in which the financial statements are presented.
primary users	Existing and potential investors, lenders and other creditors.
principal market	The market with the greatest volume and level of activity for the asset or liability.
probable	More likely than not.
profit or loss	The total of income less expenses, excluding the components of other comprehensive income of for-profit entities.
projected unit credit method	An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method).
promise (in a contract with a customer)	An obligation to transfer a good or service (or bundle of goods or services) that is distinct.
property, plant and equipment	Tangible assets that: <ul style="list-style-type: none"> (a) are held for use in the production or supply of goods or services, for rental to others or for administrative purposes; and (b) are expected to be used during more than one period.
prospective application (of a change in accounting policy)	Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed.
provision	A liability of uncertain timing or amount.
prudence	The exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses.
public accountability	An entity has public accountability if: <ul style="list-style-type: none"> (a) its debt or equity instruments are traded in a public market, or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).
publicly traded (debt or equity instruments)	Traded, or in process of being issued for trading, in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
recognition	The process of capturing for inclusion in the Statement of Financial Position or the statement(s) of financial performance an item that meets the definition of one of the elements of financial statements – an asset, a liability, equity, income or expenses. Recognition involves depicting the item in one of those statements – either alone or in aggregation with other items – in words and by a monetary amount and including that amount in one or more totals in that statement.
recoverable amount	The higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use.

related party	<p>A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity):</p> <ul style="list-style-type: none"> (a) a person or a close member of that person's family is related to a reporting entity if that person: <ul style="list-style-type: none"> (i) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity; (ii) has control or joint control over the reporting entity; or (iii) has significant influence over the reporting entity. (b) an entity is related to a reporting entity if any of the following conditions apply: <ul style="list-style-type: none"> (i) the entity and the reporting entity are members of the same group (which means that each controlling NPO, controlled entity and fellow controlled entity is related to the others); (ii) one entity is an associate or jointly controlled entity of the other entity (or an associate or jointly controlled entity of a member of a group of which the other entity is a member); (iii) both entities are jointly controlled entities of the same third entity; (iv) one entity is a jointly controlled entity of a third entity, and the other entity is an associate of the third entity; v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity; (vi) the entity is controlled or jointly controlled by a person identified in (a); (vii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity; (viii) a person identified in (a)(ii) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
related party transaction	A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.
relevance	Relevant financial information is capable of making a difference in the decisions made by users.
relevant activities (of an investee)	The activities that significantly affect the investee's returns.
reliability	The quality of information that makes it free from material error and bias and represents faithfully that which it either purports to represent or could reasonably be expected to represent.
reporting date	The end of the latest period covered by the financial report or by an interim financial report.
reporting entity	An entity that is required, or chooses, to prepare general purpose financial reports.
reporting NPO	A reporting NPO is a single NPO, part of an NPO or a combination of NPOs that is required, or chooses, to prepare general purpose financial reports.
reporting period	The period covered by a financial report or by an interim financial report.
research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
residual value (of an asset)	The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
retrospective application (of a change in accounting policy)	Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.
revenue	Income arising in the course of an NPO's ordinary activities.
separate financial statements	Those presented by an entity in which the entity could elect, in accordance with paragraphs G9.25–G9.26, to account for its investments in controlled entities, jointly controlled entities and associates, either at cost less impairment, at fair value with changes in fair value recognised in profit or loss, or using the equity method following the procedures in paragraph 14.8.

service recipient	Individual, group of individuals or entity that is in receipt of services, goods or advocacy of an NPO.
service concession arrangement	An arrangement whereby a government or other public sector body contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals.
service condition	A vesting condition that requires the counterparty to complete a specified period of service during which services are provided to the entity. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, it has failed to satisfy the condition. A service condition does not require a performance target to be met.
service potential	The capacity to provide services that contribute to achieving the NPO's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.
severe hyperinflation	The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics: <ul style="list-style-type: none"> (a) a reliable general price index is not available to all entities with transactions and balances in the currency; and (b) exchangeability between the currency and a relatively stable foreign currency does not exist.
share-based payment arrangement	An agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive: <ul style="list-style-type: none"> (a) cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity; or (b) equity instruments (including shares or share options) of the entity or another group entity; provided the specified vesting conditions, if any, are met.
share-based payment transaction	A transaction in which the entity: <ul style="list-style-type: none"> (a) receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment arrangement; or (b) incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.
small and medium-sized entities	Entities that: <ul style="list-style-type: none"> (a) do not have public accountability; and (b) publish general purpose financial statements for external users. An entity has public accountability if: <ul style="list-style-type: none"> (a) it files or is in the process of filing its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
societal accountability	An expansive view of accountability that recognises a general accountability to society at large due to the importance of NPO goods and services, the funding environment, the preferential treatment that NPOs can receive compared to other organisations, and the need to ensure the effective operation of the wider sector.
stand-alone value (of a good or service)	The price of a good or service that is used internally or provided separately to a service recipient.
state (employee benefit) plan	Employee benefit plans established by legislation to cover all entities (or all entities in a particular category – for example, a specific industry) and operated by national or local government or by another body (for example, an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity.
Statement of Cash Flows	A financial statement that provides information about the changes in cash and cash equivalents of an entity for a period, showing separately changes during the period from operating, investing and financing activities.

Statement of Changes in Net Assets	A financial statement that presents the surplus or deficit for a period, items of income and expense not recognised directly in Statement of Income and Expenses for the period, the effects of changes in accounting policy and corrections of errors recognised in the period, the amounts of changes in equity and movements between funds.
Statement of Financial Position	A financial statement that presents the relationship of an entity's assets, liabilities and interests of holders of equity claims as of a specific date (also called the balance sheet).
Statement of Income and Expenses	A financial statement that presents all items of income and expense recognised in the period, except for items of income and expense explicitly required to be recognised in the Statement of Changes in Net Assets and totals to the surplus or loss for a period.
surplus or deficit from operating activities	The difference between items of income and expenses in the reporting period that do not include those items to be shown separately on the Statement of Income and Expenses or in the Statement of Changes in Net Assets.
subsidiary	An entity that is controlled by another entity.
tax base	The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.
tax expense	The aggregate amount included in total comprehensive income or equity for the reporting period in respect of current tax and deferred tax.
taxable profit (tax loss)	The profit (loss) for a reporting period upon which income taxes are payable or recoverable, determined in accordance with the rules established by the taxation authorities. Taxable profit equals taxable income less amounts deductible from taxable income.
taxable temporary differences	Temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
temporary differences	Differences between the carrying amount of an asset or liability in the Statement of Financial Position and its tax base.
termination benefits	Employee benefits payable at the earlier of the following dates: <ul style="list-style-type: none"> (a) when an entity can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of Section 21 and involves the payment of termination benefits.
timeliness	Having information available to decision-makers in time to be capable of influencing their decisions.
timing differences	Income or expenses that are recognised in surplus or deficit in one period but under tax laws or regulations are included in taxable income in a different period.
total comprehensive income	The change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners (equal to the sum of profit or loss and other comprehensive income), as defined by the IFRS for SMEs Accounting Standard.
transaction consideration	The amount of resources to which an NPO expects to be entitled.
transaction costs	The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria: <ul style="list-style-type: none"> (a) they result directly from and are essential to that transaction; and (b) they would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made.
treasury shares	An entity's own equity instruments, held by the entity or other members of the consolidated group.
understandability	Classifying, characterising and presenting information clearly and concisely makes it understandable.
unit of account	The right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations, to which recognition criteria and measurement concepts are applied.

unobservable inputs	Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.
useful life	The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.
value in use	The present value of the future cash flows or service potential expected to be derived from an asset or cash-generating unit.
vested benefits	Benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.



International
Non-Profit
Accounting
Guidance
Part 2

**Basis for
Conclusions**

Comments to be received by 15 March 2024
Issued 26 September 2023

INPAG ED/2023/2

FINAL
DRAFT

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The Preface, Sections 1 to 10 and Section 35 were published as drafts in Exposure Draft 1 and was accompanied by a **Basis for Conclusions**. A Basis for Conclusions will be published for the remaining sections in Exposure Draft 3.

¹ Status refers to whether the *IFRS for SMEs* Standard has been updated to reflect NPO specific requirements. Further explanation can be found in the Invitation to comment.

Preface

As part of the development of the content of Exposure Draft 2, an additional paragraph is proposed to the Preface.

BCP.2a The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. A list of 10 topics was prioritised for inclusion, with the remaining to be updated only for terminology changes, alignment with other sections or consequential changes arising from amendments to the other sections. The Basis for Conclusions identifies which sections have not been fully reviewed and the extent to which they have been updated.

Section 11 – Financial instruments

BC11.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Financial instruments was not included as a prioritised topic.

BC11.2 There were no significant issues arising from the review of this Section. Other than terminology, changes made reflect alignment with other INPAG Sections.

BC11.3 Changes are proposed to the scope of the financial statements in INPAG compared to the *IFRS for SMEs* Accounting Standard, particularly regarding the location of fair value adjustments. Accordingly, Section 11 has been updated to provide guidance on where these should appear. The proposed changes reflect the intent on how the Statement of Income and Expenses and the Statement of Changes in Net Assets are used.

BC11.4 It is proposed to retain the general requirements of the *IFRS for SMEs* Accounting Standard until such time as this Section is fully reviewed. INPAG therefore proposes that in subsequently measuring a financial instrument, changes in the fair value should generally continue to be required to be recognised through surplus or deficit.

BC11.5 With regard to hedging instruments in Part 2 of Section 11, in line with BC11.3, the Section has been updated to require that changes in the fair value of hedging instruments are recognised in the Statement of Changes in Net Assets until the instrument is discontinued. At this point any gains or losses are reclassified to surplus or deficit. This proposal reflects discussions by the TAG on which items appear in which financial statement.

BC11.6 Consideration was given to whether additional guidance on grant prepayment assets and grant payment liabilities as defined in Section 24 Part I *Expenses on grants and donations* was needed in this Section. The TAG was of the view that the guidance in Section 11 was sufficient and that there was no need for additional guidance in Section 11. Its advice was to keep any necessary guidance within Section 24 Part I.

Section 13 – Inventories

Consultation Paper – issues identified and approaches

BC13.1 The recognition and initial measurement of purchased or self-produced inventories does not give rise to any NPO-specific issues, and no changes to the *IFRS for SMEs* Accounting Standard requirements were proposed in the Consultation Paper.

BC13.2 The Consultation Paper did identify specific issues in respect of:

- the recognition and initial measurement of donated inventories, particularly those donated for resale or for distribution to service recipients;
- the recognition and initial measurement of work-in-progress of services to be provided for no or nominal consideration to service recipients; and
- the subsequent measurement of inventories held for distribution to service recipients or for use by the NPO in meeting its objectives.

- BC13.3 The Consultation Paper also identified issues regarding the recognition of revenue in respect of donated inventories, and proposed exceptions permitting NPOs not to recognise revenue and inventories on receipt of the donated items, but to recognise revenue and either an asset or an expense when the items are sold, transferred to another party in the course of fundraising activities, distributed to service recipients or used by the NPO.
- BC13.4 Respondents to the Consultation Paper supported the proposed permitted exceptions to the recognition and measurement of revenue from donated items, including donated inventories.
- BC13.5 Respondents were supportive of the description of the issue. They provided some additional considerations that needed to be considered in developing the guidance. These included:
- specific issues regarding donated inventory (which have mainly been addressed by Section 23 *Revenue*); and
 - the subsequent measurement of perishable inventories, particularly where these are donated.
- BC13.6 Section 13 reflects the adjustments to the requirements of the *IFRS for SMEs* Accounting Standard required to ensure the accounting for inventories is consistent with the proposals in Section 23 *Revenue*. Further changes to Section 13 may be required if the proposals in Section 23 are modified as a result of stakeholder comments.

Recognition and initial measurement

- BC13.7 The proposals in Section 23 permit NPOs to not recognise many donated items as inventories. This will address most of the concerns raised about the initial recognition and measurement of donated items. Section 13 states that an NPO that uses the permitted exceptions in Section 23 should not recognise inventories in respect of those items.
- BC13.8 Some Technical Advisory Group (TAG) members noted that while these exceptions are expected to meet the needs of NPOs, they may not meet the needs of the users of the financial statements. The Secretariat agreed to review the proposals once responses to ED2 have been received.
- BC13.9 Respondents to the Consultation Paper also supported permitting NPOs to expense work-in-progress on services, such as legal casework, that will be provided to service recipients at no or nominal cost. Respondents were concerned that some NPOs would not have the systems in place to reliably measure such work-in-progress. Section 13 provides a permitted exception that allows NPOs to expense this work-in-progress as the costs are incurred, rather than to recognise it within inventories. The TAG discussed whether a requirement for all NPOs to expense work-in-progress on such services would support greater comparability. However, a permitted exception rather than a requirement to expense the work-in-progress is proposed as such work-in-progress may be material to some NPOs and it may provide more meaningful information if included as inventory.
- BC13.10 Some respondents emphasised the importance of disclosure if items of inventory were not to be recognised. The Secretariat agreed with these comments, and NPOs that elect to apply any of the permitted exceptions are required to disclose the exceptions being utilised and provide further information about the inventory to which it relates. This will provide users with useful information that will help them understand the NPO's financial statements.
- BC13.11 Some respondents noted that additional guidance on determining fair value where an NPO recognises donated items of inventory would be needed. The draft Third edition of the *IFRS for SMEs* Accounting Standard includes a new section (Section 12 *Fair value measurement*) covering this topic. Section 12 of INPAG, based on the *IFRS for SMEs* Accounting Standard, will be included in ED3. As this is not a prioritised topic it is anticipated that the focus will be on terminology and similar changes.
- BC13.12 Section 12 of the draft Third edition of the *IFRS for SMEs* Standard includes a fair value hierarchy. NPOs will be required to follow this hierarchy in determining the fair value of donated inventories. Additional Application Guidance has been provided in Section 13 that where an NPO needs to refer to level 3

inputs (that is, unobservable inputs) to determine the fair value of the donated inventories, the NPO may use the cost to the donor (where this is known) as deemed fair value.

BC13.13 In developing Section 12, the Secretariat will consider whether any further guidance or modifications to either Section 12 or Section 13 are required.

Reliable measurement

BC13.14 Some respondents to the Consultation Paper commented that NPOs may face practical issues in measuring inventories in some circumstances. An example provided was a small NPO responding to an emergency that receives large volumes of donated inventories and distributes them almost immediately. A small NPO may not have the systems or resources to keep accurate records without delaying the response to the emergency. In discussion with the Advisory Groups it was considered that such circumstances would be rare, as many NPOs would be established for those purposes and have the systems and resources to keep accurate records. However, the Secretariat recognised that some smaller NPOs such as local first responders might not have such systems.

BC13.15 The possibility of electing to apply the permitted exception to not recognise inventories was discussed. However, this exception would require that a revenue and an expense is recognised when the inventory is distributed and the Secretariat agreed that in this scenario the inability to reliably measure the donations would mean that as well as not recognising inventories, a revenue and expense would also not be recognised.

BC13.16 Consequently, the Secretariat agreed that a narrative description of inventories could be provided in the exceptional circumstances that inventories cannot be measured reliably. The inclusion of a narrative description is intended to provide transparency of such circumstances. The guidance makes clear that the expectation is that donated inventories can be reliably measured.

Subsequent measurement of inventories held for distribution to beneficiaries or for use by the NPO in delivering its objectives

BC13.17 The *IFRS for SMEs* Accounting Standard requires inventories to be subsequently measured at the lower of cost and estimated selling price less costs to complete and sell.

BC13.18 Measuring inventories by reference to their selling price may not be appropriate for inventories that will not generate future cash flows. The Consultation Paper proposed two alternatives to this treatment in the *IFRS for SMEs* Accounting Standard:

- such inventory would be measured at the lower of cost or current replacement cost; or
- such inventory would be measured at cost, adjusted for any loss of service potential.

BC13.19 There was support for both approaches, although a number of respondents expressed concern that it may not always be possible to identify a replacement cost, particularly for some donated items. Other respondents noted that assessing any loss of service potential could be subjective.

BC13.20 Section 13 requires an NPO to measure inventories held for use or distribution to be measured at the lower of cost adjusted for any loss of service potential and replacement cost. This will allow NPOs to reliably measure inventories that may be impaired even if a replacement cost is not available.

Cost Formulas

BC13.21 The *IFRS for SMEs* Accounting Standard permits the use of two cost formulas: the first in, first out (FIFO) formula or the weighted average cost formula. A third formula, first expired, first out (FEFO) was suggested as being more appropriate for NPOs who received donations of perishable items such as food or medical supplies.

- BC13.22 The Secretariat agreed that for practical purposes, inventories would need to be managed in this manner to maximise the benefits obtained from the donations. However, following discussion with the TAG, the Secretariat did not consider that the introduction of an additional cost formula was appropriate as it was not clear that it was necessary and would unlikely be NPO specific.
- BC13.23 The Secretariat consider that the proposed formula, which is intended to address circumstances where donated items may have a significantly shorter expiry period than the equivalent purchased items, can be accommodated using the cost methods permitted by the *IFRS for SMEs* Accounting Standard. Where expiry periods for donated items are significantly less than for purchased items, and this affects the value of the items, the economic nature of the items will be different. This difference means that different classes of inventories could be maintained for items donated close to their expiry date and other (usually purchased) items. Either the FIFO or weighted average cost formula would then be used for each class. Identifying items by class of inventories is expected to be no more complex to implement in stock control systems than the use of a FEFO cost model.

Impairment

- BC13.24 Section 27 *Impairment of assets* requires inventories to be impaired when the carrying amount will not be fully recoverable. The *IFRS for SMEs* Accounting Standard requires a comparison between the carrying amount and the selling price less costs to complete and sell when determining whether inventories are impaired.
- BC13.25 As discussed in paragraphs BC13.17–BC13.20, Section 13 has introduced an alternative measurement for inventories that will not be sold. Consequently, the impairment requirement in Section 13 has been amended so that impairment of inventories held for distribution or use by the NPO in delivering its objectives are assessed by reference to the cost adjusted for any loss of service potential or replacement cost. Section 27 will be updated in ED3.

Section 21 – Provisions and contingencies

- BC21.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Provisions and contingencies was not included as a prioritised topic. No major editorial changes are proposed for provisions and contingencies, with only minor changes to terminology.
- BC21.2 Consideration has been given to whether changes are required as a consequence of the development of additional guidance on grants and donations. To date no consequential amendments have been identified.
- BC21.3 Whilst no changes are proposed to the core text, the illustrative examples have been amended to be more relevant to NPOs.

Section 23 – Revenue

Consultation Paper – issues identified and approaches

- BC23.1 The recognition and measurement of revenue, and in particular non-exchange revenue, was identified as a specific issue for non-profit organisations in the IFR4NPO Consultation Paper, with a number of financial reporting challenges highlighted. These included:
- the need to identify overarching principles for the recognition and measurement of incoming resources from 'non-exchange' transactions;
 - the recognition and measurement process associated with the receipt of donations that are used to fulfil requirements in subsequent periods;
 - when donations to purchase a capital asset should be recognised; and
 - the circumstances when services and gifts in-kind should be recognised and how they should be measured.

- BC23.2 The Consultation Paper also noted that accounting for bequests and endowments would not be covered in the initial INPAG and would be considered in a later phase.
- BC23.3 Respondents were supportive of the description of the issue, and provided additional points for consideration in developing the guidance. These included:
- the need to place greater emphasis on how to distinguish between exchange and non-exchange revenue;
 - the inclusion of greater detail in cases where goods and services are provided by an NPO at subsidised prices;
 - the importance of capital grants; and
 - grants that are only received once the activities funded by the grant have been carried out.
- BC23.4 The Consultation Paper proposed four alternative financial reporting treatments for developing guidance. The first was to require all non-exchange revenue to be recognised in accordance with the *IFRS for SMEs Accounting Standard* with additional NPO-specific guidance. The second was to use the principles in *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance* to extend the treatment of government grants to all non-exchange revenue. The third was to require non-exchange revenue to be accounted for using the principles in *IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)*. The final alternative would require non-exchange revenue to be accounted for using the principles in *IPSAS*, with exceptions drawn from various national standards to be considered for inclusion as part of NPO-specific guidance. Using these exceptions would simplify the accounting for gifts in-kind and services in-kind.
- BC23.5 A significant majority of respondents favoured alternatives that used a performance approach where revenue is recognised as performance conditions are satisfied rather than deferring revenue to match expenditure. A performance approach is used in the draft Third edition of the *IFRS for SMEs Accounting Standard* for government grants and commercial revenue and is the approach used by the *IPSASB* when it updated its revenue standards.
- BC23.6 The need for additional guidance was also raised. Respondents proposed that this guidance should cover:
- non-performance conditions (ie, terms that relate to other factors such as time);
 - the distinction between ‘conditions’ and ‘restrictions’ (that is, the distinction between terms of the agreement that require an NPO to undertake something specific and terms of the agreement that do not require a specific activity to be carried out, but limit the use of the funds); and
 - the need to ensure consistency of treatment between a grantor of resources and the recipient of those resources.
- BC23.7 Respondents also supported the inclusion of exceptions where NPOs would face practical difficulties in applying the alternatives. This was particularly relevant for gifts in-kind and services in-kind, due to the difficulties some NPOs would experience in measurement.
- BC23.8 Distinguishing between revenue with performance conditions and other revenue, rather than between exchange and non-exchange revenue was also proposed. It was argued this would be useful for those transactions that had both an exchange and non-exchange element.

Changes to the *IFRS for SMEs Accounting Standard* and *IPSAS Standards* and proposal for a two section approach

- BC23.9 Following the publication of the Consultation Paper there have been significant developments in the *IFRS for SMEs Accounting Standard* and *IPSAS* approach to revenue.
- BC23.10 The *IASB* issued the Third edition of the *IFRS for SMEs Accounting Standard*, which proposes that Section 23 *Revenue from contracts with customers* is based on the principles in *IFRS 15 Revenue from contracts*

with customers. The revised section is longer and more detailed than most other sections of the *IFRS for SMEs Accounting Standard*. There was only minor redrafting to Section 24 *Government grants*, which deals with the accounting for some non-exchange transactions.

- BC23.11 The IPSASB continued to develop its approach to revenue, and in May 2023 it issued IPSAS 47 *Revenue*, which replaced its previous revenue standards and covers all revenue transactions. The Guidance in IPSAS 47 for contractual arrangements is based on IFRS 15.
- BC23.12 The accounting model for revenue adopted in IPSAS 47 considers whether revenue arises from a transaction with a binding arrangement or without a binding arrangement. For revenue from transactions with a binding arrangement, the 5 step revenue recognition model in IFRS 15 is adapted to apply to a wider range of obligations than the performance obligations in IFRS 15. The approach is also consistent with Section 24 of the *IFRS for SMEs Accounting Standard*.
- BC23.13 The proposed amendments to the *IFRS for SMEs Accounting Standard* and the issuing of IPSAS 47 result in a similar underlying set of principles in accounting for revenue across all three international frameworks. As a result, the Secretariat proposed that INPAG should also adopt these principles in accounting for revenue.
- BC23.14 The *IFRS for SMEs Accounting Standard* provides revenue accounting guidance across two sections whereas the IPSAS 47 includes all revenue guidance in one IPSAS Standard, removing the need to distinguish between exchange revenue and non-exchange revenue.
- BC23.15 Extensive discussions were held with the Technical Advisory Group (TAG) and Practitioner Advisory Group (PAG) on a single INPAG Section for revenue or whether having separate INPAG Sections for revenue from contracts with customers and revenue from grants and donations would be more appropriate in the NPO context. A single INPAG Section was proposed to be based on IPSAS 47, adjusted and simplified as necessary to suit the NPO context. Separate INPAG Sections would require the development of a new section for non-exchange revenue while retaining the content of Section 23 *Revenue from contracts with customers* with minor changes for terminology.
- BC23.16 A single section covering all revenue would provide a shorter, more simple set of guidance with the avoidance of duplication and without the requirement for NPOs to first determine whether a transaction is from a contract with a customer or a grant or donation. By contrast, separate sections for revenue from customers and revenue from grants and donations would be easier for NPOs that only receive grants and donations to apply, would potentially mean shorter individual sections that would be easier to use and maintain the link with the *IFRS for SMEs Accounting Standard* as the basis of INPAG.
- BC23.17 Both the TAG and the PAG had mixed views, with some members stressing that covering all types of revenue in one section would be preferable while others felt a distinction between 'self-generated' revenue and 'grants and donations' would align itself better to how the sector thinks and talks about revenue.
- BC23.18 In the light of these views, the Secretariat developed a third approach, with all revenue covered in a single section with two Parts, one covering grants and donations and one covering revenue from contracts with customers. Section 23 of INPAG therefore covers all revenue transactions, including those covered by Section 24 of the *IFRS for SMEs Accounting Standard*. Both the TAG and the PAG agreed with this approach.

Section 23 Revenue - Preface

- BC23.19 As revenue from grants and donations and revenue from contracts with customers are covered in separate parts of Section 23, guidance is required to help NPOs determine whether a transaction should be accounted for as revenue from grants and donations or revenue from contracts with customers. Section 23 begins with a preface that provides this guidance.

- BC23.20 The preface notes that the substance of a revenue transaction depends on whether an NPO receives consideration in exchange for the direct transfer of services, goods or other assets to another entity or individual (a customer). If the transaction involves the NPO directly providing a service, good or other to a customer in exchange for consideration then it should apply the model for accounting for revenue from contracts with customers. If the transaction involves the NPO receiving cash, a service, good or other asset from an entity without it directly providing cash, a service, good or other asset in return then it should apply the model for accounting for revenue from grants, donations and similar income. Guidance is also provided to assist NPOs determine the appropriate accounting for transactions where the amount of the grant received and the value of services or goods provided are not of approximately equivalent value.
- BC23.21 To reduce duplication content common to both Parts is included in the preface. The preface covers the scope and structure of Section 23, the principles of revenue recognition and measurement (including the initial recognition of grants with enforceable grant agreements and contracts with customers and the 5 step revenue recognition model) and revenue in foreign currencies.

Principal versus agent considerations

- BC23.22 Distinguishing between transactions where an NPO acts as an agent for other entities or is acting in its own right (as a principal) is important to understand the accountability of an NPO, to provide transparency over its operating income and its expenses. An NPO that is an agent will account for a revenue transaction differently than an NPO that is a principal. NPOs acting on behalf of other entities, was a topic that was included in the IFR4NPO Consultation Paper and respondents supported its inclusion in INPAG.
- BC23.23 The draft Third edition of the *IFRS for SMEs* Accounting Standard introduces a control-based approach to the principal-agent distinction, rather than a risks and rewards approach. IPSAS 47 adopts a similar approach. It was agreed with the TAG that a control-based approach to principal-agent issues would be proposed in INPAG.
- BC23.24 This control-based approach focuses on the extent to which an NPO has control over an economic resource. This requires the NPO to have the present ability to direct the use of the economic resource and obtain the economic benefits or service potential that may flow from it.
- BC23.25 To be a principal therefore requires the NPO to obtain economic benefits or service potential from an economic resource in order to further its own purpose and achieve its own objectives, and to be able to do so without requiring authorisation from another entity. An NPO that is a principal will account for the economic benefits or service potential it receives (which may be revenue from a grant or donation or revenue from a contract with a customer).
- BC23.26 An NPO is acting as an agent when it does not control the economic resources in an arrangement. This is the case when the NPO is acting for another entity's purpose and objectives, acts in accordance with the instructions or directions of the other entity, and has no discretion about the use to which the resources received are put. An NPO acting as an agent would only account for any management or administration charge, fee or commission it received.
- BC23.27 It was agreed with the TAG that guidance would be integrated into those sections where guidance on principal-agent relationships is required. Section 23 Revenue is one such section.

Part I – Revenue from grants and donations

- BC23.28 Given the strong support for the use of a performance approach from respondents to the Consultation Paper (see paragraph BC23.5) the Secretariat considered those international standards that had adopted (or were adopting) a performance approach to grants and donations.
- BC23.29 The Secretariat and the TAG agreed to base Part I of Section 23 of INPAG on IPSAS 47. The Secretariat considered adapting Section 24 of the *IFRS for SMEs* Accounting Standard, but concluded that while the principles were appropriate for INPAG, there was insufficient detail to provide the required level

of guidance for NPOs. IPSAS 47 has principles consistent with those in Section 24 of the *IFRS for SMEs* Accounting Standard, and includes sufficient detail to assist NPOs.

- BC23.30 As IPSAS 47 covers both grants and donations and contracts with customers in a single section, changes were made to the terminology, to focus only on grants and donations. As a consequence, terms such as binding arrangement in IPSAS 47 have been adapted to enforceable grant arrangement (EGA) in Section 23 Part 1. Binding grant arrangements can include contracts with customers, whereas as an EGA cannot. The text of the IPSAS 47 was also simplified, with some paragraphs that are unlikely to apply to grants and donations (for example, warranties) being omitted.
- BC23.31 The same 5 step revenue recognition model underpins both the IPSAS 47 contractual arrangements and Section 23 of the draft Third edition *IFRS for SMEs* Accounting Standard. Consequently, the Secretariat and the TAG agreed that aspects of the model that would only rarely be relevant to grants and donations need not be covered in Part I. Instead, it was agreed that INPAG would include guidance on how the guidance in Part II of INPAG could be applied to grants and donations, where the guidance in Part I is insufficient. This approach was adopted to enable Part I to be further simplified and reduce duplication, making it more usable for the majority of NPOs.

Identifying whether an enforceable grant arrangement exists

- BC23.32 An essential element of the model for recognising revenue from grants and donations is the use of EGAs. An EGA is defined as 'a grant arrangement where both a donor and grant recipient have both rights and obligations, enforceable through legal or equivalent means. An EGA has a least one enforceable grant obligation (EGO)'.
- BC23.33 The word 'undertaking' has been used to describe the actions or promises that an NPO takes in meeting its obligations. This word was viewed by outreach participants and some PAG members as better describing how NPOs practically operate, sometimes using best endeavours to meet its obligations in an EGA. The use of the word 'undertaking' was discussed by the TAG as there were concerns that it does not align with the requirement to satisfy specific deliverables in an EGA. The TAG agreed with the concern and also noted that it can have specific and different meanings in some jurisdictions. It was agreed that an undertaking without a deliverable is not likely to be enforceable by a grant provider.
- BC23.34 This definition of an EGA allows the rights and obligations to be used as the basis of recognition for both revenue from grants and donations and for expenses on grants and donations (for those NPOs that provide grants to other entities or individuals).
- BC23.35 Feedback from some PAG members and attendees at focus groups discussing the proposals for Section 23 raised concerns about whether in practice legally constructed grant agreements are legally enforceable. Concerns about the imbalance of power between grant-providers and grant recipients were cited along with the likelihood of legal action being taken. Section 23 Part I states that it is the ability to legally enforce a grant arrangement that is important to the existence of an EGA, and not the likelihood of those rights being exercised. In some jurisdictions, agreements may be enforceable because of possible intervention by the regulator in the event of non-compliance.
- BC23.36 A grant agreement that gives an NPO the right to receive a grant without having any obligations would not meet the definition of an EGA. Such agreements are referred to as other funding arrangements (OFAs). The INPAG Secretariat considered that this was appropriate, as OFAs would not give rise to liabilities or assets that could affect the timing of revenue recognition. Consequently, Part I provides guidance separately for grants and donations without EGAs and those with EGAs.
- BC23.37 In some jurisdictions oral agreements have the same force in law as written agreements subject to certain factors being in place. Therefore the potential for an EGA to exist as a result of oral agreements and customary practices has been retained from the IPSAS definition of a binding arrangement.

Recognition and measurement principles where there are no enforceable grant arrangements

- BC23.38 Where there are no EGAs, revenue is usually recognised immediately. This approach is consistent with both IPSAS 47 and Section 24 of the *IFRS for SMEs* Accounting Standard. The TAG and the PAG agreed with the Secretariat that an announcement by a potential grant provider of an intention to transfer resources to an NPO is not of itself sufficient to give the NPO control of those resources.
- BC23.39 The use of fund accounting in the financial statements (see Sections 3–7) will affect the presentation of grants and donations. The Secretariat considered whether to include guidance on such presentation in Section 23, but concluded that a separate, new, section covering fund accounting would better meet NPOs' needs. This new section will be included in ED3.
- BC23.40 The Secretariat, TAG and PAG agreed that the general recognition principles applicable to revenue from grants and donations should apply to gifts in-kind and services in-kind, with initial measurement at fair value. However, given the practical difficulties that had been identified in the responses to the Consultation Paper, NPOs would be permitted to apply permitted exceptions to certain categories of gifts in-kind because the costs of reliably measuring the value of the items on receipt may exceed the value of the information to users of the financial statements. The exceptions relate to:
- (a) low value items for resale – NPOs are permitted to recognise an asset and revenue when the item is sold, measured at the amount of consideration received, instead of on receipt.
 - (b) items for distribution to beneficiaries or for its own use – NPOs are permitted to recognise revenue when the items are distributed or used instead or receipt.
- BC23.41 For services in-kind, the practical difficulties with measurement were the primary reason for providing an exception. Given these practical difficulties, some advisory group members thought it would be appropriate to allow an exception to apply to all services in-kind. However, some advisory group members were of the view that services in-kind should be recognised, particularly where an NPO is dependent on these services as part of its operating model. Having considered these views the TAG were of the view that services in-kind that are critical to an NPO's mission should be recognised where they can be reliably measured. Additional disclosures were proposed for mission critical services in-kind that cannot be reliably measured. The exceptions proposed therefore relate to services in-kind other than those that are critical to the NPO's mission – NPOs are not required to recognise revenue, an expense or an assets from such services provided in-kind.

Revenue from transactions with enforceable grant arrangements

- BC23.42 The requirements for accounting for revenue from transactions with EGAs are based on those in IPSAS 47 for the reasons set out in paragraphs BC23.9-BC23.18. Revenue is recognised as or when EGOs are satisfied. This is consistent with stakeholder's preference for a performance approach to revenue recognition as seen in the responses to the Consultation Paper (see paragraph BC23.5).
- BC23.43 As noted in paragraph BC23.31, Part I adopts a slightly simplified version of the 5 step revenue recognition model that is expected to cover most EGAs. Guidance for more complex EGAs (which are expected to be less common) has been provided by applying the requirements in Part II. This is appropriate because the revenue recognition model for these types of transactions and revenue from contracts with customers is essentially the same. The additional guidance describes how Part II is to be interpreted for more complex EGAs. Examples of where additional guidance may be required include modification of agreements and the treatment of variable grant amounts.
- BC23.44 The TAG also considered simplifications where there is a single EGO. Consequently, summarised guidance has been included, which will allow NPOs to apply the requirements without the need to reference the whole of the guidance.

Multi-year grants

- BC23.45 A key question for NPOs is the recognition of revenue when grants are intended to be used over a number of reporting periods. The Secretariat has included Application Guidance and an example to address this issue. The recognition point will depend on a number of factors. These include:
- the terms of the agreement and the nature of the EGOs; and
 - whether the agreement is capable of being separated into parts, with some parts executory and therefore not recognised until one party performs.
- BC23.46 The Application Guidance and example cover these issues, allowing NPOs to determine the appropriate accounting treatment for their circumstances. The TAG was of the view that time on its own is not a performance condition that would create an EGO.

Capital grants

- BC23.47 Capital grants arise where an NPO is given a grant to purchase or construct a non-current asset. The general recognition and measurement principles apply to capital grants. However, NPOs will need to carefully identify the EGOs in the EGA as these will affect the timing of revenue recognition. Application Guidance and an example are provided to assist NPOs in this matter.

Enforceable grant arrangement assets and enforceable grant arrangement liabilities

- BC23.48 An EGA confers enforceable rights and obligations on the parties to the arrangement. This means that if the NPO fulfils its EGOs to the grant-provider it has a right to receive the amount of grant that is due to it from the grant provider. Likewise, the grant-provider has rights that require the NPO to meet the EGOs.
- BC23.49 Revenue is recognised by an NPO when it has met its EGOs. Timing differences related to the transfer of resources may mean that the transfer of resources occurs either before or after the revenue has been recognised.
- BC23.50 If consideration is received from a grant provider prior to the NPO meeting the related EGOs, a liability will be recognised by the NPO. The term 'EGA liability' is used to distinguish these liabilities from other liabilities.
- BC23.51 Similarly, if the EGOs are met prior to the transfer of resources by the grant provider, an EGA asset will be recognised. Again, the term 'EGA asset' is used to distinguish these assets from other assets.

Disclosures

- BC23.52 IPSAS 47 (on which Part I is based) has extensive disclosures (consistent with IFRS 15), which the Secretariat does not consider to be appropriate for INPAG. Instead the disclosure requirements included in Part I of Section 23 are based on those in Section 23 of the draft Third edition of the *IFRS for SMEs* Accounting Standard. These have been adapted for the NPO context and the focus of Part I on grants and donations. Additional disclosures have been included where there is no equivalent requirement in the *IFRS for SMEs* Accounting Standard, for example OFAs.

Part II – Revenue from contracts with customers

- BC23.53 No NPO-specific issues have been identified in respect of exchange revenue and exchange revenue was not discussed in detail in the Consultation Paper. INPAG amendments to the new *IFRS for SMEs* Accounting Standard Section 23 *Revenue from contracts with customers* are therefore related primarily to changes to terminology for the NPO-context and the inclusion of a small amount of material in the preface to Section 23 as this has helped reduce duplication.
- BC23.54 Otherwise, the only significant change is the inclusion of additional guidance for simpler transactions that are more likely for NPOs. This highlights which requirements of the model are not relevant for simpler transactions with the intent of improving the ease of use this Section.

Section 24 Part 1 – Expenses on grants and donations

Consultation Paper – issues identified and approaches

- BC24.1 The recognition and measurement of grant expenses was identified as a specific issue for non-profit organisations in the IFR4NPO Consultation Paper with a number of financial reporting challenges highlighted. These included:
- that grant expenses are not currently explicitly covered in international accounting standards;
 - that significant judgement may be required to determine what has been promised to a grant recipient, what commitments have been created, the identification of obligating events, and when a grant expense should be recognised; and
 - how and when to recognise accruals, assets and/or provisions.
- BC24.2 Respondents were supportive of the description of the issue, and also provided some additional considerations including the need to ensure that any guidance covered in-kind transfers and that grant arrangements were properly distinguished from procurement.
- BC24.3 The Consultation Paper proposed two alternative financial reporting treatments for developing guidance. The first was to base the guidance on the *IFRS for SMEs Accounting Standard* but to provide additional guidance on NPO-specific issues, and the second was to build on the first alternative but to also include additional guidance based on the principles proposed in IPSAS ED 72 Transfer Expenses.
- BC24.4 Respondents again provided some additional considerations that they did not believe were adequately covered by the alternatives. These included issues related to:
- constraints not based on performance such as time in multi-year grants; and
 - detail on when a donor would have an obligation to make a payment to a recipient and recognise an expense in jurisdictions where grant arrangements included 'termination for convenience' clauses that allowed the donor to terminate an agreement at any time without there being a breach of the agreement.
- BC24.5 The majority of respondents supported the alternative that incorporated the principles contained in IPSAS ED 72. While more complex, they noted that it would provide better and clearer guidance on key issues such as performance obligations and multi-year grants and may also bring broader financial management improvements.
- BC24.6 Following the publication of the Consultation Paper and analysis of responses, the IPSASB further developed the proposals of IPSAS ED 72 and has published IPSAS 48 *Transfer Expenses*. Following discussion with the Technical Advisory Group (TAG), the draft INPAG guidance has been based on the IPSAS Standard, mindful of the cost/benefit of the proposals for NPOs, especially with respect to any additional monitoring or reporting requirements that may be required. The TAG also noted that it would be necessary to ensure that there was a common approach taken to terms used in guidance for both expenses and revenues.

Adaptation of the IPSAS Standard

- BC24.7 The first essential concept requiring adaptation of the IPSAS Standard relates to the definition of grant expenses. The IPSAS Standard establishes principles for transfer expenses. INPAG Section 24 Part I *Expenses on grants and donations* takes a similar conceptual approach but transfer expenses are redefined as grant expenses, grant recipient is defined, and an explicit reference is made to cash transfers. In response to feedback from the Practitioner Advisory Group (PAG), the definition of a grant expense was clarified such that an expense can arise from an obligation to transfer resources and not just when resources are transferred.

- BC24.8 Under the definition of grant expense, it was agreed with the TAG and the PAG that the term 'grant' encompasses any cash, service, good or other asset that is transferred by the grant-providing NPO to a grant recipient without the grant-providing NPO directly receiving any cash, service, good or other asset in return. This therefore incorporates items that may otherwise be described as donations, gifts, and similar transfers of resources as well as grants. The authoritative guidance was updated to include the common terminology by which such types of transaction may be known ie, non-exchange, non-reciprocal, or non-required transfers and expenses.
- BC24.9 By making explicit reference to the fact that the grant-providing NPO will not directly receive any cash, service, good or other asset in return for the transfer, this also makes a clear distinction between an NPO's grant providing activities and those that relate to procurement.
- BC24.10 The second essential concept is the use of binding arrangements from the IPSAS Standard, redefined in Section 24 as enforceable grant arrangements (EGAs). EGAs are important conceptually because the enforceable rights and obligations they contain enables the NPO to assess whether it has the right to require a grant recipient to meet an obligation in exchange for an agreed transfer of resources.
- BC24.11 The Secretariat initially considered an adaptation of the IPSAS Standard, to make a distinction between general and specific grant fulfilment rights and general obligations and specific compliance obligations.
- BC24.12 It was considered that a general grant fulfilment right and general obligation would relate to the overall purpose of the grant recipient. In terms of overall purpose, the grant recipient's activities supported by the transfer of resources would comprise a collective set of services, goods or other assets for internal use or external transfer, which may not individually be distinct. Collectively, however, these services, goods or other assets would usually be incremental to the services, goods or other assets that would have been available to the grant recipient without the resource transfer. It was considered that this was insufficient for an enforceable grant obligation (EGO) and therefore an EGA to exist.
- BC24.13 Conversely, specific grant fulfilment rights and specific EGOs would go beyond the overall purpose of the grant recipient and focus more specifically on individual programmes, projects and activities. They would involve an undertaking by the grant recipient to use resources internally for distinct services, goods or other assets or to transfer distinct services, goods, cash or other assets to a purchaser or third-party beneficiary.
- BC24.14 Following extensive debate, and mindful of the need to ensure consistency with the proposals for Section 23 *Revenue* that also draws on the concept of an EGA, the distinction between general obligations and specific EGOs was removed. EGOs are defined as a grant recipient's undertaking in an EGA to achieve a specified outcome, carry out a specified activity, to use distinct services, goods or other assets internally for a specified purpose, or to transfer distinct services, goods, cash or other assets externally.
- BC24.15 General obligations instead were deemed to fall under the recognition and measurement principles for grant expenses arising from an other funding arrangement (OFA). This is because while these obligations do place constraints on the use of transferred resources by the grant recipient, they do not give rise to a present obligation for the grant recipient when the resources are transferred.

Identifying whether an enforceable grant arrangement exists

- BC24.16 An essential element of the model for recognising expenses on grants and donations is the use of EGAs. An EGA is defined as 'a grant arrangement where both a donor and grant recipient have both rights and obligations, enforceable through legal or equivalent means. An EGA includes at least one EGO'.
- BC24.17 This definition of an EGA allows the rights and obligations to be used as the basis of recognition for both expenses on grants and donations and for revenue from grants and (for those NPOs that receive grants from other entities or individuals).
- BC24.18 A grant agreement that gives an NPO the right to receive a grant without having any obligations would not meet the definition of an EGA. Such agreements are referred to an OFA.

BC24.19 The potential for an EGA to exist as a result of oral agreements and customary practices has been retained from the IPSAS definition of a binding arrangement. In some jurisdictions oral agreements have the same force in law as written agreements subject to certain factors being in place so it was deemed appropriate by the Secretariat for these to have the same standing. The inclusion of customary practices as being sufficient for an EGA to exist is more open to debate as this is primarily based on the law of legitimate expectations that is applicable in some jurisdictions but which is usually more associated with public bodies. It has been retained but such legitimate expectations would need to be capable of being upheld by either a legal or equivalent mechanism.

Recognition and measurement principles where there are other funding arrangements

BC24.20 Recognition and measurement principles for an OFA follow the same conceptual basis as IPSAS 48 *Transfer expenses*. As well as written and oral agreements, OFAs also encompass those implied by customary practices and those situations where a grant-providing NPO transfers resources to a grant recipient without there being any agreed or implied arrangement in place. The TAG and the PAG were both supportive of the requirement put forward by the Secretariat that a constructive obligation to transfer resources that results in the recognition of a provision would require the recognition of a grant expense by the grant-providing NPO, but that additional guidance was necessary around general statements of intent to provide resources and how this interacted with EGAs. This has been provided in Application Guidance and Implementation Guidance and illustrative examples.

BC24.21 The TAG discussed whether it would be more appropriate for a grant-providing NPO to measure a grant expense at the fair value of the previously controlled resources rather than at their carrying amount. The TAG concluded that it was appropriate to follow the same measurement principle as the IPSAS Standard and measure at their carrying amount. Also, measuring at fair value would not be expected to impact on surplus or deficit for the period and any benefits would likely be outweighed by additional costs.

Recognition and measurement where there are enforceable grant arrangements

BC24.22 EGAs may vary significantly in complexity, but there are common principles that will be applicable to all. The Secretariat has made clear that an EGA will be wholly unsatisfied if the grant-providing NPO has not yet transferred and is not yet obligated to transfer and amount of resources to the grant recipient, and the grant recipient has not yet met any of its stated EGOs in the EGA. Where this is the case, nothing will be recognised, although the disclosure requirements will still apply.

BC24.23 A key requirement will be for the grant-providing NPO, at the inception of the EGA, to determine its distinct grant fulfilment right(s) to have the grant recipient meet an EGO(s), and the amount of resources that it is required to transfer (in cash, services, goods or another asset) to the grant recipient for meeting each right. It is the nature of these grant fulfilment rights that dictates subsequent recognition and measurement.

BC24.24 The Secretariat recognises that NPOs may face difficulties in:

- determining if a grant agreement includes one or more EGOs and hence is an EGA;
- deciding on suitable methods for estimating stand-alone amounts; and
- understanding when the grant recipient has met its obligations meaning that grant fulfilment rights have been met.

While these will vary depending on the substance of each transaction, additional guidance has been provided in the Implementation Guidance and illustrative examples.

BC24.25 Authoritative guidance has also been provided for the following circumstances:

- payments of grant over more than one financial year;
- variable consideration;
- capital grants; and
- rights and obligations that are outside of the control of the grant-providing NPO.

Payments of grant over more than one financial year

- BC24.26 The impact on the timing of the recognition of grant expenses was a significant issue raised through the Consultation Paper, particularly where the donor makes a grant payment in advance that covers multiple time periods.
- BC24.27 Section 24 Part I requires that a grant expense be recognised by the grant-providing NPO for the total amount of the resources that must be transferred under the EGA to the grant recipient for the obligations it has met. This is regardless of the timing of the transfer of the resources from the grant-providing NPO.
- BC24.28 As noted in BC24.22, where neither party has met any obligations under the EGA, the grant-providing NPO will not recognise any transactions associated with the EGA.
- BC24.29 Where an obligation has been met by the grant recipient prior to the transfer of resources by the grant-providing NPO, the grant-providing NPO must recognise a liability for the grant expense. Where resources have been transferred by the grant-providing NPO to the grant recipient prior to the grant recipient meeting its obligation a prepayment asset will have previously been recognised. This will be derecognised when or as the grant expense is recognised.
- BC24.30 This reflects the view of the Secretariat that a grant expense will not be recognised where grant payments for later years are subject to the grant recipient satisfying obligations that have not yet been met. This is because under the terms of the EGA the grant-providing NPO may be able to avoid the transfer of resources.

Capital grants

- BC24.31 Capital grants was another area of concern raised by consultation respondents. A capital grant arises from an EGA in which a grant-providing NPO transfers cash or another asset to a grant recipient with a requirement that the grant recipient acquires or constructs a non-current asset that the grant recipient will then control.
- BC24.32 Although there is a requirement for the grant recipient to acquire or construct an asset, from the perspective of the grant-providing NPO, the recognition of a grant expense for an EGA involving a capital grant is the same as for any other grant expense.
- BC24.33 Complications may arise in recognising the grant expense where the grant fulfilment rights will be met as the asset is being built. The grant expense will need to be recognised by the grant-providing NPO based on an agreed methodology for the measurement of progress made by the grant recipient. While no methodologies are included in the authoritative guidance, the implementation examples include one possibility that was discussed with the PAG.
- BC24.34 Constraints in an EGA may prevent the grant recipient from disposing of an acquired or constructed asset or using it for purposes other than those specified by the grant-providing NPO. Such constraints may mean that the grant recipient does not control the capital asset. This is a complex area that will depend on the individual circumstances of each EGA and the application of professional judgement.

Variable consideration

- BC24.35 Variable consideration can arise where the amount that the grant-providing NPO is obliged to transfer to the grant recipient varies for items such as incentives, penalties or other similar items. It can also arise if the grant-providing NPO's obligation to provide the resources is contingent on the occurrence or non-occurrence of a future event.
- BC24.36 If the grant-providing NPO determines that it is more likely than not that a present obligation exists for the payment of variable consideration, then a liability of uncertain timing or amount will need to be recognised. The Secretariat is of the view that paragraphs G21.8-G21.12 of Section 21 *Provisions and Contingencies* are appropriate for the grant-providing NPO to estimate an amount of variable consideration.

Rights and obligations that are outside of the control of the grant-providing NPO

- BC24.37 The same conceptual recognition principles as variable consideration apply where EGAs contain rights and obligations that are outside of the control of the grant-providing NPO. As discussed with the TAG, this can include factors such as a requirement for a grant recipient to find match funding.
- BC24.38 In such circumstances the Secretariat's view is that if a present obligation exists and the transfer of resources is probable, the grant-providing NPO should follow the requirements of Section 21 *Provisions and Contingencies*. The probable existence of an obligation may depart from existing practice in some jurisdictions where, for example, in an arrangement that requires matched funding, a liability would not be recognised until it was certain that the match funding had been secured.

Prepayment assets and liabilities

- BC24.39 A grant expense is recognised when the grant recipient has met its EGOs. Timing differences related to the transfer of resources may mean that the transfer of resources occurs either before or after the grant expense has been recognised.
- BC24.40 The concept of a liability when the grant expense is recognised before the transfer of resources occurs is uncontroversial. However, the nature of a prepayment asset that is recognised when the transfer of resources is made to the grant recipient before a grant expense is recognised requires consideration.
- BC24.41 The prepayment asset reflects the grant-providing NPO's right to require the grant recipient to meet its EGOs given that the grant-providing NPO has already met its own obligation to transfer resources. As such, it is not a financial asset. It may subsequently be reclassified to a financial asset if the grant recipient is unable or unwilling to meet its obligations and the grant-providing NPO has the right to receive cash back from the grant recipient.

Principal agent considerations

- BC24.42 The importance of principal and agent considerations and the approach taken in INPAG are discussed in BC23.22 to BC23.27.
- BC24.43 As noted in BC23.25, to be a principal an NPO is required to obtain economic benefits or service potential from an economic resource in order to further its own purpose and achieve its own objectives, and to be able to do so without requiring authorisation from another entity. Where a grant-providing NPO controls the economic resources that are transferred to the grant recipient, it is proposed that the grant-providing NPO will be a principal in the transaction and the recognition, measurement, presentation and disclosure requirements of INPAG Section 24 Part I relating to grant expenses will apply.
- BC24.44 Where a grant-providing NPO does not control the economic resources, it is likely to be acting as an agent for another entity. In this situation it is proposed that the grant-providing NPO will follow the requirements in Section 24 Part I for NPOs acting as an agent and will only recognise in expenses the costs incurred in the administration of the agency arrangement.

BC24.45 In accordance with the agreement with the TAG that guidance would be integrated into those sections where guidance on principal-agent relationships is required, Section 24 Part I *Expenses on grants and donations* includes relevant guidance.

Disclosures

BC24.46 Disclosure requirements are driven by user needs and their ability to understand the nature, amount, timing and any uncertainty arising from grant expenses. Quantitative disclosures for grant expenses and associated assets and liabilities are proposed as well as narrative-based disclosures. These are focused on describing the purpose of material arrangements and the features of these material arrangements that are useful to users for accountability and decision-making purposes. This includes variable consideration, payment terms or resources to be transferred. Additional disclosures are also required where there are grant transactions arising from principal agent arrangements.

BC24.47 Following review of the first draft of the authoritative guidance, a TAG member noted that the proposals in Section 35 *Narrative Reporting* for 'sensitive information' may also be required in relation to aspects of grant expenses disclosures. The Secretariat agrees with this position and a sensitive information disclosure exemption has been included in the authoritative guidance. An NPO may not make disclosures when to do so would compromise the safety or wellbeing of individuals working/volunteering for and with the grant-providing NPO, or those to whom it provides cash, goods, services and other assets, because the information is sensitive and/or could prejudice the ability of the grant-providing NPO to deliver its mission.

BC24.48 A grant-providing NPO is required to disclose information related to grant expenses that does not result in sensitive information. This includes disclosures that might identify failures in organisational governance, performance or financial management that could for example have a negative impact on its ability to fundraise its operations.

Section 25 – Borrowing costs

BC25.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Borrowing costs was not included as a prioritised topic. No major editorial changes are proposed for borrowing costs, with only minor changes to terminology.

Section 26 – Share-based payments

BC26.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Share-based payments was not included as a prioritised topic.

BC26.2 In reviewing the *IFRS for SMEs* Accounting Standard Section on this topic, there were a number of additional considerations in relation to share-based payments. Section 26 on share-based payments specifies the accounting for all share-based payment transactions. This includes arrangements with employees where the provision of shares in the entity is part of their remuneration package. It also provides for scenarios where shares are used to pay other external parties including vendors. The Secretariat's considerations in relation to this topic stemmed from the expected characteristics of NPOs and as a result, the likely types of share-based payments that might exist.

BC26.3 As described in the basis for conclusions to Section 2, it has been considered possible but unlikely that an NPO will have equity claims and even more unlikely that it has traded shares with commercial value. Where such equity does exist then some guidance on share-based payments could in theory be beneficial. Also, given the characteristics of an NPO it would not be expected that share-based payments form a part of employee remuneration. It was originally proposed instead that this Section be amended to remove references to employees, including share appreciation rights and share options.

- BC26.4 An approach that removes references to employees would also require some further consequential adjustments to reflect the role of equity for NPOs. This would in particular affect paragraphs relating to vesting and 'vesting conditions'.
- BC26.5 Given the low level of likelihood that an NPO has shares and the even lower likelihood that these shares are used to make share-based payments, there is a key question as to whether this Section is needed.
- BC26.5 The TAG considered whether INPAG should include a section on share-based payments and debated whether in the incredibly rare circumstances where an NPO has share-based payments that INPAG should default to alternative guidance in accordance with paragraph GP26. The TAG was of the view that including a section on share-based payments could cause confusion given the stated characteristics of NPOs and the expected role of equity and add unnecessary complexity to INPAG. Therefore, on balance, the TAG was of the view that the Section should be removed, as it is not likely to be needed.

Section 28 – Employee benefits

- BC28.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Employee benefits was not included as a prioritised topic.
- BC28.2 While a full review of the *IFRS for SMEs* Accounting Standard Section on this topic was not carried out, a high level review identified that there were a number of additional considerations in relation to employment benefits. These considerations mostly stemmed from the expected characteristics of NPOs and as a result, the likely types of remuneration arrangements that might exist with employees.

Scope of the Section

- BC28.3 In the Basis for Conclusions for Section 26 *Share-based payments*, it is proposed that Section 26 is removed particularly as the nature of NPOs is such that employees are unlikely to participate in remuneration arrangements that involve shares. Consequently, references to share-based payments have been removed from Section 28 of INPAG.

Short term employee benefits

- BC28.4 The characteristics of an NPO require that any surpluses (profits) are used to further the objectives of the NPO and for the benefit of service beneficiaries. For this reason, all references to profit-sharing arrangements are also proposed to be removed from Section 28 of INPAG. References to bonuses have been retained as this might be part of a remuneration structure, but not based on a profit-sharing arrangement.

Post-employment benefits

- BC28.5 Section 28 includes guidance on post-employment benefits and the accounting for defined benefit pension schemes. The *IFRS for SMEs* Accounting Standard allows a policy choice for in-year changes to the amounts to be recognised for defined benefit pension schemes. Specifically, these changes can be included in either the profit or loss or in other comprehensive income.
- BC28.6 Earlier discussions with the TAG highlighted the desire for simplicity by some users of NPO financial statements. The TAG discussed the possibility of removing an accounting policy choice and requiring actuarial changes from the revaluation of defined benefit pension schemes to be presented in the Statement of Changes in Net Assets, to achieve this desire for simplicity.
- BC28.7 The TAG were, however, of the view that removing a policy choice was effectively introducing a rebuttable presumption. With the expectation that few NPOs will have defined benefit pension

schemes and those that do may have more complex stakeholders requirements, the TAG were of the view that it was appropriate to maintain the policy choice.

- BC28.8 As a consequence, the draft INPAG allows a choice between changes being recognised in the Statement of Income and Expenses or Statement of Changes in Net Assets.
- BC28.9 Paragraph G28.37 refers to group arrangements and the possibility that other entities are following other GAAP. This paragraph has been amended to require that the allocation of employee benefit expense can only be made if the controlling NPO is following INPAG.

Section 29 – Income tax

- BC29.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Income tax was not included as a prioritised topic. The updates to Section 29 *Income Tax* are largely to make them NPO specific with consequential changes to terminology.
- BC29.2 In the *IFRS for SMEs Accounting Standard Section 29 Income tax* refers to taxable profits and losses. The term 'taxable profits and losses' is the term that is commonly used by tax offices that cover all organisations in the economy. Elsewhere in INPAG references to profit and losses have been amended to surplus and deficit. As this is a tax regulation term rather than an accounting term it was proposed to retain the term unchanged. This was discussed with the TAG and fully supported.
- BC29.3 Paragraph 29.3 of the *IFRS for SMEs Accounting Standard* scopes out Section 24 *Government Grants*. With the proposal that Section 24 is repurposed and that the accounting for government grants is dealt with as part of a comprehensive section on revenue, this reference has been removed from Section 29 of INPAG.
- BC29.4 The purpose of paragraph 29.3 is to specifically address timing differences. Additional guidance on timing differences arising from revenue may be appropriate, as well as additional guidance on gifts in-kind and services in-kind. It was therefore proposed that, as needed, additional text is developed (either core guidance or application guidance) as a consequential change as the drafting of the guidance on revenue is developed. However, no specific issues relating to government grants and income tax have as yet been identified.
- BC29.5 As INPAG allows for some items of income and expense arising from fair value adjustments to go through the Statement of Changes in Net Assets, INPAG has been amended to allow for a tax expense to be recognised in the Statement of Changes in Net Assets, consistent with the text requiring that the tax expense appears alongside the related transaction. If it becomes clear that a tax expense is unlikely to arise in relation to these transactions, this amendment will be removed.

Section 30 – Foreign currency translation

- BC30.1 A number of respondents to the Consultation Paper issued in January 2021 provided feedback that foreign currency translation should be treated as a priority topic for inclusion in INPAG. The PAG strongly supported the inclusion of this topic in INPAG, given the significant practical difficulties experienced by NPOs.
- BC30.2 The TAG in its consideration of this feedback sought to understand the nature of the concerns raised. Through these discussions it concluded that the issues being raised were about the application of the accounting principles for foreign currency translation in the NPO context, rather than the principles themselves. This was particularly focused on the presentation and disclosure of foreign currency gains and losses associated with grant funding.
- BC30.3 As a consequence it was decided to prioritise this topic for inclusion in INPAG, but to focus on presentation and disclosure. It was agreed not to review the principles for accounting for foreign currency translation in the *IFRS for SMEs Accounting Standard* but instead develop application guidance and implementation guidance.
- BC30.4 Reflecting this decision, the draft Third edition of Section 30 of the *IFRS for SMEs Accounting Standard* has been modified to reflect NPO related terminology and the scope of the financial statements

proposed for INPAG. It has also been updated to reflect the likely sources of NPO income and expense such as grants and donations. It has not been the subject of a full update.

- BC30.5 The main amendments to this Section are to allow for the impact of fund accounting, which is proposed to be addressed in a separate section of INPAG. Exchange gains or losses arising on monetary items relating to enforceable grant arrangements (EGAs) and those other funding arrangements (OFAs) (grant arrangements) shall be presented consistent with the presentation of the transaction when this is prescribed by Section 36 *Fund accounting*.
- BC30.6 Consideration was given to showing an exchange gain or loss on grant arrangements that are required to be presented as funds with restrictions as funds without restrictions. This was to show that an NPO may have to fund a loss on from its unrestricted resources. Whilst this had some benefits, it had the potential to create complexity and ultimately not provide the transparency over such gains and losses that was being sought. As a consequence, it is proposed that the presentation of any exchange gains or losses follow the presentation of the grant arrangement to which it relates.
- BC30.7 There is a new requirement to disclose separately the impact of changes in exchange rates where there is a deficit or surplus on a grant arrangement that is required to be presented within funds with restrictions. The requirement to disclose these changes in exchange rates gains or losses separately, is intended to provide transparency of exchange rate exposures relating to grant arrangements. This transparency will improve the understanding of the source and use of an NPO's funds, which reflects the concerns raised by respondents to the Consultation Paper. The Secretariat recognise that the benefit of this requirement needs to be proportionate to the effort required, particularly for smaller NPOs.
- BC30.8 Application Guidance has been developed to provide additional guidance on these key changes to the *IFRS for SMEs Accounting Standard*. This guidance explains that grant arrangement liabilities from EGAs are non-monetary items. This is because they reflect the revenue received or receivable or enforceable grant obligations (EGOs) in an EGA that need to be met by the grant recipient. The Secretariat initially considered whether EGA liabilities were monetary items, but the INPAG Glossary defines monetary items as units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. Since no future cash flow is expected to settle these particular liabilities, they are considered a non-monetary item.
- BC30.9 As a consequence, grant arrangement liabilities relating to EGAs measured in a foreign currency are to be recorded at historical cost using the exchange rate at the date of the transaction as set out in G30.10(b). This means that they do not need to be retranslated at each balance sheet date.
- BC30.10 The Secretariat examined the treatment of the increased expenses required to meet the requirements of an EGA when exchange rates change. The Secretariat initially considered whether the additional obligation from the increased expenses should be classified as an EGA liability. However, as the additional liability does not change the initial revenue recognised and related EGOs, this was not considered appropriate.
- BC30.11 The Secretariat considered instead whether the additional expenses created an onerous requirement under an EGA. It considered whether the recognition criteria for a provision, as set out in G21.4, would be met. As it is likely that criteria relating to the existence of the obligation and its probable occurrence would be met and the amount of additional expense can be reliably measured at the balance sheet date, the Secretariat concluded there would most likely be a present obligation under the grant arrangement. As a consequence, a provision for an onerous contract is an appropriate classification. The Secretariat were of the view that the corresponding expense is presented consistent with the presentation of the original grant arrangement.
- BC30.12 The Secretariat considered the situation where a change in exchange rate changes means that a lower level of spend in the local currency is required to deliver the obligations in the grant arrangement. Where the grant arrangement requires that the grant recipient must spend all the grant received in the local currency, the NPO will need to incur additional expenses in that local currency to satisfy the grant arrangement, even though the original obligations have been met. The Secretariat considered

that the additional expenses should follow the presentation of the original grant arrangement to show the complete impact of the grant arrangement.

- BC30.13 Where there is an exchange gain and no additional expenses are required, if there are no other offsetting transactions, an individual grant arrangement will show a surplus. When the grant arrangement comes to an end, if the grant arrangement has been presented as funds with restrictions any surplus on the specific grant arrangement will be transferred to funds without restrictions. In this way the surplus will become available for any activity undertaken by the NPO.
- BC30.14 A scenario of repaying an exchange gain to the grant-provider was considered. The Secretariat is of the view that a refund is a monetary item and should be distinct from other liabilities under a grant arrangement. It concluded that the repayment should first reduce the amount of any revenue recognised under that grant arrangement and presented consistent with the revenue initially recognised.
- BC30.15 As it is possible that an exchange gain is greater than the original revenue or greater than the revenue recognised to date (where there are unfulfilled EGOs), the Secretariat proposed that where there are EGOs to be satisfied, the excess amount should be recognised as a change to the EGA liability. The Secretariat were of the view that under an OFA, a repayment to a grant-provider because of an exchange gain would be unlikely. If, however, it is required, the shortfall would be treated as a liability and expense. Any impact on revenue or expense is proposed to be presented on the in line with the presentation of the original grant arrangement. This presentation will provide transparency about the adequacy of funding.
- BC30.16 Implementation guidance is provided to: explain how to account for transactions with a different denomination and settlement currencies; provide guidance where changes in exchange rates result in differences between revenue received and the obligation to incur costs; to provide guidance on disclosure of exchange rate gains and losses as they relate to grant arrangements; to provide guidance on re-translation of foreign currency monetary assets and liabilities relating to grant arrangements; for the judgements applied in identifying an NPO's functional currency; and to clarify the scope and limitations of the use of a presentation currency other than the function currency. To illustrate the conclusions reached about the presentation and disclosure of foreign exchange gains and losses, examples have also been created.

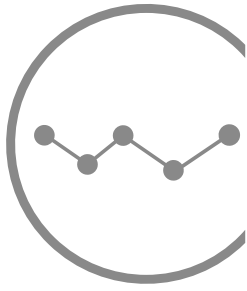
Section 31 – Hyperinflation

- BC31.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Hyperinflation was not included as a prioritised topic.
- BC31.2 No major editorial changes are proposed for hyperinflation, with minor changes to terminology and to align with other Sections. The main changes are to reflect the structure of the balance sheet proposed for NPOs in INPAG and the names and scope of the financial statements as they relate to income and expenses.

Section 32 – Events after the end of the reporting period

- BC32.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Events after the balance sheet date was not included as a prioritised topic.
- BC32.2 There were no significant issues arising from the high-level review of this Section. Other than terminology, changes reflect alignment with other INPAG Sections. Key changes to note are:
- (a) the sources of bankruptcy have been expanded to include 'grant provider'. This reflects the importance of grant providers to an NPO and that the bankruptcy of a grant provider could have flow- on effects for an NPO;
 - (b) 'trade' has been deleted against 'trade receivable' consistent with Section 4;
 - (c) references to profit sharing have been removed consistent with the amendments made to Section 28;

- (d) references to dividends have been removed as this is not expected to be a feature of NPOs who do not operate for returns. Amendments to the draft text allow for the possibility of an NPO making a distribution to holders of equity claims. This is expected to be extremely rare and will be reviewed to take account of feedback on equity as requested as part of Exposure Draft 1 (ED1); and
- (e) an amendment has been made to reflect that it is not an entity's owners that has the power to amend the financial statements after issue, but there may be 'others' who have this type of power. This is to reflect that ownership is not a key driver of how an NPO operates.



International
Non-Profit
Accounting
Guidance
Part 2

**Implementation
Guidance**

Comments to be received by 15 March 2024
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INPAG ED/2023/2

INPAG
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Not all sections have Implementation Guidance. The Implementation Guidance and illustrative examples where relevant for the Preface, Sections 1 to 10 and Section 35 were published as drafts in **Exposure Draft 1**. Implementation Guidance and illustrative examples where relevant for the remaining sections will be published in Exposure Draft 3.

¹ Status refers to whether the *IFRS for SMEs* Standard has been updated to reflect NPO specific requirements. Further explanation can be found in the Invitation to comment.

Section 11 – Financial instruments

Illustrative examples

Examples – financial assets

1. For a long-term loan made to another entity, a receivable is recognised at the present value of cash receivable (including interest payments and repayment of principal) from that entity.
2. For goods sold to a customer on short-term credit, a receivable is recognised at the undiscounted amount of cash receivable from that entity, which is normally the invoice price.
3. For an item sold to a customer on two-year interest-free credit, a receivable is recognised at the current cash sale price for that item. If the current cash sale price is not known, it may be estimated as the present value of the cash receivable discounted using the prevailing market rate(s) of interest for a similar receivable.
4. For a cash purchase of another entity's ordinary shares, the investment is recognised at the amount of cash paid to acquire the shares.
5. For the unconditional right to a refund or a return of previously transferred resources where an enforceable grant obligation has not been met, a receivable is recognised at the undiscounted amount of cash receivable, or value of resources to be transferred, from the grant recipient.

Examples – financial liabilities

1. For a loan received from a bank, a payable is recognised initially at the present value of cash payable to the bank (for example, including interest payments and repayment of principal).
2. For goods purchased from a supplier on short-term credit, a payable is recognised at the undiscounted amount owed to the supplier, which is normally the invoice price.
3. For cash amounts owed to grant recipients because an enforceable grant obligation has been met, a grant payment liability is recognised at amortised cost.
4. For a financial guarantee contract issued, for example, to a third party on behalf of a related party of the entity, a liability is recognised initially at the premium received plus the present value of any future premium payments receivable, if any.

<i>Example of determining amortised cost for a five-year loan using the effective interest method</i>				
On 1 January 20X0, an NPO acquires a bond for CU900, incurring transaction costs of CU50 (a). Interest of CU40 is receivable annually, in arrears, over the next five years (31 December 20X0–31 December 20X4). The bond has a mandatory redemption of CU1100 on 31 December 20X4.				
Year	Carrying amount at beginning of period**	Interest income at 6.9584%*	Cash inflow	Carrying amount at end of period**
	CU	CU	CU	CU ²
20X0	950.00	66.11	(40.00)	976.11
20X1	976.11	67.92	(40.00)	1,004.03
20X2	1,004.03	69.86	(40.00)	1,033.89
20X3	1,033.89	71.94	(40.00)	1,065.83
20X4	1,065.83	74.17	(40.00)	1,100.00
			(1,100.00)	-
* The effective interest rate of 6.9584% is the rate that discounts the expected cash flows on the bond to the initial carrying amount: $40 \div (1.069584)^1 + 40 \div (1.069584)^2 + 40 \div (1.069584)^3 + 40 \div (1.069584)^4 + 1,140 \div (1.069584)^5 = 950$				
**The carrying amount is shown before the allowance for expected credit losses.				

Example – transfer that qualifies for derecognition

An NPO sells a group of its accounts receivable to a bank at less than their face amount. The NPO continues to handle collections from the debtors on behalf of the bank, including sending monthly statements, and the bank pays the NPO a market-rate fee for servicing the receivables. The NPO is obliged to remit promptly to the bank any and all amounts collected, but it has no obligation to the bank for slow payment or non-payment by the debtors. In this case, the NPO has transferred to the bank substantially all of the risks and rewards of ownership of the receivables. Accordingly, it removes the receivables from its Statement of Financial Position (ie derecognises them) and it shows no liability in respect of the proceeds received from the bank. The NPO recognises a loss calculated as the difference between the carrying amount of the receivables at the time of sale and the proceeds received from the bank. The NPO recognises a liability to the extent that it has collected funds from the debtors but has not yet remitted them to the bank.

Example – transfer that does not qualify for derecognition

The facts are the same as the preceding example except that the NPO has agreed to buy back from the bank any receivables for which the debtor is in arrears as to principal or interest for more than 120 days. In this case, the NPO has retained the risk of slow payment or non-payment by the debtors – a significant risk with respect to receivables. Accordingly, the NPO does not treat the receivables as having been sold to the bank, and it does not derecognise them. Instead, it treats the proceeds from the bank as a loan secured by the receivables. The NPO continues to recognise the receivables as an asset until they are collected or written off as uncollectable.

² (a) In this publication, monetary items are denominated in ‘currency units’ (CU).

Section 13 – Inventories

Illustrative examples

Classes of inventories

Example 1 – donated perishable inventories

NPO A operates a medical clinic. Its inventories include flu vaccines. Some vaccines are purchased and have a typical shelf life of one year. Other vaccines are donated by health providers when these providers are unable to use the vaccines prior to their expiry date. These vaccines have a typical shelf life of two weeks.

NPO A concludes that, because of their short-term use requirements, the nature of the donated vaccines is different to that of the purchased vaccines. Consequently, it identifies two classes of inventories – purchased flu vaccines and donated flu vaccines.

The purchased vaccines are initially recognised at cost. The donated vaccines are initially recognised at fair value. The fair value of the vaccines reflects their expiry date and is significantly lower than the cost of the purchased vaccines. An analysis of market prices for the vaccine indicates that once a vaccine has a shelf life of 16 weeks or less, the price the market is willing to pay decreases to zero on a straight line basis, reflecting the increasing likelihood that the vaccine will be unused. The fair value of a vaccine with a two-week shelf life would therefore be 12.5% (2/16 weeks) of the price for a vaccine with a one-year shelf life. NPO A has stock control processes in place to ensure that short-dated vaccines are used first.

The purchase price of the vaccines is volatile. NPO A applies the weighted average cost model in accounting for the purchased inventories as it considers this provides the most representative information on the value of its purchased vaccines.

NPO A applies the first in, first out cost model in accounting for the donated inventories. This reflects the short-term nature of the vaccines and therefore provides the most representative information on the value of its donated vaccines.

Assessing loss of service potential

Example 2 – loss of service potential due to physical obsolescence

NPO B operates a food bank. NPO B purchases items of food to be included in food parcels, and also receives donations of food from supermarkets and individuals. Because the donations it receives are unpredictable, it can have a surplus of certain food items.

These food items may become limited in their use and so suffer a loss of service potential due to their age as they approach their expiry date. If NPO B has more items than are required for the food parcels, NPO B may have to either sell the items at a discount or dispose of them once the expiry date has passed.

At the reporting date, NPO B will assess whether any inventories that it has purchased have suffered a loss of service potential. This will not include the food that was donated, as NPO B elected not to recognise these donations. For those inventories that have been recognised because they were purchased, NPO B estimates the amount of the inventories that it will not be able to use in the food parcels, and adjusts the carrying amount of the inventories by this amount, adjusted for any expected sales proceeds, and recognises a corresponding expense.

Example 3 – loss of service potential due to functional obsolescence

NPO C operates a medical clinic. Its inventories include a stock of a drug that is used to treat a respiratory disease. A number of doses of the drug are required to successfully treat the disease.

A new drug has been developed that will successfully treat the disease with a single dose. The inventories of the drug held by NPO C may suffer a loss of service potential due to functional obsolescence. This will be the case if the cost of treating patients with the new drug is less than the cost of treating patients with the existing drug.

At the reporting date, NPO C will assess whether any inventories have suffered a loss of service potential. NPO C estimates the amount it would cost to replace its inventories of the existing drug with the amount of the new drug required to treat the same number of patients. If this is less than the carrying amount of the inventories of the existing drug, NPO C adjusts the carrying amount of the inventories downward to the estimated cost of the amount of the new drug required to treat the same number of patients, and recognises a corresponding expense.

Example 4 – loss of service potential due to economic obsolescence

NPO D has the objective of helping long-term unemployed people find work and runs courses on interview preparation. NPO D has prepared course materials that are provided to all participants and has sufficient stock for the expected life of the current course.

The courses are subsidised by the government, and as a result the NPO is able to offer the courses for no charge.

As a result of a change of government policy, the courses are no longer subsidised by the government. NPO D has insufficient resources to cover all the costs itself, and introduces a small charge for the courses to cover the cost of hiring the venue and providing lunch.

Because of the introduction of the small charge, the number of participants reduces, and NPO D runs the courses less frequently. As a result, it is likely that NPO D may not be able to use all of the course materials. At the reporting date, NPO D will assess whether any inventories have suffered a loss of service potential. NPO D estimates the amount of the course materials that it will not be able to use before the course needs to be redeveloped. NPO D adjusts the carrying amount of the inventories of course materials in proportion to the amount it estimates will be unused, and recognises a corresponding expense.

Section 21 – Provisions and Contingencies

Onerous contracts

- IG21.1 Where an NPO has a present obligation that arises from past events, then it may need to recognise a provision. Provisions may be required for a number of reasons. This includes the consequences of decisions made by an NPO that have not yet been implemented, such as staff redundancies or onerous contracts.
- IG21.2 An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.
- IG21.3 Where an NPO has an onerous contract, a provision will need to be recognised for the unavoidable costs as outlined in IG21.1. Such contracts may exist where an NPO has a grant agreement paid in a currency other than the NPO's functional currency and the operation of currency movements over the period of the grant agreement require the NPO to provide services that cost in excess of the amount payable under the grant agreement. In such circumstances a provision for an onerous contract will need to be recognised.

Illustrative examples

All of the NPOs in the examples have 31 December as their reporting date. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. In some examples the circumstances described may have resulted in impairment of the assets; this aspect is not dealt with in the examples. References to 'best estimate' are to the present value amount, when the effect of the time value of money is material.

Example 1 Future operating losses

An NPO determines that it is probable that a segment of its operations will incur future operating losses for several years.

There is no present obligation as a result of past events – there is no past event that obliges the NPO to pay out resources.

Conclusion – the NPO does not recognise a provision for future operating losses. Expected future losses do not meet the definition of a liability. The expectation of future operating losses may be an indicator that one or more assets are impaired – see Section 27 *Impairment of assets*.

Example 2 Onerous contracts

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.

Example 3 Onerous grant agreement

An NPO may be contractually required under a grant agreement to construct ten water wells for local communities in a designated jurisdiction. The funds for the construction costs will be provided by the grantor based on the exchange rate at the date that the agreement was signed. The exchange rate changes between the date of signing the agreement and the date of commencement of the construction work, such that the amount in the local currency is no longer sufficient to cover the costs of construction.

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.

Conclusion – if an NPO has a contract that is onerous, the NPO recognises and measures the present obligation under the contract as a provision.

Example 4 Closure of a division – no implementation before end of reporting period

On 12 December 20X0 the governing body of an NPO decided to close down its operations in a specific geographic area. Before the end of the reporting period (31 December 20X0) the decision was not communicated to any of those affected and no other steps were taken to implement the decision.

Present obligation as a result of past events – there has been no obligating event, and so there is no obligation.

Conclusion – the NPO does not recognise a provision.

Example 5 Closure of a division – communication and implementation before end of reporting period

On 12 December 20X0 the governing body of an NPO decided to close its operations in a specific geographic area. On 20 December 20X0 a detailed plan for closing the operations was agreed by the governing body, letters were sent to service beneficiaries warning them that services would cease and they should seek alternatives, and redundancy notices were sent to the staff of the operations.

Present obligation as a result of past events – the obligating event is the communication of the decision to the service recipients and employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the operations will be closed.

An outflow of resources embodying economic benefits in settlement – probable.

Conclusion – the NPO recognises a provision at 31 December 20X0 for the best estimate of the costs that would be incurred to close the operations.

Example 6 Staff retraining as a result of changes in regulations

The government introduces changes to the regulation of NPOs. As a result of those changes, an NPO will need to retrain a large proportion of its workforce in order to ensure continued compliance with regulations. At the end of the reporting period, no retraining of staff has taken place.

Present obligation as a result of past events – the regulatory change does not impose an obligation on an NPO to do any retraining. An obligating event for recognising a provision (the retraining itself) has not taken place.

Conclusion – the NPO does not recognise a provision.

Example 7 A court case

A service beneficiary has sued NPO X, seeking damages for injury the service beneficiary allegedly sustained from a service provided by NPO X. NPO X disputes liability on grounds that the service beneficiary did not declare required information relating to the provision of the services. Up to the date the governing body authorised the financial statements for the year to 31 December 20X1 for issue, the NPO's lawyers advise that it is probable that the NPO will not be found liable. However, when the NPO prepares the financial statements for the year to 31 December 20X2, its lawyers advise that, owing to developments in the case, it is now probable that the NPO will be found liable:

(a) at 31 December 20X1

Present obligation as a result of past events – on the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion – no provision is recognised. The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

(b) at 31 December 20X2

Present obligation as a result of past events – on the basis of the evidence available, there is a present obligation. The obligating event is the provision of services to the service beneficiary.

An outflow of resources embodying economic benefits in settlement – probable.

Conclusion – a provision is recognised at the best estimate of the amount to settle the obligation, and the expense is recognised in surplus or deficit. It is not a correction of an error in 20X1 because, on the basis of the evidence available when the 20X1 financial statements were approved, a provision should not have been recognised at that time.

Section 23 – Part I Revenue from grants and donations

Identifying the revenue transaction

Enforceability

What should an NPO consider in assessing enforceability?

IG23.1 Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires judgement. This assessment is integral to identifying whether an NPO has:

- (a) an enforceable grant arrangement (EGA) (that is, with both enforceable rights and enforceable obligations);
- (b) only enforceable rights (in which case the NPO may have an other funding arrangement (OFA) because it has a grant without an EGA); or
- (c) only enforceable obligations, through legal or equivalent means (in which case the NPO should consider whether it is required to recognise a provision in accordance with Section 21 *Provisions and contingencies*).

- IG23.2 At inception, an NPO will need to use its judgement and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations. In other words, the NPO will need to determine what can be enforced. It will need to consider the implicit or explicit consequences of not satisfying those rights and/or not satisfying those obligations. Relevant factors include, but are not limited to:
- (a) the substance (practical effects), rather than the legal form, of the arrangement;
 - (b) terms that are written, oral or implied by an NPO's customary practices;
 - (c) whether it is enforceable through legal means (eg by the legal system, enforced through the courts, judicial rulings and case law precedence), or compliance through equivalent means (for example, by arbitration, action taken by a regulator);
 - (d) implicit or explicit consequences of not satisfying the obligations in the arrangement;
 - (e) the specific jurisdiction, sector, and operating environment; and
 - (f) past experience with the other parties in the arrangement.

Table IG23.1: Enforceability of different types of grant arrangement

	Nature of the arrangement	Performance requirement	Administrative requirement
Enforceable grant arrangement	Both parties to the arrangement have both rights and obligations that are enforceable through legal or equivalent means, whether the parties choose to enforce the arrangement or not. There is at least one EGO.	Breach – Sanctions are possible in line with the terms of the enforceable grant agreement. Sanctions may include repayment of funds received, or non-payment or lower payment of future amount than specified in the agreement. Accounting – Revenue is recognised when (or as) each EGO is achieved.	Breach – Sanctions are possible in line with the terms of the enforceable grant agreement. Sanctions may include penalties, or the withholding of funds by the grant provider. Breach of an administrative requirement that is not an EGO has no effect on revenue recognition. Accounting – An expense and provision are recognised when there is a present obligation as a result of the breach.
Other funding arrangement with constraints	The funder and the recipient may or may not have obligations and/or rights, but both parties will not have both rights and obligations. The agreement may or may not be enforceable through legal or equivalent means. There are no EGOs, but there may be constraints on the use of resources.	Breach – In the event of a breach of the constraints, a repayment may be required if the grant is paid in advance or a reduced or nil amount may be received if the grant is paid in arrears Accounting – Revenue is recognised when the NPO controls or is entitled to the resources. A requirement to make a refund would be recognised when a present obligation arises.	Breach – sanctions may be possible in line with the terms of the OFA. Sanctions may include penalties, or the withholding of funds by the grant provider. Accounting – An expense and provision are recognised when there is a present obligation as a result of the breach.
Other funding arrangement with no constraints	The funder and the recipient may or may not have obligations and/or rights. The agreement may or may not be enforceable through legal or equivalent means. There are no EGOs or constraints on the use of resources.	Breach – Not relevant as there are no performance requirements or constraints. Accounting – Revenue is recognised when the NPO controls or is entitled to the resources.	Breach – Sanctions may be possible in line with the terms of the OFA. Sanctions may include penalties or the withholding of funds by the grant provider. Accounting – An expense and provision are recognised when there is a present obligation as a result of the breach.

Revenue from transactions with enforceable grant arrangements

IG23.3 EGAs in the non-profit sector vary substantially. Some EGAs may require the NPO, as the grant recipient, to achieve a specific holistic service objective, while other EGAs may impose requirements related to specific goods and services.

How does an NPO determine the individual enforceable grant obligations in an EGA in order to appropriately account for transactions with EGAs?

IG23.4 An NPO must use judgement as it applies paragraphs G23.45–G23.50 to determine the individual enforceable grant obligations (EGOs) in its EGA. An EGA has to have at least one EGO.

IG23.5 An NPO should first identify all of the undertakings it has given in its EGA that require it to use resources in a specific manner. These may be explicit or implicit and require the NPO to achieve a specific outcome, to carry out specific activities, to use resources internally for a good or service, or to transfer a good or service to a service recipient. A thorough assessment is necessary to identify all of the obligations in the arrangement (paragraphs G23.48–G23.50).

IG23.6 EGOs are likely to be subject to monitoring by the grant provider to determine if, when and how the EGO has been met. Generally, monitoring on its own is not sufficient to create an EGO. The features of agreements such as not funding terrorism or money laundering that are not specific to a distinct outcome, activity, good or service are not EGOs (see also paragraphs AG23.60–AG23.61).

IG23.7 An NPO must then consider each identified obligation to determine if individually it creates an EGO, or whether it should be grouped with other obligations, which might collectively make up a single EGO. An EGA is separate and distinct if both of the following criteria are met:

- (a) an outcome, activity or deliverable (which may be the transfer of goods or services to service recipients) is separate from other outcomes or activities or deliverables in the EGA; and
- (b) the resources (including goods or services) required to complete the outcome, activity or deliverable by the EGA are separate from other resources required by the EGA.

IG23.8 Whether an obligation is capable of being distinct will be based on its characteristics and will require judgement. This judgement is needed to ensure that the identification of individual EGOs will meaningfully represent the nature of the NPO's transaction with the grant provider and provide a useful depiction of the NPO's performance.

IG23.9 Any distinct obligation, or distinct group of obligations, identified by the NPO through this analysis will be an individual EGO. In many cases, an NPO will need to report progress on individual EGOs to its grant provider.

Satisfaction of enforceable grant obligations: methods of measuring progress

When an NPO satisfies an EGO over time, how does it determine a measure of progress that depicts the NPO's performance to satisfy its EGO?

IG23.10 After the NPO identifies its EGOs, the NPO will need to consider the nature of what it is required to do and the specific terms of the EGA to determine the appropriate method of measuring progress. Methods of measuring progress include output methods and input methods (see paragraphs AG23.52–AG23.59).

IG23.11 Firstly, all observable and available information associated with satisfying the EGO should be considered. This information will be useful for all parties in the EGA to confirm whether its terms are being met. Observable and available information may be explicitly required in the EGA and includes, but is not limited to:

- (a) the achievement of specified outcomes;

- (b) the performance of specified activities;
- (c) incurring eligible expenditures;
- (d) the requirement to track progress towards achieving outlined milestones;
- (e) the production or delivery of specific quantities of goods or services; and
- (f) the volume of resources consumed (eg labour, materials, machine hours, etc).

- IG23.12 Some types of information are considered output methods. Output methods are based on the outputs and outcomes achieved in satisfying the EGO. Other types of information are considered input methods. Input methods are based on the NPO's efforts or inputs into the satisfaction of the EGO.
- IG23.13 The NPO should use professional judgement to determine what information most faithfully depicts the NPO's performance towards complete satisfaction of the EGO. In making this assessment, the NPO should also consider which method of measuring progress:
- (a) better reflects the nature and intent of the NPO's promise in the enforceable arrangement;
 - (b) more clearly captures the relationship with, and communicates the progress toward, the satisfaction of the EGO;
 - (c) uses information that is more reliable and directly observable;
 - (d) reflects all relevant performance associated with satisfying the EGO; and
 - (e) provides benefits that outweigh the costs of obtaining and tracking the necessary information.
- IG23.14 There may be situations where resources are passed through a series of NPOs or other entities before outcomes are achieved, activities carried out or services and goods are received by the ultimate service recipients. Where the NPO is one of multiple parties involved in the arrangement, the NPO will need to consider the nature of its obligations and whether satisfaction of its EGO depends on other parties in the EGA. This will inform revenue recognition as a principal or agent. For example, the NPO will be a principal where it is primarily responsible for fulfilling the EGO, for example by selecting partner organisations that deliver services to service recipients, and ensuring that these services meet the agreed specification. The NPO will be an agent if the partner organisations have been selected by the grant provider, and the NPO does not control the services provided by those organisations.

Allocation based on stand-alone values

- IG23.15 An NPO is required to allocate the transaction amount to each EGO on a relative stand-alone value basis. However, stand-alone value is not always directly observable, and must then be estimated.

How should an NPO determine the most suitable method for estimating the stand-alone value of an EGO?

- IG23.16 The stand-alone value is the cost (including costs such as employee costs) the NPO expects to incur to satisfy an EGO.
- IG23.17 In some cases, a grant provider may contribute towards part of the costs of an EGO. In such cases, the stand-alone value should reflect the proportion of the EGO covered by the grant provider's contribution.
- IG23.18 The stand-alone value of an EGO may differ from the amount of grant the NPO expects to receive for that obligation. Consequently, the amounts of grant to be received that are specified in the EGA should not be assumed to be a reliable measure of the stand-alone values.
- IG23.19 Where the preparation of the EGA has involved the preparation of budgets for each EGO, these budgets will generally be a reliable measure of the stand-alone value of each EGO. This assumes that no changes that have taken place between the preparation of the budgets and the making of the agreement. Where this is the case, the stand-alone value should be reassessed as at the date the agreement was made.

- IG23.20 The estimated costs used in determining the stand-alone value of an EGO should be based on observable information wherever possible. Observable information will include the market price of any goods or services that are to be purchased and known staffing costs where the NPO's staff will carry out the activities needed to satisfy the enforceable grant agreement.
- IG23.21 Based on the reasonably available information, the NPO will then determine which method to use for estimating the stand-alone value. The method chosen should most faithfully represent the value of the goods or services promised in the EGA.
- IG23.22 The stand-alone values of EGOs are determined at the inception of the EGA and, unless the arrangement is subsequently modified, the stand-alone values are not changed to reflect changes in circumstances.
- IG23.23 The transaction amount (the total amount of the grant) is allocated to EGOs on based on their relative stand-alone amounts. For example, if the stand-alone value of one enforceable grant objective is CU60,000 and the stand-alone value of another objective is CU40,000, 60% of the transaction amount is allocated to the first EGO, and 40% to the second EGO. The amount allocated to each EGO will only be the same as the stand-alone value if the transaction amount is exactly CU100,000.

Illustrative examples

Determining which Part of Section 23 applies

Revenue transactions are classified as either revenue from grants or donations (covered in Section 23 Part I) or revenue from contracts with customers (Section 23 Part II). The different economic substance of revenue transactions is illustrated by the examples below.

Example 1 – guidance applicability

NPO A has the primary objective of improving the healthcare of mothers and children under the age of five. It aims to achieve this mainly through providing free primary care to mothers and children in its own network of healthcare facilities. It has also recently begun to provide consultancy and training services aimed at other healthcare providers for which it charges fees.

A philanthropic organisation provides NPO A with CU1m in cash to support its provision of primary care services. NPO A is required to use the cash to provide primary care services and give the philanthropic organisation information on how the cash has been used. NPO A has control of the economic resources transferred because it has discretion over how the cash is utilised without requiring further authorisation from the philanthropic organisation. As the philanthropic organisation does not directly receive cash, a service, good or other asset in return from NPO A (it is those that are receiving the primary care services that benefit), the economic substance of this transaction means that NPO A should apply Part I for accounting for revenue from grants, donations and similar transfers.

In addition to the transaction involving the CU1m transfer of cash, the philanthropic organisation asks NPO A to provide it with a series of training courses. These training courses are attended by other healthcare organisations that the philanthropic organisation supports. The overall aim of the training is to ensure that the grants made by the philanthropic organisation to these healthcare organisations are more effectively utilised. As part of the agreement, the philanthropic organisation determines which organisations will receive the training courses and has responsibility for approving the content of the training to ensure it achieves its aim. NPO A and the philanthropic organisation agree a fixed fee of CU10k for each course to be delivered. NPO A is not required to provide the philanthropic organisation with any further information on how that fee is being used to deliver the training. The economic substance of this transaction involves NPO A directly providing a service to the philanthropic organisation in exchange for consideration, and therefore means that NPO A should apply Part II for accounting for revenue from contracts with customers.

In both of the transactions NPO A controls the economic resources provided to it by the philanthropic organisation. This control arises because NPO A has the present ability to direct the use of the economic resources and obtain

the economic benefits or service potential that may flow from it. In situations such as these an NPO is deemed to be acting as a principal.

Example 2 – guidance applicability

NPO B (a non-profit school) has a primary objective of providing free education to disadvantaged children, but also provides some training courses to companies on a commercial basis. A company (the Company) enters into an agreement with NPO B where the Company will pay NPO B CU500,000 to both provide a training course for its employees and to fund additional places at the school. The usual price of the training course is CU300,000.

NPO B considers the economic substance of the transaction to determine the appropriate accounting treatment. NPO B concludes that the agreement with the Company includes two transactions – a contract with a customer for the provision of the training course and a grant to provide additional places for disadvantaged children at the school.

NPO B will need to allocate the total amount payable under the agreement to the two transactions. As there is a known price for the training course, NPO B uses this to determine the allocation of the total amount.

NPO B accounts for a grant of CU200,000 (under Part I of Section 23) and a contract with a customer of CU300,000 for the training course (under Part II of Section 23).

Accounting for grants and donations

Identify the revenue transaction

Examples 3–5 illustrate the requirements in paragraphs AG23.16–AG23.31 and Figure AG23.2 on the determination of whether an NPO has entered into a revenue transaction with an EGA.

Example 3 – Existence of rights and obligations

Case A – No obligations, no specified time period, and no reporting to the grant provider

NPO C (an environmental organisation) receives funding of CU10,000 from a grant provider (Donor A) to fund environmental programmes. The agreement requires funding to be spent on programmes with the goal of improving biodiversity in the region. If NPO C incurs expenses to improve biodiversity in the region, it is able to enforce its right to receive funding from Donor A. The agreement does not specify the time period in which the funds are to be spent, any requirement to fund specific biodiversity programmes, or how Donor A will receive or verify information on how the funds were spent.

Analysis

Enforceable right – NPO C has an enforceable right to resources from Donor A if it incurs eligible expenses.

Enforceable grant obligation – NPO C does not have an EGO because Donor A does not have the ability to enforce how NPO C uses funds in a specific way (for example, specific programmes) or within a specific time period.

Conclusion

NPO C concludes that the grant is an OFA and not an EGA. Although NPO C has an enforceable right to resources, the OFA does not include an EGO for NPO C as Donor A has no realistic way to enforce the requirement to spend all of the funds. As a result, NPO C accounts for the revenue as revenue from a transaction without an EGA.

Case B – Specified time period to spend funds

The same facts as in Case A apply to Case B, except the agreement specifies that the funds are to be spent within a five-year period.

Analysis

Enforceable right – NPO C has an enforceable right to resources from Donor A if it incurs eligible expenses, and this is not changed by the requirements to spend the funding within five years.

Enforceable grant obligation – The requirement to spend the CU10,000 within five years does not change NPO C's conclusion that it has an OFA and it does not have an EGO. This is because Donor A is not able to confirm if and when NPO C spends the funds as stated in the agreement.

Conclusion

NPO C concludes that the OFA is not an EGA. Although NPO C has an enforceable right to resources, the OFA does not have an EGO. Donor A has no realistic way to enforce the requirement to spend all of the funds. As a result, NPO C accounts for the revenue as revenue from a transaction without an EGA.

Case C – Specified time period to spend funds and specific reporting to the donor is required

The same facts as in Case B apply to Case C, except the agreement also specifies how NPO C is to report its spending to Donor A, and that any misused or unused funds are to be returned to Donor A. NPO C continues to have full discretion over how to use the funds, as long as the funds are spent within five years on activities that reasonably relate to improving biodiversity in the region, which NPO C considers could apply to almost all its activities.

Analysis

Enforceable right – NPO C has an enforceable right to resources from Donor A if it incurs eligible expenses, and this is not changed by the additional requirements in the EGA.

Enforceable grant obligation – NPO C does not have an EGO. In accordance with paragraphs AG23.60–AG23.61, the reporting requirements are a formality and not a separate EGA. The wording of the EGA does not identify specific outcomes, activities or resources to be used internally, and therefore does not give rise to EGOs. While the requirement to return unused funds could give rise to an EGO, it does not do so in this case. This is because the requirement is not specific, almost all NPO C's activities would meet the definition and NPO C will always be able to identify relevant spending.

Conclusion

NPO C concludes that the OFA is not an EGA. Although NPO C has an enforceable right to resources and is required to report its spending to Donor A, the OFA does not have an EGO. Because no specific objectives, activities or resources are identified, Donor A has no realistic way to identify the resources spent separately from any other expenses of NPO C. As a result, NPO C accounts for the revenue as revenue from a transaction without an EGA.

Case D – Specified time period to spend funds, specific reporting to the donor and donor assessment of suitability is required

The same facts as in Case C apply to Case D, except that the agreement also specifies that NPO C is to report its activities and a series of metrics measuring the changes in biodiversity in the region. Donor A is entitled to a full or partial refund if it does not receive this report or if it considers that the report shows that NPC C has not employed best endeavours to implement additional activities that have had an impact on biodiversity. In accordance with paragraphs AG23.60–AG23.61, NPO C concludes that the reporting requirements have substance because satisfaction of its EGO cannot be certain until it receives Donor A's confirmation that Donor A considers best endeavours have been employed.

Conclusion

NPO C concludes that it has an EGA because both the donor and the grant recipient have an enforceable right and enforceable obligation. NPO C accounts for the revenue as revenue from a transaction with an EGA. Because Donor A does not specify individual programmes, it is probable that NPO C has a single EGO and can therefore apply the simplified procedures in paragraphs G23.42–G23.43.

Example 4 – Research grant arising from an enforceable grant arrangement

NPO D has a research lab that enters into an arrangement and receives CU10m from the government (the Government) to conduct research into a potential cure for a widespread disease. This research project is

expected to result in the development of intellectual property that consists of a drug formula and manufacturing know-how. The agreement contains specific and measurable milestones that must be met by NPO D. If these milestones are not met, NPO D is required to return all, or a portion, of the funds to the Government. Once the research is complete, there is no requirement in the agreement for NPO D to transfer the findings or any resulting intellectual property to the Government. NPO D is also able to ensure that payment is received from the Government for research work planned or completed.

Based on these terms, NPO D has concluded that the agreement is an EGA, as it has an EGO to conduct the research project in accordance with the specified milestones in order to retain the funds, and an enforceable right to payment of the grant for conducting this research project. NPO D shall apply the accounting principles in paragraphs G23.41–G23.60 to account for this revenue from a transaction with an EGA.

Example 5 – Online donations

NPO E, an aid organisation that provides emergency aid internationally, issues an online appeal to raise funds to provide support to those affected by a natural disaster.

Case A – No promises in the appeal

Although the appeal refers to the specific natural disaster and the work of NPO E in supporting those affected, the appeal does not specify that all donations will be directed to this work.

Analysis

Resources – NPO E gains control of the resources when it receives the online donations.

Enforceable grant obligation – NPO E does not have an EGO because the wording of the appeal does not require it to use the funds in support of any particular activities.

Conclusion

NPO E concludes that the appeal is not an EGA as it does not have an EGO. As a result, NPO E accounts for the revenue as revenue from a transaction without an EGA.

Case B – The appeal includes specific promises

The appeal includes a promise that all donations will be used to support those affected by the specific natural disaster.

Analysis

Resources – NPO E gains control of the resources when it receives online donations.

Enforceable grant obligation – NPO E does not have an EGO. Although the appeal includes a statement that all donations will be used to support those affected by the specific natural disaster, the individual online donors have no way of enforcing this, and cannot tell if their specific funding has been used as promised.

Conclusion

NPO E concludes that the appeal is not an EGA as it does not have an EGO. As a result, NPO E accounts for the revenue as revenue from a transaction without an EGA.

Example 6 – Requirement to raise match funding

NPO F (a heritage organisation) is seeking funding to permit it to restore a local historic building. NPO F enters into an agreement with a foundation (the Foundation) where the Foundation will provide half of the funding required, provided that NPO F is able to raise the balance of the funding required by an agreed date. If NPO F fails to raise the balance of the funding required by the agreed date, the Foundation will provide no funding. The Foundation requires periodic reports on the match funding raised by NPO F.

The agreement also requires NPO F to use the funding provided by the Foundation to restore the local building within three years of the funding being provided. The agreement specifies the various stages of restoration to be completed, based on the technical report provided by NPO F. If the work is incomplete after three years, the Foundation is entitled to reclaim an amount of the grant proportional to the amount of work that is incomplete, and requires periodic reports on progress to be submitted.

Analysis

Enforceable right – NPO F has an enforceable right to resources from the Foundation if it raises match funding and completes the restoration work.

Enforceable grant obligation – NPO F has EGOs to complete the restoration work, because the Foundation has the ability to enforce the use to which NPO F puts the funds within a specified period and periodic reporting provides the Foundation with the ability to enforce the obligations.

Conclusion

NPO F concludes that the agreement with the Foundation is an EGA as it has both an enforceable right and an EGO. As a result, NPO F accounts for the revenue as revenue from a transaction with an EGA (see Example 9 for details).

However, an NPO only recognises an EGA if it is probable that it will collect the grant amount to which it will be entitled for satisfying its EGOs. Prior to the match funding being received, NPO F will only recognise revenue if it is probable that the match funding will be received (see paragraph G23.74e)).

Recognition of revenue transactions without an enforceable grant arrangement

Example 7 – Gifts in-kind

A business (Business A) is relocating and donates office furniture and office supplies to NPO G (a community centre).

NPO G has no use for the office furniture, but has agreed with Business A that it can sell the furniture and use the proceeds for its general purposes. It arranges to sell the furniture by auction and receives the proceeds of CU2,000 one month later.

NPO G uses the office supplies in running its day-to-day operations. The office supplies are the type of consumables that it would normally purchase. NPO G estimates it would have paid CU500 to purchase the supplies received from Business A.

INPAG permits an NPO to apply a permitted exception to both items donated for resale and for use (see paragraphs G23.37a) and G23.7b)). Consequently, NPO G:

- does not recognise revenue or inventory when it receives the office furniture and office supplies;
- recognises cash and revenue of CU2,000 when it sells the office furniture; and
- recognises revenue and an expense of CU500 as it uses the office supplies.

In practice, NPO G may not recognise revenue and an expense in respect of the office supplies if the amounts are not material.

Also, although not the case in this example, NPO G may not recognise a revenue and expense in respect of the office supplies if it is not able to reliably measure the gifts in-kind (for example, because the goods are not readily available on the market and are not regularly used by NPO G) (see paragraph G23.40).

Example 8 – Services in-kind

A cleaning business (Business B) provides services in-kind to NPO H (a community centre) by professionally cleaning its public areas once a month. The usual cost of each clean would be CU500. As the usual price of each clean is known, it can be reliably measured.

NPO H considers whether the cleans are critical to its mission and concludes they are not, as its mission relates to the services it provides, and it has other arrangements for cleaning its public spaces between the professional cleans.

NPO H can elect to either:

- apply the permitted exception and recognise no revenue or expense in relation to the cleaning (see paragraph G23.37c)); or
- apply the general recognition and measurement principles, and recognise revenue and an expense of CU500 each month as it receives the cleaning services.

Recognition of revenue transactions with an enforceable grant arrangement

Example 9 – Allocating the transaction consideration to enforceable grant obligations

The facts are the same as in Example 6, where NPO F had concluded that it has an EGA. NPO F is now required to allocate the transaction amount to its various EGOs and determine whether its EGOs are satisfied over time or at a point in time.

NPO F considers all the circumstances to determine if it has a single EGO for the whole restoration work, or a series of EGOs for each stage of the work. In this example, it is assumed there are a number of EGOs.

NPO F uses the estimates of work required (set out in its technical report) to allocate the grant between the EGOs for the various stages of restoration work required.

Assuming the match funding has been raised, NPO F is entitled to payment for work done to date (as any refund is based on the work that has not been carried out). It therefore concludes that its obligation or obligations are satisfied over time.

It should be noted that NPO F has concluded that the obligation to raise match funding is not an EGO as without the match funding NPO F is not entitled to any grant revenue. As a consequence, NPO F concludes that no amount should be allocated to the pre-requisite to put match funding in place.

NPO F therefore concludes that the transaction amount should be allocated to the various stages of restoration work, which it will be able to do once the match funding has been raised.

Example 10 – NPO simultaneously receives and consumes the economic benefits or service potential

Case A – Satisfaction of EGO to use resources for goods or services internally

An international organisation (the Organisation) enters an EGA to provide CU1.2m to NPO I (a hospital), with a single EGA that requires NPO I to use the CU1.2m in for defined operations within its x-ray department.

The use of funds in the x-ray department is a single EGO in accordance with paragraph G23.45. The EGO is satisfied over time because NPO I becomes entitled to the resources received as it operates the x-ray department over time. NPO I recognises revenue over time by measuring its progress towards complete satisfaction of that EGO in accordance with paragraphs AG23.52–AG23.59.

Case B – satisfaction of EGO to transfer goods or services to service recipient

NPO J enters into an EGA with a grant provider (Donor B) to provide monthly training to a group of newly-established NPOs (the Service Recipients) for one year.

The promised training services are accounted for as a single EGO in accordance with paragraph G23.47.

The EGO is satisfied over time in accordance with paragraph G23.142b) (reading the reference to the 'promise to the customer' as the 'EGA') because the Service Recipients simultaneously receive and consume the economic benefits or service potential of NPO J's performance in delivering each training session as and when each session is delivered.

The fact that another entity would not need to re-perform training for the sessions that NPO J has provided to date also demonstrates that the Service Recipients simultaneously receive and consume the economic benefits or service potential of NPO J's performance as NPO J performs.

NPO J recognises revenue over time by measuring its progress towards complete satisfaction of that EGO in accordance with paragraphs AG23.50–AG23.57.

Example 11 – NPO is party to an enforceable grant arrangement with payments of grant over multiple years

A regional government (the Region) provides budget support to NPO K to help it meet essential administrative costs. By receiving budget support, NPO K is then able to direct the resources it receives from other sources towards costs associated with programmes, projects and activities rather than administration.

NPO K has signed an agreement with the Region to expand a number of programmes that aim to protect environmental habitats while also providing employment for indigenous communities. The agreement between NPO K and the Region provides NPO K with CU2m of budget support each year for five years provided that NPO K funds the agreed programmes over five years.

In total the Region has agreed to provide CU10m to NPO K provided that NPO K's Board funds the agreed programmes over the five year period. NPO K subsequently agrees a five-year budget that dedicates CU10m to these projects based on receiving the same amount in budget support over that period. NPO K has concluded that the agreement between NPO K and the Region is an EGA, with the agreement enforceable under the laws of the jurisdiction in which the regional government is based.

Case A – NPO K has a single EGO (the agreement of the five-year budget)

Although the arrangement spans five years, with the transfer of CU2m due each year, the recognition of revenue must be considered independently from the timing of when the resources are transferred. For the recognition of revenue, NPO K must consider whether it has performed under the terms of the EGA and met its EGO.

Once the five-year budget has been agreed by NPO K's Board, NPO K will have satisfied the entire EGO. NPO K will need to recognise as revenue the entire amount that the Region is obliged to transfer, and a matching EGA asset of CU10m.

The EGA asset will be reduced by CU2m each year as the resources are transferred from the Region to NPO K. Any amounts that become due prior to the resources being transferred will be recognised as a receivable, with an equivalent reduction in the EGA asset.

Case B – the EGA contains multiple EGOS

NPO K is required to reconfirm the budget agreement every year. Consequently, it has a series of obligations (to reconfirm the budget annually), and the Region has a series of obligations (to pay CU2m annually). NPO K considers paragraphs AG23.41–AG23.45 in determining whether parts of the EGA remain equally unsatisfied, and whether NPO K should recognise or not any asset, liability or revenue for the equally unperformed parts of the EGA.

NPO K concludes that each year of the EGA creates a separate EGO, as NPO K will not have reconfirmed the budget for those years and the Region will not have made payment for those years. Consequently, NPO K does not recognise any revenue for future years, but recognises CU2m at the inception of the arrangement. It will subsequently recognise CU2m for each future year as the budget is reconfirmed.

Example 12 – NPO is party to an enforceable grant arrangement with a capital grant

A Fund set up to support local sports organisations (the Fund) has signed an agreement with NPO L (a community athletics organisation) to upgrade its facilities. Both organisations are subject to oversight by a regulator that the entities can appeal to if agreements are not upheld. The agreement provides NPO L with CU5m of upfront funding for major building work including a new changing facility, a small grandstand for spectators and the installation

of an all-weather running track. Under the agreement a final report of the amount spent must be provided to the Fund by NPO L and any unspent funds are to be returned to the Fund.

The agreement between NPO L and the Fund is an EGA involving a capital grant. The terms of the EGA require NPO L to construct a number of specified non-current assets, namely the changing facility, the grandstand and the all-weather running track in exchange for the transfer of resources. In the event that not all assets are constructed, NPO L is entitled to payment for the work that has been undertaken.

As NPO L is entitled to payment for work completed to date, it recognises revenue as the assets are being built. NPO L measures its performance based on percentage of completion. This measures progress based on costs incurred against the overall projected costs of the building work.

The Fund has provided the full expected cost of the project as a transfer to NPO L at the commencement of the enforceable grant agreement. NPO L therefore recognises an EGA liability for the amount received, which represents the value of its obligations under the EGA. NPO L will recognise revenue and derecognise the EGA liability over time based on the percentage of costs incurred to date.

The EGA liability will be fully derecognised once the project is completed. If overall costs are lower than the initial transfer of resources received by NPO L, NPO L will recognise a payable for the amount of the unused grant. The payable will be derecognised once the unused funds are reimbursed.

Variable consideration

Example 13 – Estimating variable consideration

The facts are the same as in Example 6, except that the amount of the grant will be adjusted depending on the timing of completion of the construction work as the EGA includes a penalty for delayed completion and an incentive for early completion. Specifically, for each week after 31 March 20X7 that the work is incomplete, the promised consideration is reduced by CU10,000 and for each week before 31 March 20X7 that the construction work is complete, the promised consideration increases by CU10,000.

In addition, upon completion of the construction work, a third party will inspect the facilities and assign a quality rating based on metrics that are defined in the EGA. If the facilities receive an 'excellent' rating, NPO F will be entitled to an incentive bonus of CU50,000.

In accounting for the variable amount, NPO F applies paragraphs G23.107–G23.111, reading the references to:

- consideration as grant amount;
- contract with a customer as EGA; and
- transaction price as transaction amount.

NPO F determines that the consideration promised in the EGA includes a variable amount, and estimates the amount of consideration it is entitled to. In determining the transaction consideration, NPO F prepares a separate estimate for each element of variable consideration to which NPO F will be entitled using an estimation method:

- NPO F decides to use the expected value method to estimate the variable consideration associated with the weekly penalty or incentive. This is because it is the method that NPO F expects to better predict the amount of consideration to which it will be entitled.
- NPO F decides to use the most likely amount to estimate the variable consideration associated with the quality incentive. This is because there are only two possible outcomes (CU50,000 or CU0) and it is the method that NPO F expects to better predict the amount of consideration to which it will be entitled.

Significant financing component

Example 14 – Advance receipt and assessment of discount rate

NPO M will hold an international conference in two years and needs to pay for a number of services ahead of the event taking place. Donor C enters into an EGA and agrees to pay NPO M a grant of CU100,000 immediately. The terms of the EGA entitle Donor C to a full refund if the conference does not take place.

NPO M concludes that the EGA contains a significant financing component because of the length of time between when it receives the grant and when it delivers the conference.

NPO M determines that the rate that should be used in adjusting the promised consideration is 5%, which is the rate at which NPO M could have borrowed the funds on the market at the inception of the EGA.

In accounting for the significant financing component, NPO M applies paragraphs G23.122–G23.123, adjusted to allow for the grant being paid in advance of the EGO being satisfied, which gives rise to an interest expense (see paragraph AG23.40). NPO M applies this guidance reading the references to:

- consideration as grant amount;
- contract with a customer as EGA; and
- customer as grant provider.

The following journal entries illustrate how NPO M would account for the significant financing component:

- (a) Recognise an EGA liability for the CU100,000 payment received at inception of the EGA:

Cash CU100,000
Enforceable arrangement liability CU100,000

- (b) During the two years from inception of the enforceable arrangement until the delivery of the conference, NPO M adjusts the promised amount of consideration and builds up the enforceable arrangement liability by recognising interest on CU100,000 at 5% for two years:

Year 1 – interest of CU5,000 (EGA liability of CU100,000 x 5%)

Interest expense CU5,000
Enforceable arrangement liability CU5,000

Year 2 – interest of CU5,250 (EGA liability of CU105,000 x 5%)

Interest expense CU5,250
Enforceable arrangement liability CU5,250

- (c) Recognise revenue when the conference is delivered:

Enforceable arrangement liability CU110,250
Revenue CU110,250

Section 24 – Part 1 Expenses on grants and donations

Identifying the grant expense transaction

Identifying whether an enforceable grant arrangement exists

Does the way in which an NPO transacts with other entities or individuals impact the accounting?

IG24.1 NPOs transact in many different ways. These transactions may involve multiple entities and individuals, different types of rights and obligations and varying degrees of enforceability. The form in which an NPO transacts will determine the overall economic substance of the transaction.

IG24.2 Identifying whether or not a grant expense transaction arises from an enforceable grant arrangement (EGA) is key to correctly applying this section. The grant-providing NPO is required to determine what type of arrangement it has entered into by considering the terms of the grant expense transaction and all relevant facts and circumstances so as to apply the appropriate accounting principles to reflect the economic substance of the transaction (see G24.3–G24.28).

How does a grant-providing NPO determine if a constraint is sufficient for an obligation to be deemed an EGO?

IG24.3 A constraint imposed by a grant-providing NPO on a grant recipient may be of a general nature. For example, an arrangement may constrain the use of a grant to the overall purpose of the grant recipient or to a general geographic area in which it operates rather than require the grant to be used on individual programmes, projects and activities. Where constraints are of a more general nature it may not be possible to identify specific outcomes and activities or the distinct services, goods or other assets for which the resources will be used. In these types of arrangement a grant fulfilment right and enforceable grant obligation (EGO) will not exist.

Enforceability

What should an NPO consider in assessing enforceability?

IG24.4 Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and require professional judgement. This assessment is integral to identifying whether an NPO has an EGA (both enforceable rights and obligations), only enforceable rights or only enforceable obligations. In cases where an NPO does not have an EGA, it may still have an enforceable right or an enforceable obligation, which should be accounted for appropriately.

IG24.5 In developing grant arrangements, the grant-providing NPO should consider its overall objectives and the risk of its requirements not being met. Where the grant-providing NPO is intending to create an EGA, the grant-providing NPO should consider appropriate EGAs that the grant recipient is required to satisfy, as these will create its grant fulfilment rights. The grant-providing NPO should consider its ability to monitor if and when EGAs have been met, and its ability to enforce them. Enforceability may arise from various mechanisms. What is important is that the mechanism(s) provide an NPO with the ability to enforce the terms of the arrangement and hold the parties accountable for meeting their obligations in accordance with the terms of the arrangement.

IG24.6 At the inception of the arrangement, a grant-providing NPO will need to use professional judgement and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (ie what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or meeting those obligations (ie how it is enforced). As noted, this will be easier if the grant-providing NPO has considered the enforceable rights and obligations and associated consequences of not meeting them in developing the arrangement.

IG24.7 Relevant factors include, but are not limited to:

- (a) the economic substance, rather than the legal form, of the arrangement;
- (b) terms that are written, oral or implied by an NPO's customary practices;
- (c) whether it is capable of being binding through legal means (eg by the legal system, enforced through the courts, judicial rulings and case law precedence), or through equivalent means (eg if a party to the arrangement is able to draw on any regulatory or executive authority or directives);
- (d) consequences of not fulfilling the obligations in the arrangement;
- (e) other EGAs with the grant recipient;
- (f) the specific jurisdiction, sector and operating environment; and
- (g) past experience with the other parties in the arrangement.

IG24.8 Some mechanisms (for example, reductions of future funding, where they relate to other EGAs already in existence between the two parties) may constitute a valid mechanism of enforcement. An NPO should consider all facts and circumstances objectively, within the context of their jurisdiction, sector and operating environment, in making this assessment. Paragraphs AG24.7-AG24.17 provide further guidance on assessing enforceability through legal or equivalent means and how oral agreements and customary norms and practices impact on these assessments.

Does a change in internal or external factors, after the inception of an EGA, have accounting implications?

- IG24.9 At inception, an NPO considers the requirements of an arrangement to determine whether it meets the definition of an EGA in paragraphs G24.3–G24.5. If it does meet the definition, the grant-providing NPO accounts for the EGA in accordance with paragraphs G24.13–G24.28.
- IG24.10 A grant-providing NPO should subsequently assess whether any changes in internal or external factors affect the enforceability of the EGA (ie the substance of the arrangement), or the likelihood of enforcing the EGA (ie the subsequent measurement of any prepayment assets or liabilities associated with the grant-providing NPO's right(s) and obligation(s) in the EGA). As a minimum this should be carried out at each reporting date. Examples of such factors include, but are not limited to:
- (a) changes in the legal framework that impact the ability of the grant-providing NPO, or other party or parties in the arrangement to enforce their respective rights through legal or equivalent means; and
 - (b) changes in the grant-providing NPO's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the EGA.
- IG24.11 The implication on subsequent measurement of the respective prepayment asset or liability depends on whether the impact is likely to be permanent and should be accounted for in accordance with Section 21 *Provisions and contingencies* in relation to the need for or a change to a provision, or Section 11 *Financial instruments* for changes to payables and receivables.

Grant expenses from transactions with other funding arrangements

When an NPO transfers resources in association with an other funding arrangement, is it possible for the transfer to result in the recognition of a prepayment asset by the grant-providing NPO?

- IG24.12 Generally, it is not expected that a grant-providing NPO will be able to recognise a prepayment asset from an other funding arrangement (OFA), because the grant-providing NPO is unlikely to have grant fulfilment rights arising from an EGO.

Grant expenses from transactions with enforceable grant arrangements

Identifying grant fulfilment rights and enforceable grant obligations and determining when they have been met

How does an NPO determine the distinct grant fulfilment rights in an EGA?

- IG24.13 From the grant-providing NPO's perspective, an EGA has at least one grant fulfilment right. A grant fulfilment right is a distinct component or element (unit of account) within an EGA where the grant-providing NPO requires the grant recipient to meet a requirement.
- IG24.14 Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of grant expenses. In practice, since EGAs can vary substantially by entity, jurisdiction, sector and operating environment, a grant-providing NPO will need to use professional judgement to determine the individual grant fulfilment rights in its EGA.
- IG24.15 A grant-providing NPO should first identify all the rights it has to require the grant recipient to satisfy its EGO(s) in a manner as specified in the EGA. Rights include the ability to require the grant recipient to use resources for a specific outcome, activity, for distinct services or goods internally or to transfer cash, a service, good or other asset to a third party or third parties. A thorough assessment is necessary for the grant-providing NPO to identify all of its rights in the EGA. However, as noted in IG24.6, careful

consideration in the development of the EGA of the objectives of the grant-providing NPO will assist with this assessment.

- IG24.16 A grant-providing NPO then considers each identified right to determine if a right is itself a distinct grant fulfilment right, or whether it should be grouped with other rights to be a single distinct grant fulfilment right. In this way, a grant fulfilment right is a unit of account that represents a distinct right or group of rights to which recognition and measurement concepts are applied.
- IG24.17 A right in an EGA is distinct if it can be enforced separately from other rights in the arrangement. A grant-providing NPO can consider the following factors when assessing whether a right is distinct:
- (a) the right relates to the grant-providing NPO's ability to require the grant recipient to achieve a specific external outcome, activity or provide cash, a service, good or other asset to third parties that can be separated from other outcomes, activities or cash, services, goods or other assets to be undertaken or provided under the EGA;
 - (b) the right relates to the grant-providing NPO's ability to require the grant recipient to achieve a specific internal outcome, activity or use cash, a service, good or other asset internally in a specific manner separate from other specific internal outcomes, activities or the use of other cash, services, goods or other assets to be used under the EGA; and
 - (c) the outcome or activity be achieved or the cash, service, good or other asset that the grant recipient is required to provide to third parties or use internally is not highly interdependent or highly interrelated with other activities to be undertaken or cash, services, goods or other assets to be provided or used under the EGA.
- IG24.18 Any distinct right, or distinct group of rights, identified by the grant-providing NPO through this analysis would be an individual grant fulfilment right.

How can a grant-providing NPO determine if an EGO has been met?

- IG24.19 A grant arrangement that includes constraints of a more general nature may provide some indication of how the resources are to be used to support the overall purpose of the grant recipient. They are, however, likely to provide the grant recipient with a greater degree of freedom as to how it complies with the constraints. The grant recipient is also likely to be subject to a lesser degree of monitoring by the grant-providing NPO to determine if, when and how the constraint has been met.
- IG24.20 By contrast, an EGO is likely to be subject to a greater degree of monitoring of the grant recipient by the grant-providing NPO to determine if, when and how the EGO has been met. The specific terms of the EGA should make these monitoring requirements clear.
- IG24.21 Monitoring on its own, however, is not sufficient to create an EGO. Generally, administrative tasks do not create an EGO because there is no substantive grant fulfilment right for the grant-providing NPO. The features of agreements such as not funding terrorism or money laundering that are not specific to a distinct outcome, activity, good or service are not EGOs.
- IG24.22 The grant-providing NPO should consider at the inception of the EGA whether or not it can realistically avoid the transfer of resources. If it concludes that it cannot realistically avoid the transfer of resources to the grant recipient, it should follow the recognition and measurement requirements of G24.18.

How does the grant-providing NPO best determine a measure of progress of a grant fulfilment right that is being met over time?

- IG24.23 In general, a grant fulfilment right is met and a grant expense recognised when the grant recipient has met its obligations in the arrangement. A single EGA may, however, be met over time. The appropriate method of measuring progress depends on the specific nature of the grant-providing NPO's grant fulfilment rights and the specific terms of the EGA.

- IG24.24 In situations where the EGA consists of one grant fulfilment right to have the grant recipient satisfy various interrelated activities, the grant fulfilment right may be partially met as individual activities are being performed by the grant recipient. Common considerations which could inform when a grant fulfilment right has been partially met include:
- (a) the grant recipient has performed some of the activities specified in the EGA;
 - (b) the grant recipient has incurred eligible expenditures as outlined in the EGA; and
 - (c) the grant recipient has achieved some of the milestones agreed upon in the EGA.
- IG24.25 In cases where multiple parties are involved in the arrangement, the grant-providing NPO will need to consider whether a grant fulfilment right relates to the right to require another party in the arrangement to meet an EGO. There could be situations where resources are passed through a series of entities before being transferred to the ultimate grant recipient. In these situations, the grant-providing NPO will need to consider whether the grant fulfilment right being met depends on the satisfaction of the ultimate grant recipient's EGOs as specified in the EGA.
- IG24.26 In other cases, a grant recipient may be unable or unwilling to satisfy its obligations in the EGA following the transfer of resources to it from the grant-providing NPO. When this occurs, the grant-providing NPO considers if the terms of the EGA, along with the legal framework in the relevant jurisdiction, give the grant-providing NPO the unconditional right to receive cash or return of resources (eg a refund of the transferred resources). Such an unconditional right results in the derecognition of the prepayment asset and the recognition of a financial asset (see G24.27). If the EGA and relevant legal framework do not support the recognition of a financial asset, the grant-providing NPO then considers if the prepayment asset has been impaired (see G24.28).

Allocating the amount of resources to be transferred to the grant fulfilment right

How should an NPO determine the suitable method for estimating the stand-alone amount of a grant fulfilment right?

- IG24.27 A grant-providing NPO may explicitly specify in an EGA the amount of resources it is willing to transfer for each grant fulfilment right (ie the stand-alone amount is specified for each grant fulfilment right). In situations where the stand-alone amount is not explicitly stated, the grant-providing NPO is required to determine the best estimate of the amounts that would compensate the grant recipient for meeting its obligation.
- IG24.28 The most suitable method to estimate the stand-alone amount will depend on the quality and type of information that is available to the grant-providing NPO. For example, the individuals negotiating an EGA may have records detailing how they estimated the stand-alone amount of each grant fulfilment right included in the EGA. Other grant-providing NPOs may have detailed budget information documenting the resources needed or that it is willing to transfer in order to achieve each grant fulfilment right. In other cases, the individuals negotiating an EGA may be using observable information, such as pricing lists to estimate the total resources to be transferred. In this situation, the standard prices for each individual deliverable can be used to estimate the stand-alone consideration of each grant fulfilment right.

Accounting for multi-year arrangements

Are different principles required to account for and recognise grant expenses in a multi-year arrangement?

- IG24.29 Multi-year arrangements generally involve the provision of resources over multiple years for a specific purpose (for example, supporting medical research on a particular disease). The provision of resources may occur at multiple dates throughout a year and/or across multiple years.

- IG24.30 While these arrangements span a longer term, the accounting principles for grant expense transactions still apply. A grant-providing NPO shall consider whether the multi-year arrangement is an EGA and apply the principles in the paragraphs G24.7–G24.12 for grant expenses arising from an OFA, or paragraphs G24.13–G24.28 for grant expenses arising from transactions with EGAs. The NPO shall consider the recognition of a grant expense independently from the timing of when resources are transferred.
- IG24.31 As a consequence, if a grant-providing NPO transfers resources for multiple years in advance and cannot currently, realistically obtain the return or refund of those resources because there are no present obligations for the grant recipient, then the grant-providing NPO will recognise the full amount as a grant expense when the resources are transferred or owed to the grant recipient. If the agreement requires, for example, an annual revalidation of the agreement, this would likely mean that each annual amount is recognised in the relevant year.

Sensitive information

What is meant by sensitive information or information that could prejudice the ability of the NPO to deliver its mission?

- IG24.32 Grant-providing NPOs are permitted to not disclose detailed information about grant expenses where the information is sensitive or could prejudice the ability of the grant-providing NPO or grant recipient to deliver its mission or purpose. Given the diversity of activities undertaken by NPOs, it is not possible to provide a definition or exhaustive list of the activities that could give rise to such information. It is intended to encompass situations where the public disclosure of information in the general purpose financial reports creates a risk, including but not limited to physical harm to a grant-providing NPO's staff, its volunteers or the public and other entities and individuals who engage with the grant-providing NPO. It also includes situations that would provoke significant ongoing disruption to the operating activities in a locality to the grant-providing NPO or partner entity.
- IG24.33 This exception must not be used by grant-providing NPOs as a way of hiding poor governance, poor performance or financial problems. It should be reserved solely for situations where disclosure would significantly disrupt operations and/or jeopardise the safety and security of staff, volunteers, the public that benefit from the services and goods provided by the grant-providing NPO and other entities and individuals that engage with the grant-providing NPO.
- IG24.34 Examples of sensitive or mission prejudicial information that a grant-providing NPO may not disclose could include, but is not limited to:
- information that identifies the nature of activities being undertaken by a grant-providing NPO or entities and individuals that engage with it;
 - information that discloses the scope of geographic activities being undertaken by a grant-providing NPO or entities and individuals that engage with it;
 - information that identifies the individuals, communities or groups that benefit from the services and goods provided by the grant-providing NPO or entities that engage with it.

Illustrative examples

The following examples illustrate the application of the principles for accounting for grant expenses. They show how features of the model for recognising grant expenses, such as determining whether or not an EGA exists, payments over multiple years and capital grants could be considered.

The circumstances in relation to individual NPOs and transactions will vary significantly. These examples are illustrations only. Individual NPOs will need to use their own professional judgement to apply the guidance to their own circumstances.

Example 1: NPO has a constructive obligation outside of an enforceable grant arrangement

NPO A has been set up to support children in a rural community to access education. Parents are required to register their children with NPO A in advance of the school year. As part of this registration, the parents sign an agreement that commits them to signing up their child to attend school in exchange for NPO A committing to transfer cash for school fees directly to the school. The agreement notes that if NPO A does not transfer the cash to the school the parents can appeal to the local education ministry, which has the executive power to require NPO A to make payment. If the child subsequently does not attend school, the agreement notes that parents are required to reimburse NPO A for the amount of fees it has paid with NPO A having the ability to appeal to a local court to enforce repayment.

The children are dispersed across a wide geographical area. In outreach to promote the school fee scheme, NPO A has told the community that to support access it intends to provide free transportation to all children that are registered with it for the upcoming school year. NPO A has not provided a detailed explanation of how it will do this but has noted it is most likely to involve providing parents with additional funds so that they can pay for the cost of using local minibuses. Without this free transportation most children would not be able to attend school as private means of transportation are unavailable. This offer of free transportation is not, however, included in the agreement between parents and NPO A and there is no agreement in place between NPO A and any other entity to provide this service.

Is there an EGA in relation to the free transportation?

There is an EGA between NPO A and the parents for the payment of school fees. This is because the parents commit to signing up their child to attend a school and NPO A agrees to pay the school fees with both sides able to enforce their rights and obligations. In relation to the free transportation, however, NPO A has only made a general statement of intent to provide free transportation. This does not create an EGA between NPO A and parents or any other entity under which both parties have enforceable rights and obligations in relation to the free transportation.

Does NPO A have a constructive obligation and how should it be accounted for?

While an EGA for the free transportation may not exist, NPO A may still have an obligation. This is because through its statements of intent at outreach events NPO A may be deemed to have created a valid expectation that it will ensure that free transportation is available. This is a constructive obligation that is intrinsically linked to the school fee arrangement. Although not included in the written agreement between parents and NPO A, absent NPO A ensuring that free transportation is available, most children will be unable to attend school. For the parents of these children, it is unlikely that they would have signed an agreement requiring them to reimburse the fees NPO A has paid if the expected free transport was not believed to be available.

Where there is no EGA, a grant-providing NPO recognises a grant expense when there is a constructive obligation to transfer resources that results in the recognition of a provision. If NPO A considers that it does have a constructive obligation, it will need to recognise the provision and the grant expense. To do so NPO A will need to estimate the amount of the obligation at the point where the constructive obligation exists, which is likely to be when the parents have signed the agreement and NPO A has transferred the school fees. The measurement of the constructive obligation will involve determining the cost for parents who have signed the agreement and have had school fees paid by NPO A of paying to transport their children to school. When NPO subsequently transfers resources to the parents to pay for the transport, this will settle the recognised provision.

Example 2: NPO is party to a grant arrangement with a constraint that is insufficient to create an enforceable grant obligation

NPO B is a foundation that has the primary objective of supporting the welfare of working animals that have been retired. It specialises in fundraising from the general public and then providing financial support to other NPOs that operate animal sanctuaries.

NPO B signs a written grant agreement with NPO C. NPO C is a donkey sanctuary that NPO B has supported a number of times in the past. The terms of this agreement are that NPO B will provide NPO C with a grant of CU1m that NPO C is required to spend on its overall purpose of supporting the welfare of donkeys in its care. As NPO B has provided grants without any issues arising as to eligibility of expenditure to NPO C in the past, only a high-level review of how transferred resources have been used is anticipated for in the grant agreement.

Is there an EGA and how should it be accounted for?

Although there is a written grant agreement, this is not an EGA. NPO C is required under the constraint included in the grant agreement to spend transferred resources in line with its overall mission of supporting the welfare of donkeys in its care. No specific outcomes or activities are mentioned and nor are any distinct services, goods or other assets that NPO C is required to use internally or transfer externally noted.

NPO B should therefore account for the transaction as an OFA. If NPO B deems that a legal obligation or constructive obligation exists because of the written grant agreement, it should recognise a grant expense for the full CU1m value of the grant and a matching liability/provision until the resources are transferred to NPO C. If not, it will recognise a grant expense when the resources are transferred to NPO C.

Example 3: NPO is party to an enforceable grant arrangement with multiple grant fulfilment rights and enforceable grant obligations, and transfers cash and non-cash resources

NPO D is a global centre of excellence in the study and treatment of infectious childhood diseases. In addition to its own research activities, it supports governments in a number of other jurisdictions by providing funding, staff resources and vaccines to them.

NPO D has signed an agreement that is enforceable under local law with the government of a jurisdiction (Jurisdiction A). This agreement covers support for a number of programmes, projects and activities that the government is promoting in the area of infectious childhood diseases but the most significant are:

- (i) CU10m in cash to be spent reimbursing the training costs of the jurisdiction's medical graduates in methods for identifying and treating infectious childhood diseases. The amount is based on a grant of CU10,000 to cover the costs of tuition of each of 1,000 graduates in the jurisdiction's medical school. To be eligible for reimbursement of the training costs each graduate must complete the training and pass an exam.
- (ii) CU50m in vaccines that are currently held by NPO D for the most common infectious childhood diseases in the jurisdiction. The vaccines are provided according to the principle that Jurisdiction A must first use its own supplies of vaccines before NPO D will transfer its vaccines to replenish the jurisdiction's available supply.

Is there an EGA and how should it be accounted for?

The agreement between NPO D and Jurisdiction A is an EGA, where jurisdiction A has two EGOs. These have named activities and distinct services, goods or other assets that are to be internally used or externally transferred by the grant recipient. The first is to train 1,000 graduates in identifying and treating infectious childhood diseases and ensure that they complete the training and pass a final exam. The second is to use its own vaccines. If these EGOs are met, NPO D will provide CU10,000 for each graduate who has completed the training course and passed the exam and transfer CU50m of vaccines that are currently held by NPO D to replenish the jurisdiction's own supply that have been used.

For both of these EGOs, NPO D may realistically be able to avoid the transfer of resources. Grants will only be provided for those graduates who complete the training course and pass the exam, and vaccines will only be transferred when the jurisdiction has used its own supply. In this example NPO D will recognise grant expenses when:

- (i) it receives confirmation of the number of graduates who have completed the course and passed the exam, with a grant expense of CU10,000 recognised for each successful graduate; and
- (ii) it receives confirmation that Jurisdiction A has used its own supply of vaccines, with a grant expense recognised at the measurement of the vaccines held by NPO D that are to be transferred to the jurisdiction.

The timing of the recognition of a prepayment asset or a liability by NPO D and their subsequent derecognition will depend on the timing of the transfer of resources to Jurisdiction A.

Example 4: NPO is party to a grant arrangement with payments of grant over multiple years

NPO E has signed an agreement with a regional government that is expanding a number of programmes that aim to protect environmental habitats. The agreement between NPO E and the regional government, which is enforceable under the laws of the jurisdiction, provides the regional government with CU2m of financial support each year for five years as long as a long-term budget envelope is passed to fund the programmes and CU10m is transferred by the regional government to an independent fund for the indigenous communities. The regional government has subsequently passed a long-term budget envelope to fund these programmes that includes an additional CU10m of expenditure based on receiving the same amount in support from NPO E over that period.

Is there an EGA and how is it accounted for?

The agreement between NPO E and the regional government is an EGA. NPO E has agreed to provide a total of CU10m to the regional government provided that it meets its EGO of passing a long-term budget envelope to fund the specific programmes and transferring CU10m to the independent fund. The agreement is enforceable under the laws of the jurisdiction in which the regional government is based.

There are no further EGOs placed on the regional government. As it has passed the long-term budget envelope and already transferred the full CU10m to the independent fund, the EGO has been met.

Although the arrangement spans five years, with the transfer of CU2m due each year, the recognition of the grant expense must be considered independently from the timing of when the resources are transferred. For the recognition of a grant expense, NPO E must consider whether the regional government has performed under the terms of the EGA and met its EGO. The key consideration is that the regional government has performed for the entire amount that NPO E is obliged to transfer. NPO E will therefore recognise a grant expense and matching liability of CU10m. This liability will be reduced by CU2m each year as the resources are transferred from NPO E to the regional government.

If the transfer of the CU2m was dependent each year on the regional government making its own transfer, then NPO E may realistically be able to avoid the transfer and it would recognise a grant expense of CU2m each year instead.

Example 5: NPO is party to an enforceable grant arrangement with a capital grant

NPO F is the Fund identified in Example 12 of the Section 23 illustrative examples. NPO F has signed an agreement with a community athletics organisation to upgrade its sporting facilities.

How is the EGA accounted for?

As the community athletics organisation is constructing the non-current assets, NPO F's grant fulfilment rights are met as the assets are being built. NPO F and the community athletics organisation have agreed a methodology based on percentage of completion. This measures progress based on costs incurred against the overall projected costs of the building work. As NPO F has provided the full expected cost of the project as a transfer to the community athletics organisation upfront, it has recognised a grant prepayment asset for this amount. NPO F will recognise grant expenses and derecognise the prepayment asset over time based on the percentage of costs incurred to date by the community athletics organisation. The prepayment asset will be fully derecognised once the project is completed. If overall costs are lower than the initial transfer of resources from NPO F to the community athletics organisation NPO F is entitled to reimbursement and part of the prepayment asset will be reclassified to a financial asset. The financial asset will be derecognised once the unused funds are reimbursed.

Example 6: NPO is party to a grant arrangement with a 'termination for convenience' clause

NPO G is a donor organisation that relies on investment income to finance its funding of other entities and individuals. Restrictions on the use of its investments means that it can only use investment returns in any year, which results in significant fluctuations in the income available to it.

As a result, NPO G includes a 'termination for convenience' clause in all of its agreements with other entities and individuals. This allows NPO G to terminate an agreement at any time without there being a breach of the agreement. It has just signed an agreement with NPO H, an international humanitarian organisation, to provide

CU1m for it to purchase emergency ration packs for distribution to refugees. The terms of the agreement indicate that the transfer of resources is due when NPO H has purchased and distributed the ration packs.

Is there an EGA and how is it accounted for?

An EGA confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the grant arrangement. In determining whether a grant arrangement is enforceable, a grant-providing NPO must consider the substance rather than the legal form of the grant arrangement.

NPO G has a grant fulfilment right under the agreement for NPO H to purchase and distribute ration packs to refugees – this is also NPO H's EGO. In return, NPO G is obliged to provide CU1m to NPO H. The legal form of the arrangement does, however, provide NPO G with the ability to terminate the agreement at any time without their being a breach of the agreement. This means that even after NPO H has fulfilled its EGO, NPO G would be able to terminate the agreement and not transfer the resources.

Whether an EGA exists depends on enforceability and the substance of the arrangement. If it is unlikely that NPO G would use the 'termination for convenience' clause because it has no past history of doing so, and/or in addition to the written agreement there is a deemed oral agreement or customary practices that are legally or otherwise enforceable, then an EGA may be deemed to exist. In this case NPO G would recognise a grant expense and liability once NPO H has met its specific enforceable grant obligation.

If, however, NPO G does have a history of using these clauses, and they are seen to override any deemed oral agreements or customary practices, this may mean that NPO H could not enforce the obligation for NPO G to transfer the resources once it has purchased and distributed the ration packs. In such a situation an EGA may be deemed not to exist. In this case NPO G would follow the guidance for the recognition and measurement of grant expenses where there are OFAs. Given the termination for convenience clause this would likely see NPO G recognise a grant expense only when it has transferred the resources to NPO H, measured at the value of the transferred resources.

Section 30 – Foreign currency translation

Identification of an NPO's functional currency

- IG30.1 The functional currency of an NPO is identified by assessing which is the currency of its primary economic environment. This is the environment where it mainly generates and expends cash. The most important factors to consider in this assessment are described in G30.3.
- IG30.2 Often, this assessment will be straightforward. For example, if an NPO, based in a country with currency CX, receives grants and donations in a number of currencies including CX, pays for goods and services to deliver its public benefit in a range of currencies, with CX being the most significant, and pays its workforce and property rental costs and other overheads in CX, then its functional currency will be CX.
- IG30.3 In more complex cases it may be necessary to consider the additional factors described in G30.4. For example, if the NPO in the example above mainly receives its funding from donors in currency CY, pays for its direct costs in a range of currencies with CY being the most significant, but pays its overhead costs in CX, then it is possible that functional currency cannot be identified from the primary characteristics alone.
- IG30.4 In this example, secondary characteristics relating to funding should be considered. If the NPO retains significant cash surpluses in CX or has borrowings in CX, then it is likely that its functional currency would still be CX. The management of the NPO, in deciding to manage its funding in CX, may have considered that, although they are exposed to a range of currencies through income and direct costs, access to funding in CX is a priority given the relative significance of the NPO's CX cash flows compared to any other single currency.
- IG30.5 Alternatively, if the NPO raised borrowings in CY and retained its donations in CY until they are required, then it is probable that the functional currency of the NPO would be CY. In this instance, the management's decision to denominate funding in CY probably reflects the relative materiality of

the direct costs incurred in CY compared to the overheads in CX, indicating that CY is the functional currency.

- IG30.6 In the more complex assessments, the materiality of the currency flows and balances should be considered and the management's approach to managing currency exposures and funding may provide an indication of the primary economic environment. In the most extreme case, where no single currency dominates, the functional currency may be the currency of the country in which the NPO is based, given the absence of a clear reason to identify any alternative.

Accounting for transactions that are denominated and settled in different currencies accounted

- IG30.7 A transaction may be denominated in one currency and settled in another. This may happen where a provider of a good or service prices in a currency that the provider operates in but, for convenience of settlement, both parties agree to settle the transaction in the recipient's currency.
- IG30.8 For example, a supplier will record a sale and receivable in its currency and likewise the purchaser will record an expense and payable in its currency when a supply is made. If the transaction is settled in the purchaser's currency, at the settlement date the purchaser will make a payment in its currency to settle the outstanding amount at the spot rate. The supplier will receive an amount that settles its receivable at that date. If the supplier does not immediately convert the currency received, they may experience an exchange gain or loss. The purchaser may have an exchange gain or loss depending on how exchange rates have moved from the date that the supply was made.

Presentation of financial statements in a currency that is different to the functional currency

- IG30.9 Using a presentation currency that is different to the functional currency does not mean that any foreign exchange gains or losses would not be recognised in the financial statements. Any existing foreign exchange gains or losses will also be translated into the presentation currency and remain unchanged other than for the effect of translation.
- IG30.10 It should also be noted that use of a presentation currency will result in a new exchange difference, arising from the translation of the income and expenses, and opening net assets, as described in G30.20. This is not a realised gain or loss, as it only arises from the translation of the financial statements to the presentation currency. Unlike transaction gains and losses, this translation item is separately presented in the Statement of Changes in Net Assets.
- IG30.11 One potential reason for using a different presentation currency to prepare financial statements may be to permit the provider of funding to identify the amount of expense incurred, and the funding provided, in the currency in which the funding was denominated.

Application to grant arrangements

- IG30.12 Some grants or donations are made to fund a defined amount of expenses by the recipient. Funds can be provided under an enforceable grant arrangement (EGA) that specifies outcomes, activities or the distinct goods and services to which the arrangement applies. Alternatively, an other funding arrangement (OFA) may constrain the use of the funding provided without specifying distinct outcomes, activities, goods or services. If the grant recipient is incurring costs in a different currency or currencies to that of the funds being provided, then the grant recipient may be exposed to exchange rate movements. These exposures will vary depending on the requirements of each EGA or OFA.
- IG30.13 Some agreements for grants, donations or similar income may specify an exchange rate to be applied to calculate the value of expenses against grant revenue received or expenses to be reimbursed. The use of a specific exchange rate may give rise to a shortfall, or surplus, compared to the expenses on

an individual enforceable grant arrangement (EGA) or an OFA. If this results in a surplus, the grant arrangement may specify how the surplus should be treated. In the absence of any specific terms relating to the surplus, either written or implied, the surplus may be used for any future purpose and treated as funds without restrictions. Where exchange rate risk has been transferred to the grant recipient, any shortfall on a grant arrangement arising from an exchange loss will need to be met from funds without restrictions, even if the shortfall arises from exchange rate measurement bases defined in the agreement.

- IG30.14 Section 36 *Fund accounting* [ED3] will prescribe which transactions are to be presented as from funding with restrictions. This will include the presentation of EGAs and OFAs (collectively grant arrangements). Any change in exchange rates may impact the obligations that an NPO has under an EGA or an OFA. Generally, exchange rate gains and losses will follow the presentation of the grant arrangement to which it relates.
- IG30.15 As described in G4.14, the nature and purpose of any material restricted funds should be disclosed in the notes to the financial statements. This can include any exchange rate changes that have a material impact on an individual fund that is part of funds with restrictions. Also, as set out in G30.30, exchange rates gains and losses that contribute to a deficit on an individual grant arrangement that is required by Section 36 to be presented within funds with restrictions are to be disclosed separately, with cumulative information presented where relevant.

Illustrative examples

Example 1 – Other funding arrangement – Grant received in advance

The functional currency of NPO A is CX. On 1 January 20X3, NPO A receives a grant of CY50 from donor B, when the exchange rate is 2CX = 1CY. NPO A converts the grant into CX100 on the day of receipt.

The arrangement constrains the use of the grant to a designated project, but as the arrangement is not an EGA and does not create any enforceable grant obligations (EGOs) it is an OFA. All of the funds provided under the funding arrangement will be spent on the project. The grant is recorded as revenue on receipt and for the purposes of this example, is to be presented as part of funds with restrictions.

This example sets out the impact on two possible scenarios.

- (a) The funding arrangement specifies that the grant related expense is measured against the grant at the spot rate when the funds are received.
- (b) The funding arrangement specifies that the grant related expense is measured against the grant at the spot rate when the expense is incurred.

NPO A incurs all of its expenses in currency CX.

- (a) Grant related expenses are measured at the spot rate when the funds are received.

Recognition of grant receipt as revenue

On 1 January 20X3, NPO A records the grant receipt as revenue, as described in G23.32–G23.33, as it has no present obligation at the date of receipt.

1 January 20X3	Debit	Credit
Cash	CX100	
Revenue – funds with restrictions		CX100

Recognition of grant related expenses NPO A incurs grant related expenses of CX100 on 1 June 20X3, when the spot rate is 2.5CX = 1CY. The expense follows the presentation of the related revenue.

1 June 20X3	Debit	Credit
Expenses – funds with restrictions	CX100	
Cash		CX100

The change in exchange rate between 1 January 20X3 and 1 June 20X3 has no impact on the financial statements of NPO A as NPO converted the funds on the date of receipt and so the subsequent change in exchange rate has no impact on NPO A.

Donor B is similarly not impacted by the subsequent change in exchange rates as NPO A has incurred grant related expenses of CY50, measured at the spot rate on the date of grant of 2CX = 1CY.

After recording all the transactions, the impact on NPO A's primary statements is as follows:

1 June 20X3	Funds with restrictions	Funds without restrictions	Total
	CX	CX	CX
Statement of Income and Expenses			
Revenue	100		100
Expenses	(100)		(100)
Surplus/(deficit)	0		0
Statement of Changes in Net Assets			
Surplus/(deficit)	0		0
Movement between reserves	0		0
Closing balance	0		0
Statement of Financial Position			
Cash	0		0

b) Grant related expenses are measured at the spot rate when expenses are incurred

Recognition of grant receipt as revenue and grant related expenses

These will both be same as in example 1a)

Totality of grant expenses

Although NPO A has spent all of the converted funds, because the funding arrangement requires that grant related expenses are measured at the spot rate that the expenses are incurred, from the donor's perspective it has only spent CY40 of the CY50 provided. This is because the spot rate was 2.5CX = 1CY when the expenses were incurred so that the CX100 spent equated to 40CY.

As a consequence, NPO A has a requirement to spend a further CY10 of expenses on the project.

To meet this requirement, NPO A has to spend a further CX25, which it incurs on 1 July 20X3. The spot rate on 1 July 20X3 is also 2.5CX = 1CY.

1 July 20X3	Debit	Credit
Expenses – funds with restrictions	CX25	
Cash		CX25

As there is no further change in the exchange rate, NPO A incurs CX25 more expenses than was received as revenue.

From the perspective of donor B, NPO A has incurred grant related expenses of CY50, being CX125 measured at the spot rate of 2.5CX = 1CY on the date the expenses were incurred.

Movement between reserves

The change in exchange rate has resulted in additional expenses that leads to a deficit of CX25 on the funding arrangement. This deficit must be funded from the NPO's funds without restrictions as this exchange loss is effectively ineligible. The shortfall is addressed on 1 July 20X3.

1 July 20X3	Debit	Credit
Funds without restrictions	CX25	
Funds with restrictions		CX25

After recording all the transactions, the impact on NPO A's primary statements is as follows:

1 July 20X3	Funds with restrictions	Funds without restrictions	Total
	CX	CX	CX
Statement of Income and Expenses			
Revenue	100	0	100
Expenses	(125)	0	(125)
Surplus/(deficit)	(25)	0	(25)
Statement of Changes in Net Assets			
Surplus/(deficit)	(25)	0	(25)
Movement between reserves	25	(25)	0
Closing balance	0	(25)	(25)
Statement of Financial Position			
(Overdraft)/cash	0	(25)	(25)
Funds without restrictions		(25)	(25)

If the exchange rate on 1 June 20X3 had been 1.5CX = 1CY, then NPO A would only have needed to incur CX75 under the terms of the funding arrangement. This would leave NPO A with a cash surplus of CX25, if there is no requirement to refund it. If the surplus could be used for any purpose then NPO A would record a transfer between funds with restrictions and funds without restrictions in the opposite direction to the exchange loss.

After recording all transactions, the alternative exchange rate would impact on NPO A's financial statements as follows:

1 June 20X3	Funds with restrictions	Funds without restrictions	Total
	CX	CX	CX
Statement of Income and Expenses			
Revenue	100	0	100
Expenses	(75)	0	(75)
Surplus/(deficit)	25	0	25
Statement of Changes in Net Assets			
Surplus/(deficit)	25	0	25
Movement between reserves	(25)	25	0
Closing balance	0	25	25
Statement of Financial Position			
Cash	0	25	25
Funds without restrictions	0	25	25

Typically, there is a requirement that the recipient must spend all the revenue they receive on the purpose specified in the grant. If that is the case, NPO A would need to incur grant related expenses of CX100 and the outcome would be equivalent to scenario a). That is because the impact of the beneficial change in exchange rates would be overridden by the requirement to spend all revenue received on the designated purpose in the funding arrangement.

Example 2 – Enforceable grant arrangement – Expenses reimbursed by grants in arrears

On 1 September 20X2, NPO C enters into an EGA with donor D, specifying expenses will be reimbursed up to an amount of CY50. For the purposes of this example Section 36 *Fund accounting* [ED3] requires that this transaction is presented in funds with restrictions. NPO C incurs grant related expenses of CX100 on 1 January 20X3 when the spot exchange rate is 2CX = 1CY.

The EGA specifies that the grant related expenses are measured against the grant at the spot rate when the expenses are incurred and settled once the EGO has been met.

Recognition of grant related expenses and related grant revenue

Grant revenue of CX100 is recorded together with a receivable of CX100 for the reimbursement of the grant expenses on 1 January 20X3. The receivable is denominated in CY, since it is measured at the exchange rate when the expenses are incurred. As a result, the receivable is valued at CY50 (as CX100 = CY50 at the spot rate of 2CX = 1CY on 1 January 20X3).

	Debit	Credit
Cash		CX100
Expenses – funds with restrictions	CX100	
Grant receivable	CX100	
Revenue – funds with restrictions		CX100

Settlement of grant receivable

NPO C remeasures the receivable of CY50 to the latest exchange rate as it is a monetary item. As the exchange rate has moved to 2.5CX = CY1, NPO C recognises an exchange gain of CX25 (with CY50 = CX125). The exchange gain is presented in funds with restrictions as it relates to the EGA.

30 June 20X3	Debit	Credit
Grant receivable	CX25	
Foreign exchange gain		CX25

Donor D pays NPO C CY50 on 30 June 20X3, in accordance with the grant fulfilment right in the EGA. At this date the spot rate is 2.5CX = 1CY. NPO C converts this into CX immediately and obtains CX125 at the spot rate. The receipt of CX125 clears the receivable.

30 June 20X3	Debit	Credit
Cash	CX125	
Grant receivable		CX125

The change in exchange rates results in an exchange gain for NPO C. If NPO C is allowed to retain this surplus for any purpose, then NPO C will be able to transfer the surplus on that specific arrangement to funds without restrictions.

After recording these transactions, the impact on NPO C's primary statements is as follows:

30 June 20X3	Funds with restrictions	Funds without restrictions	Total
	CX	CX	CX
Statement of Income and Expenses			
Revenue	100	0	100
Expenses	(100)	0	(100)
Operating surplus/(deficit)	0	0	0
Foreign exchange gain/(loss)	25		25
Surplus/(deficit)	25		25
Statement of Changes in Net Assets			
Surplus/(deficit)	25	0	25
Movement between reserves	(25)	25	0
Closing balance	0	25	25
Statement of Financial Position			
Cash	0	25	25
Funds with restrictions	0	25	25

Example 3 – Enforceable grant arrangement – Grant received in advance

On 1 January 20X3, NPO E receives a grant of CY50 from donor F under an EGA, which is required for the purposes of this example, by Section 36 *Fund accounting* [ED3] to be presented as funds with restrictions. The exchange rate on receipt is 2CX = 1CY. NPO E converts the grant into CX100 (CY50 = CX100 at a rate of 2CX = 1CY) on the day of receipt.

The EGA requires NPO E to incur expenses on a specific project with measurable performance conditions resulting in an EGO. NPO E expects to incur CX100 of expenses to meet this EGO. The EGA specifies that grant related expenses are measured at the spot rate on the date when the expense is incurred. Any amounts not spent on the project must be returned to the donor F.

Recognition of grant receipt as binding grant arrangement liability

As per G23.43, an EGA liability is recognised when the grant is received.

1 January 20X3	Debit	Credit
Cash	CX100	
Grant arrangement liability		CX100

Recognition of grant related expenses and related grant revenue

NPO E incurs grant related expenses of CX100 on 30 June 20X3. In so doing, NPO E satisfies the EGO, and therefore recognises revenue in funds with restrictions of CX100.

30 June 20X3	Debit	Credit
Expenses – funds with restrictions	CX100	
Cash		CX100
Grant arrangement liability	CX100	
Revenue – funds with restrictions		CX100

Measurement of the EGO

Under the terms of the EGA, expenses incurred by NPO E are measured at the spot rate when they are incurred. The spot rate on 30 June 20X3 is 2.5CX = 1CY. Therefore, NPO E has incurred expenses of CY40 in currency CY on the project, which is the date that the EGO is met (CX100 = CY40, at the exchange rate of 2.5CX = 1CY). Therefore, NPO E must return CY10 to donor F.

NPO E recognises a liability of CX25, which is the equivalent of CY10 at the spot rate on 30 June 20X3. This reduces revenue as it arises from the obligation to return some of the grant proceeds to donor F. This reduction will be presented consistent with the original transaction.

30 June 20X3	Debit	Credit
Revenue – funds with restrictions	CX25	
Refund liability to grantor		CX25

Clearing refund liability

NPO E settles the refund liability on 1 August 20X3 by paying CY10 to donor F. As the spot rate on 1 August 20X3 has moved to 3CX = 1CY, the refund liability is increased by CX5 to CX30 (as CY10 is now worth CX30 at a rate of 3CX = 1CY). The additional amount required to settle the refund liability to the grantor creates an exchange loss of CX5. This is treated as an exchange loss since the refund liability to the grantor is a monetary item that will result in a cash outflow from NPO E (G30.11). The exchange loss is recognised in revenue consistent with the original transaction (G30.12).

1 August 20X3	Debit	Credit
Exchange loss	CX5	
Refund liability to donor – arising from exchange loss		CX5
Refund liability to donor – settlement	CX30	
Cash		CX30

Movement between reserves

The changes in exchange rates collectively result in a deficit of CX30 on the EGA (with CX25 being a refund to the donor and CX5 being a loss between the date of refund liability and its settlement). This deficit must be funded from the NPO's funds without restrictions. This shortfall is addressed on 1 August 20X3.

1 August 20X3	Debit	Credit
Funds without restrictions	CX30	
Funds with restrictions		CX30

From the perspective of donor F, NPO E has incurred grant related expenses of CY40, being CX100 measured at the spot rate of 2.5CX = 1CY and is therefore entitled to a refund.

After recording all the transactions, the impact on NPO E's primary statements is as follows:

1 August 20X3	With restrictions CX	Without restrictions CX	Total CX
Statement of Income and Expenses			
Revenue	75	0	75
Expenses	(100)	0	(100)
Operating surplus/(deficit)	(25)	0	(25)
Foreign exchange loss	(5)	0	(5)
Surplus/(deficit)	(30)	0	(30)
Statement of Changes in Net Assets			
Surplus/(deficit)	(30)		(30)
Movement between reserves	30	(30)	0
Closing balance	0	(30)	(30)
Statement of Financial Position			
(Overdraft)/cash	0	(30)	(30)
Funds without restrictions	0	(30)	(30)

Example 4 – Other funding arrangement – Grant received in advance and held in foreign currency account

The functional currency of NPO G is CX. On 1 January 20X3, NPO G receives a grant of CY50 from donor H, when the exchange rate is 2CX = 1CY. NPO G retains the grant in CY in a foreign currency account along with a number of other grants.

The funding arrangement constrains expenses to a designated project, but it is not an EGA. However, for the purposes of this example, the arrangement is presented as part of funds with restrictions. All of the grant will be

spent on the project. The funding arrangement specifies that the grant related expenses are measured against the grant at the spot rate when the expense is incurred.

Recognition of grant receipt as revenue

As in example 1b), revenue is recognised when the grant is received, using the spot rate on 1 January 20X3 to record the revenue and cash.

Revaluation of foreign currency cash

As the cash is in a foreign currency bank account it is a monetary item and revalued at each reporting date. On 30 June 20X3 the spot rate is 2.5CX = 1CY. This results in an exchange gain of CX25 (as CY50 = CX125 as the spot rate). The foreign exchange gain is presented as an exchange gain as part of funds with restrictions following the presentation of the original agreement.

30 June 20X3	Debit	Credit
Cash	CX25	
Foreign exchange gain		CX25

If the individual balance on the grant arrangement cannot be identified because there are a number of transactions in the bank account, the total exchange gain or loss will need to be allocated. AG30.14 requires that an allocation method is used that is a suitable proxy for the cash balance on the grant arrangement. If there had been two active grant arrangements in currency CY, NPO G could have allocated the exchange gain based on accounting balance for each of the grants. NPO G would need to consider whether significant accruals would render this approach inappropriate.

Recognition of grant related expenses

NPO G incurs grant related expenses of CX100 on the date the balance is retranslated (30 June 20X3). These expenses are funded by converting the holding of CY to obtain CX100. At the spot rate of 2.5CX to 1CY, CY40 is required to provide CX100. As the cash has been retranslated there is no further accounting adjustment other than to move cash from one bank account to another.

30 June 20X3	Debit	Credit
Expenses – funds with restrictions	CX100	
Cash		CX100

Recognition of grant obligation

As NPO G had retained the cash in a CY account until it was used, the change in exchange rates between 1 January 20X3 and 30 June 20X3 means that NPO G has also only spent CY40 of the cash received. The remaining CY10 is still held in the foreign currency account.

The expectation in the funding arrangement is that all of the grant will be spent on the project. As there is no EGO, NPO G does not have a present obligation to incur the expenses, but the funding arrangement constrains the spending of the remaining CY10 to the project. NPO G will not need to recognise a provision for additional expenses and will recognise the expenses as and when they are incurred.

On 31 July 20X3, when the spot rate is 3CX = 1CY, NPO G spends the remainder of the grant converting the remaining CY10 into CX30.

31 July 20X3	Debit	Credit
Expenses – funds with restrictions	CX30	
Cash		CX30
Cash	CX5	
Foreign exchange gain		CX5

The change in exchange rate results in NPO G incurring CX30 more expense than was received as revenue, but this shortfall was effectively paid for by the exchange gain. NPO G did not require any additional cash.

From the perspective of donor H, it has incurred grant expenses of CY50.

Movement between reserves

As there is no surplus or deficit on this funding arrangement there are no reserve movements.

After recording all the transactions, the impact on NPO G's primary statements is as follows:

31 July 20X3	Funds with restrictions	Funds without restrictions	Total
	CX	CX	CX
Statement of Income and Expenses			
Revenue	100	0	100
Expenses	(130)	0	(130)
Operating surplus/(deficit)	(30)	0	(30)
Foreign exchange gains/(losses)	30	0	30
Surplus/(deficit)	0	0	0
Statement of Changes in Net Assets			
Surplus/(deficit)	0	0	0
Movement between reserves	0	0	0
Closing balance	0	0	0
Statement of Financial Position			
Cash	0	0	0



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