INPAG

International Non-Profit Accounting Guidance Part 3

Exposure Draft

INPAG

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Invitation to comment

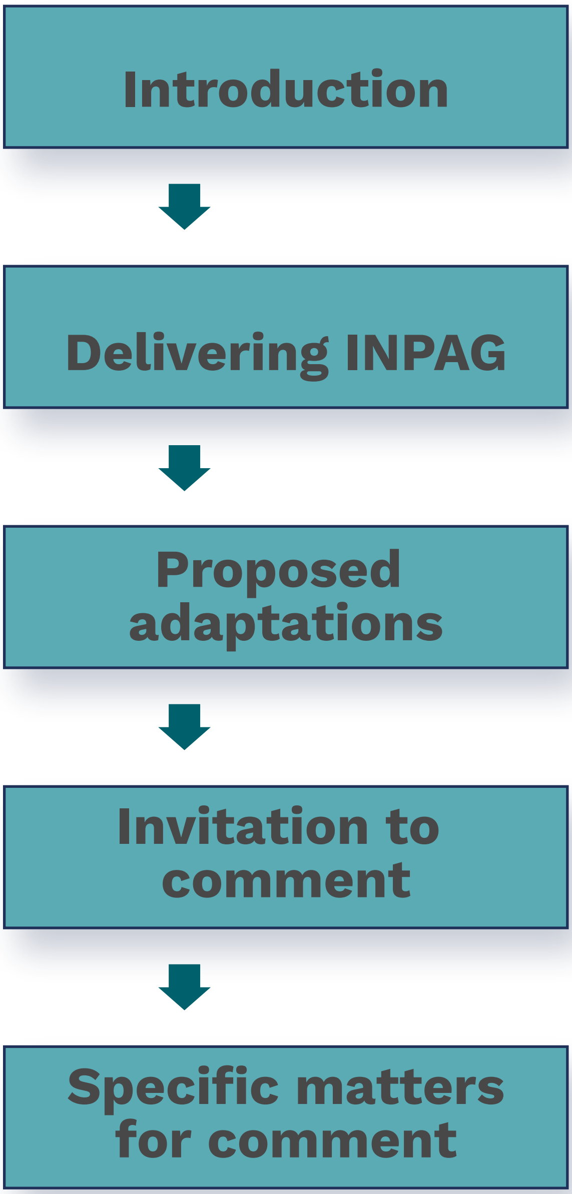
INPAG

Comments to be received by 16 September 2024
Issued 28 May 2024

INPAG ED/2024/3

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 second Exposure Draft was focused on key accounting issues and in particular the accounting for grants and donations, and was issued in September 2023. 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 second Exposure Drafts in the development of the final proposals, that collectively will comprise INPAG.

Comment deadline: 16 September 2024

Documents to be reviewed

ED3 – Authoritative Guidance
ED3 – Basis for Conclusions
ED3 – Implementation Guidance
INPAG Practice Guide 1 – Supplementary statements

Introduction

As noted in the previous Exposure Drafts, 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, including those who contribute funds or benefit from an NPO's work, 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

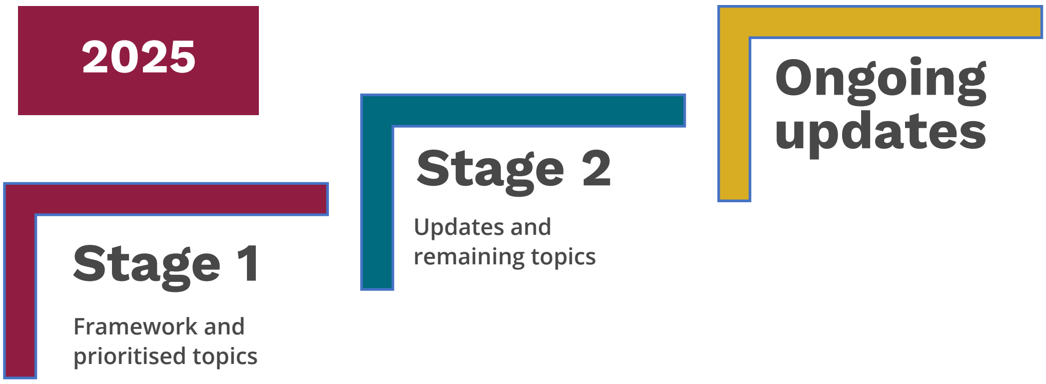
To address specific NPO issues, which will promote the comparability of NPO financial reports.

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, strategies, 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 underpin the development of INPAG the following foundational concepts were set out in Exposure Draft 1 (ED1):

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

These foundational concepts have been used to develop each of the other Sections that together will comprise INPAG and have been issued for public consultation in Exposure Draft 2 (ED2) and Exposure Draft 3 (ED3). Views have been actively sought from a diverse range of stakeholders across all continents. The comments received on each of the three Exposure Drafts will be used in finalising INPAG.

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 to the Section heading in the Authoritative Guidance.

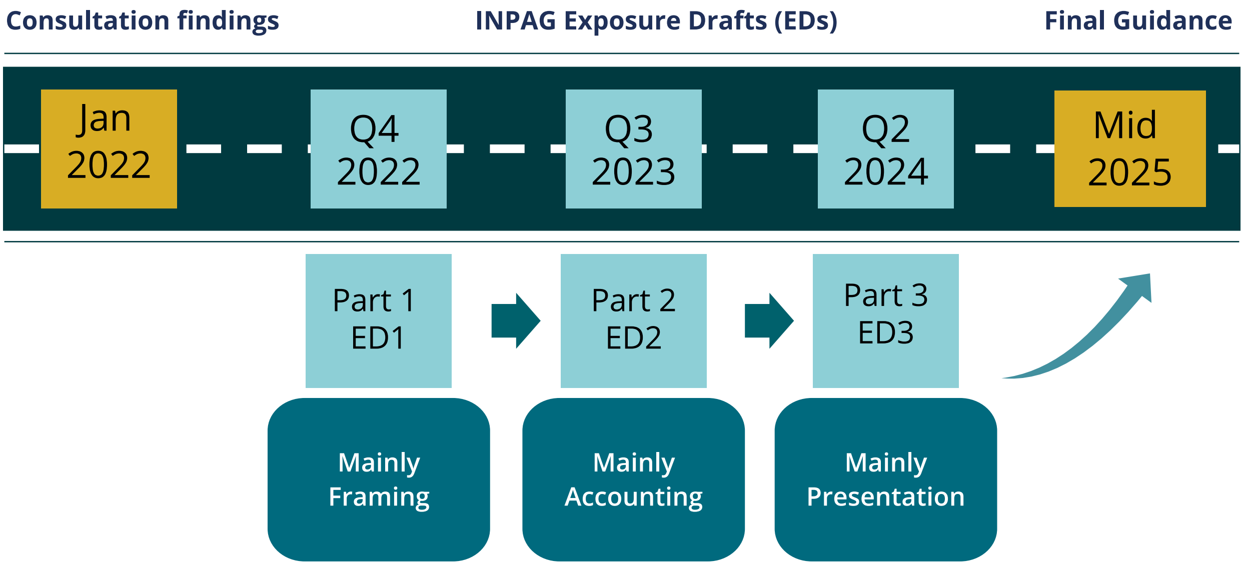
References to the *IFRS for SMEs* Accounting Standard are to the draft Third edition of the *IFRS for SMEs* Accounting Standard unless otherwise stated.

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 alignment changes as well as terminology changes but is otherwise unamended.
New	The Section does not exist in the *IFRS for SMEs* 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 third of three Exposure Drafts that 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. Feedback on ED1 has influenced some aspects of the development of ED3.

In the time available it has not been possible to incorporate into ED3 all of the feedback from ED1, or any of the feedback from ED2. However, in the light of the feedback received, some of the original proposals in Exposure Draft 1 have been amended in this Exposure Draft. Changes made following stakeholder feedback have been identified and explained in the Basis for Conclusions.



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. The Preface, Sections 1–10 and a new Section 35 (narrative reporting) were published in Exposure Draft 1 (ED1).

Exposure Draft 2 (ED2)

ED2 was focused on some of the key accounting transactions that are relevant for NPO financial reporting. It included a new section on revenue from grants and donations as distinct from revenue from contracts with customers, a new section on grant expenses, and important modifications to the sections on inventories and foreign currency translation.

ED2 was built on the equivalent sections from the *IFRS for SMEs* Accounting Standard where these exist, but required the development of some new sections for NPO-specific transactions. ED2 also proposed that the section on share-based payments in the *IFRS for SMEs* Accounting Standard is not relevant to NPOs and therefore should not be part of INPAG. ED2 included a number of Sections that had been updated for terminology or alignment changes but were not updated for other reasons. The full contents were listed at the front of ED2.

Exposure Draft 3 (ED3)

In ED3 the focus is on the presentation of financial information. It includes new sections on fund accounting, the classification of expenses and fundraising costs. It also includes a new section on supplementary information that has links to a complementary document – INPAG Practice Guide 1 – Supplementary statements (Practice Guide), which is also issued for comment as part of ED3. This Practice Guide provides proposals for supplementary statements that support individual stakeholder reporting requirements, including donors. There is also an important update in ED3 relating to the definition of equity, as well as proposals for the first-time adoption of INPAG. As with ED2, ED3 includes a number of Sections that are updated for terminology or alignment changes but are not updated for other reasons.

Fund accounting
Section 36

Classification of expenses
Section 24 Part II

Supplementary information
Section 37

Fundraising costs
Section 24 Part III

Transition to INPAG
Section 38

Annex B shows the content of each Exposure Draft. It describes whether a section is new and if not, the expected level of change from the *IFRS for SMEs* Accounting Standard.

The following sections set out the adaptations that are proposed to the *IFRS for SMEs* Accounting Standard to address NPO-specific accounting and reporting needs.

Proposed Adaptations

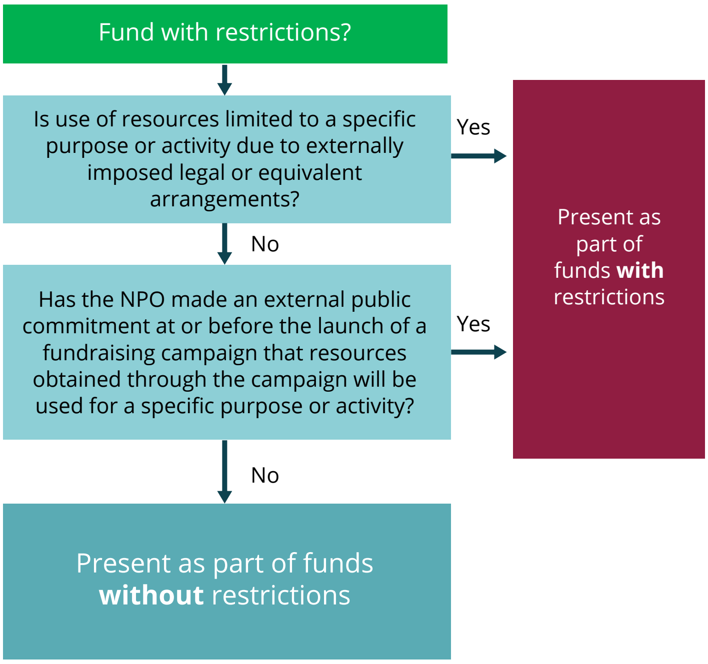
1. Fund accounting

Proposal

Fund accounting tracks the receipt and use of resources, according to their intended use, with fund balances carried between financial reporting periods. All NPOs will have a general fund, sometimes called a general reserve or accumulated fund for resources that can be used for any purpose within the objectives of the organisation. NPOs may have funds in addition to the general fund. Funds may exist as a result of choices by management, jurisdictional law, legal or equivalent requirements arising from arrangements with grantors or donors, or as a result of reasonable expectations created by the NPO that resources will be used for a specific purpose.

In INPAG an additional fund will exist when there is a legal or equivalent requirement to separately track resources and their use, or there is a reasonable expectation by an individual or group of stakeholders that resources that are used for a specific set of activities will be tracked. Separate accounting records for each fund must be kept comprising income, expenses, assets and liabilities.

Determining whether a fund is presented as part of funds with restrictions or funds without restrictions uses the following principles-based approach.



Enforceable grant arrangements (EGAs), a type of grant described in INPAG Section 23, are proposed to be disclosed as part of funds with restrictions even if they do not have a fund balance. This presentation provides transparency over their income and expenses. Internally designated funds are presented as part of funds without restrictions, as the limitation on the use of these resources by the NPO can be amended.

Proposal development—what else was considered?

Initial proposals looked at whether a type of grant arrangement on its own could be used to determine if a fund should be presented as part of funds with restrictions, but the substance of a transaction was considered more important than its form. Regulatory requirements were also considered (but there are global variations in these), as were moral and/or ethical requirements to use resources in a particular way. Practically it would be difficult to distinguish between different types of moral and/or ethical requirements and so this was not progressed.

Discussion also focused on whether asset and liability information needs to be fund-specific. This requirement has been included in ED3 to mitigate against the need for immaterial transactions to be separately tracked and create a burden disproportionate to the benefits.

What should I comment on?

- Will the guidance ensure that material funds can be identified? **(Question 1b)**
- Should there be a requirement to track income, expenses, assets and liabilities for each fund? What are the costs and benefits? **(Question 1c)**
- Do you agree with the criteria for a fund to be considered a fund with restrictions? **(Question 1d)**

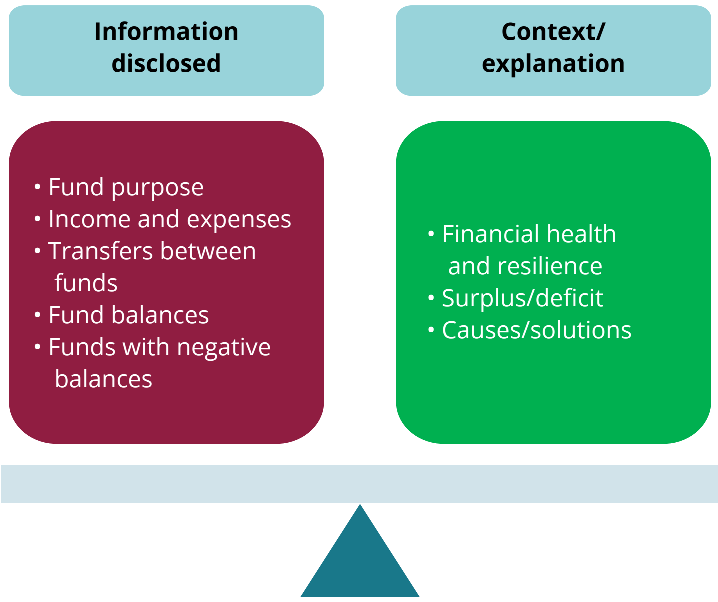
2. Fund accounting disclosures

Proposal

The financial statements should clearly identify the extent to which an NPO's use of its funds is subject to restrictions.

New disclosure requirements require that the amounts of income, expenses, transfers and fund balances are shown for each fund, or aggregation of immaterial funds. This presentation provides transparency over any shortfalls or excesses on a fund. An explanation is required for any funds with a negative balance at the reporting date.

These disclosures can assist NPOs in explaining surpluses or deficits for a particular financial reporting period in context. For example, they may be caused by receiving and using resources in different financial periods, in the normal course of operations. The disclosure requirements also apply to internally designated funds.



ED1 proposed a requirement for the separate presentation of funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses. These new note disclosures replace this previous proposal.

Proposal development – what else was considered?

Consideration was given to whether the information about funds with or without restrictions should be presented on the face of the Statement of Income and Expenses or in the notes to the financial statements. Taking account of the feedback from ED1 and discussions during the development of the fund accounting section, the view was that disclosure by way of note would provide more comprehensive information. The requirement to separately disclose internally designated funds was also considered. TAG members had mixed views, but given the potential usefulness of this information, internally designated funds have been included within the scope of the disclosure requirements for fund accounting.

What should I comment on?

Providing an appropriate level of information about an NPO's funds can provide transparency about its financial resilience and can help to explain its activities and use of resources.

- Do you agree with the removal of the requirement to present funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses? **(Question 1a)**
- Do you agree that relevant expenses should be charged to a fund with restrictions, even if there is currently insufficient resources to cover them? **(Question 1e)**
- Do you agree with the proposed disclosure requirements for funds? **(Question 1f)**

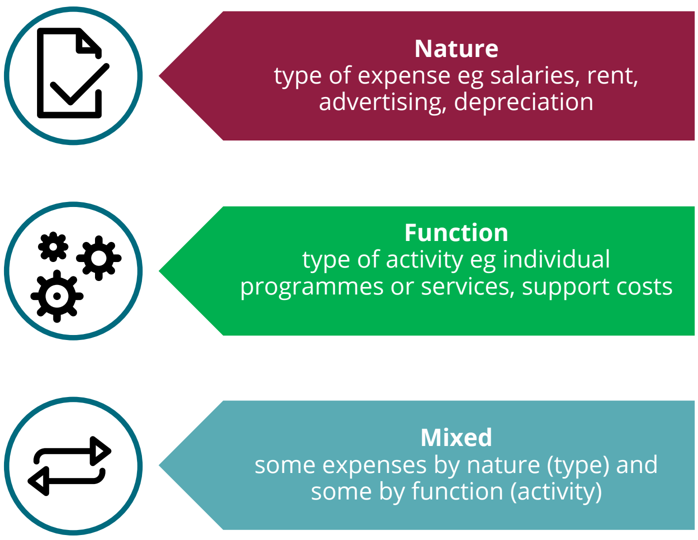
3. Classification of expenses – which presentation?

Proposal

Information about an NPO's expenses is important to support stewardship, transparency and accountability. Not all users are interested in the same information and providing multiple analyses is burdensome. The key consideration is whether to allow or require expenditure analysis according to nature or function, or allow a mixed basis.

To support comparability, INPAG includes the presumption that the most relevant and reliable information for users of the financial statements will be provided by an analysis of expenses based on their nature.

INPAG permits this presumption to be rebutted. This means that a functional or mixed analysis of expenses (with part expenses by nature and part by function) can be presented, if this provides information that is more relevant and reliable to the users of the financial statements. NPOs must provide a note explaining why they have chosen an analysis that is not based on the nature of expenses and why this improves the relevance and reliability of information to the users of their financial statements.



The analysis of expenses must be presented in the Statement of Income and Expenses or in the notes to the financial statements.

Proposal development – what else was considered?

There were a range of views about which presentation of expenses should be used, with insufficient support for a single approach. Consideration was given to allowing a free choice between the different classification approaches. Advisory groups expressed concern that such freedoms would not promote comparability. It was felt that creating a default method of expense classification would be beneficial even if this method was not prescribed. A nature of expenses classification was chosen as the default as it was thought likely to be easier to implement.

What should I comment on?

Given the diversity of NPOs and different information needs of users, it is important that expense information is relevant and reliable for users of the financial statements.

- Do you agree that a natural classification of expenses is used unless this doesn't provide the information that is most relevant and reliable to the users of the financial statements? **(Question 2a)**
- Do you agree that the rationale for using a classification of expenses other than a natural classification is disclosed? **(Question 2b)**

4. Classification of expenses – cost allocation

Proposal

Where an NPO chooses a functional or mixed analysis of expenses it is necessary to allocate and aggregate some or all expenses. NPOs must calculate the cost of the resources used to deliver each identified activity or function.

INPAG provides general principles to attribute costs to activities. Costs are categorised as direct costs (attributable solely to an individual activity), shared costs (attributable to more than one activity) or support costs (not attributable to any specific activities), with cost allocation or apportionment methods dependent on the cost category. In attributing costs to activities, the following general principles apply:

Direct costs
Costs attributable to a single activity must be allocated directly to that single activity eg salary costs of individual employed on a single programme

Shared costs
Costs that contribute to one or more activity and must be apportioned between those activities eg a vehicle used on multiple programmes

Support costs
Costs not directly attributable to one or more activities. Can be apportioned between the activities being supported or disclosed separately eg governance costs

The method selected to allocate or apportion costs must ensure that the financial statements provide a faithful representation of the costs of an activity. The methods of allocating and aggregating expenses must be reasonable, and consistently applied within and between reporting periods unless circumstances change. The Implementation Guidance provides examples of bases for apportionment of costs such as capacity used, per capita allocation and time used.

Cost allocation is likely to be required to calculate fundraising costs and support costs (which will be necessary where Supplementary statements are being provided).

Proposal development – what else was considered?

Consideration was given to whether all costs (particularly support costs) should be reallocated when a functional or mixed analysis is used, or whether support costs should always be reported as a separate activity or category of costs. The Secretariat was of the view that NPOs should be able to choose whether to allocate all costs or retain support costs as a single category based on the information needs of the users of their financial reports.

What should I comment on?

A consistent approach to the identification of support costs, shared costs and direct costs aids consistency and therefore comparability across NPOs carrying out similar activities.

- Do you agree with the description of direct costs, shared costs and support costs to allow the full cost of an activity to be identified? **(Question 2e)**

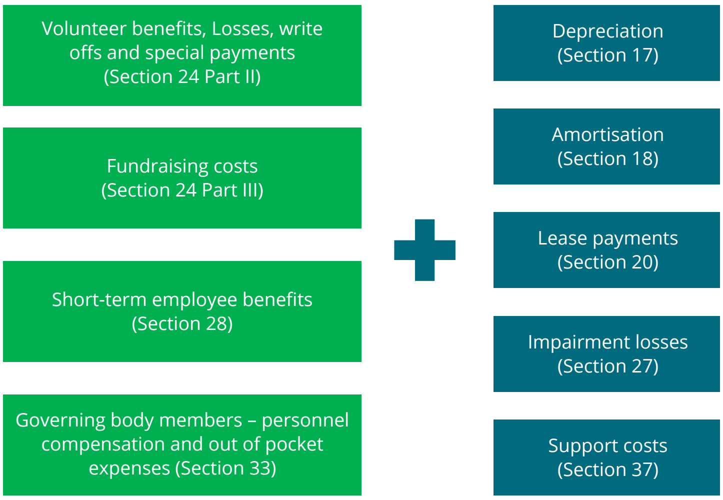
5. Classification of expenses – disclosures

Proposal

Providing flexibility about the way in which expenses can be classified may lead to significant inconsistencies in the information provided by NPOs, even where the NPOs are similar in nature. To mitigate this possibility, specific types of expense information must be included in the financial statements.

Regardless of the classification method used, NPOs must disclose certain expense information in the notes. Information on amounts paid to key management personnel and those charged with the governance of an NPO is critical. An amendment has been made to Section 33 *Related party disclosures* to reference members of the governing body and require disclosures about their personnel compensation (where permitted by law) and any expenses reimbursed. A consequential amendment has also been made to Section 28 *Employee benefits* to require the disclosure of short-term employee costs.

In addition to the expenses disclosures required in other sections of INPAG, there are two new disclosures in Section 24 Part II: benefits received by volunteers, and any losses, write-offs and special payments. The disclosure of losses, write-off and special payments includes transactions that are outside what would be expected for the normal activities of an NPO. It includes losses from fraud and additional payments made to suppliers beyond contract terms. Examples of transactions that would be included as part of this disclosure are included in the Implementation Guidance. A summary of the expense disclosures in INPAG is shown below, with the disclosures highlighted above shown in green.



To avoid duplication, the expense disclosure requirements will be met as long as they appear in the financial statements. Expense information is therefore not required to be repeated in a single separate note solely for expenses.

Proposal development – what else was considered?

A larger number of disclosures were initially considered, including information on programme and support expenses, key management personnel, employee remuneration and expenses on grants and donations. Advisory groups expressed concern that this could create a significant additional burden if applied to all NPOs. As some proposed disclosures repeated requirements in other INPAG sections or were incremental changes, it was proposed to address the requirements in the relevant sections of INPAG. Budget comparison information was considered but not included, as this can be addressed in the narrative report.

What should I comment on?

There is a risk that disclosures, particularly of narrative information, become overly standardised and/or create a burden. There is a need to ensure that they provide useful information and that important information is available from all NPOs.

- Do you agree with the expense disclosure requirements? **(Question 2d)**

6. Fundraising costs

Proposal

INPAG provides guidance about the categories of fundraising costs, how they should be calculated and disclosed.

INPAG describes three distinct categories of fundraising activities.

Donations, gifts, grants and similar transfers	• Seeking grants eg application costs • Operating membership schemes • Staging events • Advertising, marketing and direct mail materials
Commercial and trading	• Operating a trading outlet to sell donated and/or bought-in goods • Operating a trading company carrying out other commercial or trading activities
Investment management	• Portfolio management • Obtaining investment advice • Licensing intellectual property • Management of properties held for investment

Commercial and trading does not include activities relating to an NPO's primary purpose even if a charge or fee is paid for the goods or services. Therefore the costs of delivering the NPO's primary purposes including marketing are not fundraising. Funds raised through investment management do not include the costs involved in the day-to-day investment of funds, for example, managing working capital. Each category of fundraising is to be calculated using the allocation and aggregation principles set out in the classification of expenses and are required to be separately disclosed.

For expenses that are incurred for more than one purpose, such as raising funds while also raising awareness of the activities of the NPO, INPAG requires that these are split, where this does not require undue cost or effort. The concept of materiality needs to be applied in determining whether such expenses should be split.

Proposal development – what else was considered?

Consideration was given to restricting the scope of fundraising costs to cover only activities involving requesting or obtaining present or future donations, gifts or grants. A focus group held on fundraising costs supported a broader scope to include trading and commercial and investment management activities. The group felt that information on these costs that have been incurred in raising funds for the NPO's mission could be useful for users of general purpose financial reports, particularly if these were the single or main source of funds. TAG members discussed the potential for the line between fundraising and income generation to be blurred. There was a range of views on whether to include all three categories.

What should I comment on?

Information about fundraising costs is often of interest users of an NPO's financial report.

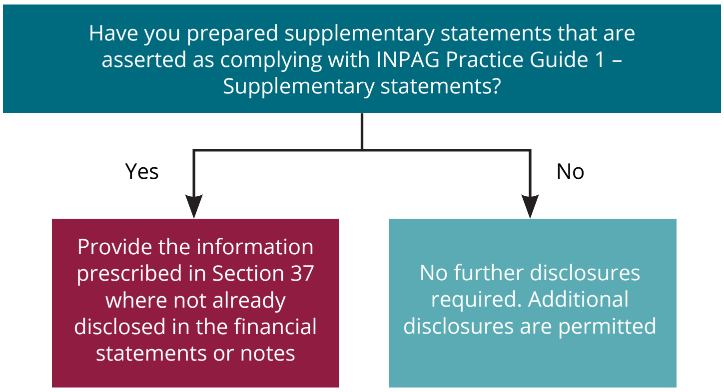
- Do you agree that commercial and trading and investment management activities are included as part of fundraising? **(Question 2f)**
- Do you agree that fundraising costs do not need to be split from other costs where the cost of doing so would exceed the benefits in terms of the information provided? **(Question 2g)**
- Do you agree that the costs of each of the three categories of fundraising activity should be separately disclosed? **(Question 2h)**

7. Supplementary information

Proposal

Supplementary statements may be prepared to provide information about specified funds or activities, such as particular grants or projects. Separate guidance for the creation of Supplementary statements is provided in INPAG Practice Guide 1 – Supplementary statements (the Practice Guide). For NPOs that use this Practice Guide, the requirements of INPAG Section 37 *Supplementary information* must also be met. An NPO can elect to make the disclosures in INPAG Section 37 even if it does not present Supplementary statements.

Section 37 requires presentation of information about the entire NPO, according to the analysis in the Practice Guide, thereby creating a link to any Supplementary statement(s).



This information provides an auditable base from which Supplementary statements can be produced. This is important as the Supplementary statements produced using the Practice Guide will sit outside of the general purpose financial report.

To comply with INPAG Section 37, NPOs may choose to present a note within the general purpose financial statements with information for the whole entity using the format of the Supplementary statement in the Practice Guide. A whole of NPO Supplementary statement provides additional information for all primary users. A whole of entity statement is not, however, required as long as all the information necessary to construct such a note could be found elsewhere within the financial statements and notes.

Proposal development – what else was considered?

Consideration was given to requiring all NPOs to present a whole of NPO Supplementary statement as either a new primary statement or a disclosure note. This was considered to be burdensome, particularly for those NPOs who do not produce Supplementary statements, and it might not benefit users of the general purpose financial reports. Given the choices available in INPAG Section 24 Part II *Classification of Expenses* for the presentation of expenses, NPOs that produce Supplementary statements may converge their expense classification with the prescribed analysis in the Practice Guide over time. The advice was to minimise additional requirements in the interim.

What should I comment on?

Alternative presentations of income and expenses provide additional information that can be useful to the users of general purpose financial reports.

- Do you agree that the requirements of Section 37 do not have to be met unless an NPO is preparing supplementary statements using the Practice Guide? **(Question 3a)**
- Do you agree it is not necessary to present a whole of NPO supplementary statement if the information in the notes is sufficient to construct one? **(Question 3b)**

8. Supplementary statement guide

Proposal

The objective of INPAG Practice Guide 1 – Supplementary statements (the Practice Guide) is to enable the presentation of key financial information about specified activities, projects or grants that could be useful to stakeholders for accountability purposes. The Practice Guide is not part of INPAG, rather it is a complementary publication. Any Supplementary statements presented can be included in an Annex to the general purpose financial statements.

The Practice Guide requires specific categories of income, expenses, other costs, transfers and fund balances to be presented in a prescribed format. The format includes a classification of the direct costs of an activity, grant or project by nature. This reflects the main categories of expense expected to be required by stakeholders. The Practice Guide allows NPOs to choose whether to show support costs as a separate cost category, or to present them alongside the directs costs using the natural expense headings.

There is an optional special treatment for the acquisition of capital items (fixed assets) and inventory items. Where specific funds have been provided for these items NPOs can disclose their acquisition in a special section. Adjustments are made to remove the potential for double counting of depreciation or amortisation, and inventory expenses.

Total expenses

−

Inventory – expenses related to issuing of inventory
Depreciation and amortisation – acquired assets

+

Acquisition or construction of capital items
Purchase of inventory items

=

Expenses, inventory and capital costs

The Practice Guide requires that each Supplementary statement is supported by notes that explain the purpose and scope of each statement and the basis of preparation. A reconciliation to the general purpose financial statements and an attestation is also required. The Practice Guide provides templates for different variants, including comparison to budget, multiple grants, multiple time periods and different currencies.

Proposal development – what else was considered?

The inclusion of the requirements of the Guide within INPAG was considered, but the level of flexibility permitted by the Practice Guide is not consistent with the principles of general purpose financial reporting. Also including requirements to produce supplementary statements within INPAG could place increased burdens on some NPOs without any benefit. Making the treatment of capital and inventory costs mandatory rather than optional was considered, but this was not progressed, in favour of the flexibility for NPOs to apply it to their circumstances.

What should I comment on?

The Supplementary statement format is intended to reflect the information needs of stakeholders, particularly funders, and lead to increased consistency and lower reporting burdens over time. Providing a link to the (audited) general purpose financial report, can improve assurance.

- Do you agree with the format of the Supplementary statement? **(Question 3c)**
- Do you agree with the disclosures for capital and inventory related costs and that these are optional? **(Question 3d)**
- Do you agree that the Supplementary statements can be published as an annex to the general purpose financial report? **(Question 3e)**

9. Equity

Proposal

ED1 included equity as a financial statement element. Respondents raised concerns that the proposed definition of equity was problematic for NPOs. ED3 revises the definition of equity, removing it as a financial statement element, and also provides clarification about the characteristics of equity instruments for NPOs. The guidance addresses the concept of ownership and/or entitlement to the net assets of an NPO.

Net assets replaces equity as a financial statement element.

Net assets	the residual available to the NPO to achieve its objectives after deducting all its liabilities from its assets
Equity claims	the financial interest in the net assets of an NPO that is due to holders of those claims

In the rare instances where NPOs have some form of share capital or similar instrument, INPAG refers to these as equity claims. This term is used to create separation from the term equity used in the private sector. In the private sector equity is the residual interest in the assets of an entity after deducting all its liabilities, whereas in INPAG equity claims are a subset of net assets.

Section 22 has been amended to reflect the use of the term equity claims. This section clarifies that where an NPO issues membership shares that provide no entitlement to the NPO's net assets, that these should be treated as liabilities. Consistent with amendments to other sections, references to share-based payments have been removed, as well as content that reflects the use of commercial value to shares.

The illustrative examples have been updated and an instrument that can only be redeemed at par or an index-linked amount has been added.

Proposal development – what else was considered?

A survey was carried out on the kinds of equity instruments used by NPOs and the entitlements they provide. Largely, share capital did not appear to provide an entitlement to anything other than a return of funds. The interplay between ownership, equity and net assets was also examined. This included consideration of the extent to which control over an NPO by external parties leads to ownership, and the implications of a financial interest in the net assets of the NPO. Redefining equity was also considered, but it was considered preferable to refer to equity claims rather than to amend the established definition of equity for the NPO context.

What should I comment on?

Ownership, in the way used in the private sector, does not work in an NPO context as the net assets are held in a fiduciary capacity for service beneficiaries.

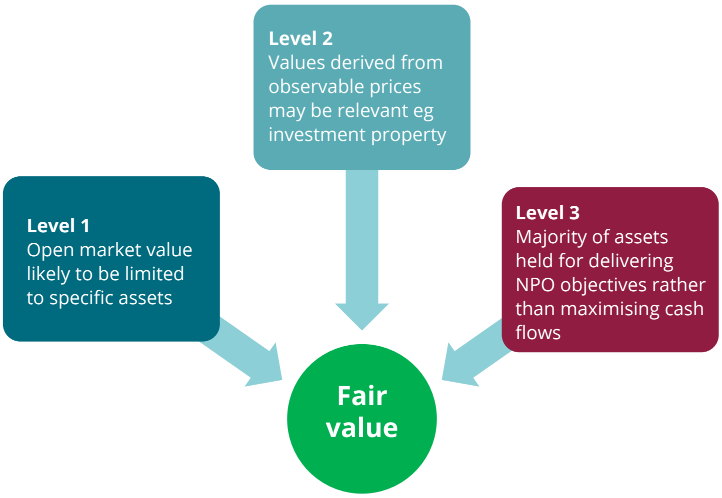
- Do you agree with the revised description of net assets and its inclusion as a financial statement element? **(Question 5a)**
- Do you agree with the use of the term equity claims rather than equity and that equity claims are a subset of net assets? **(Question 5b)**
- Do you agree that the paragraphs relating to the sale of options, rights and warrants, extinguishing financial liabilities with equity claim instruments and treasury shares in Section 22 are removed? **(Question 5c)**

10. Fair value measurement – donated assets

Proposal

The feedback to the Consultation Paper did not prioritise topics associated with the measurement of assets. Therefore, asset measurement has not been subject to in depth review in this phase of the development of INPAG. Amendments are limited to consequential changes needed as a result of new content or modifications made to other Sections.

INPAG requires that donated assets are measured using the fair value basis on initial recognition. INPAG provides application guidance that sets out how the fair value hierarchy is likely to apply to NPO assets and liabilities. This includes the use of a level 3 fair value for donations in-kind. The guidance mirrors the application guidance provided for Section 13 *Inventories*. It includes examples to cover volunteer time and a donation that exceeds the operating requirements of an NPO. The Guidance also clarifies how highest and best use applies to assets that have restrictions.



Donations to NPOs may include property, plant and equipment, investment property and intangible assets. An additional paragraph has been added to Section 16 *Investment property*, Section 17 *Property, plant and equipment* and Section 18 *Intangible assets not including goodwill* to provide guidance on the initial measurement of such assets. In all cases initial measurement requires the use of fair value to establish a 'deemed cost' for the donated asset.

When using the fair value guidance and assessing benefits generated by an asset, the term economic benefit has been expanded to include service potential as this will be a factor in measuring its value, particularly when there is a limitation on the use of an asset.

Proposal development – what else was considered?

The Secretariat considered additional guidance to determine the highest and best use of NPO assets, but were of the view that this might infer a level of review of this section that has not been carried out. Application guidance was considered preferable to adding text to the core guidance.

The TAG discussed the importance of the concept of service potential for NPOs. Given the scope of the topics included in this phase of INPAG, it was acknowledged that there should be limitations on the guidance provided to assist in applying this concept.

What should I comment on?

Where an NPO receives donations of gifts in-kind or services in-kind the use of fair value will be of fundamental importance to measurement.

- Is the guidance about the application of the fair value hierarchy and the illustrative examples for fair valuing donations in-kind useful? **(Question 7a)**
- Do you agree with the additional guidance provided for donated investment property (Section 16), property, plant and equipment (Section 17) and intangible assets (Section 18)? **(Question 7b)**

11. Transition to INPAG

Proposal

The implications for NPOs transitioning to INPAG will vary based on the local guidance or standards that each NPO is following. The date of transition to INPAG is the beginning of the earliest reporting period for which the NPO provides full comparative information in the financial statements.

In adopting INPAG for the first time, NPOs are required to provide comparative information for the previous comparable period. Opening balances for funds with restrictions and funds without restrictions are required. All assets and liabilities that are required to be recognised by INPAG must be included in the Statement of Financial Position, including enforceable grant arrangement (EGA) assets and liabilities. The requirements for EGAs are limited to grant arrangements that are due to be completed more than 12 months after the date of transition to INPAG. Grant arrangements completing before this time can be excluded. All loans that have been provided at a below-market rate of interest much be recognised using the requirements of Section 11 *Financial instruments.* INPAG has proposals for asset valuation that include:

- Fair value or revaluation as deemed cost for property, plant and equipment including heritage assets
- Fair value as deemed cost for financial assets (including endowments)
- Fair value or revaluation value as deemed cost of inventory

INPAG includes the ability to limit the statement of compliance to the requirements for the preparation of the financial statements only, for a two-year transition period. Compliance with the narrative reporting requirements must be achieved within this two-year period. After the transition period, NPOs can only assert compliance with the complete set of INPAG requirements. Compliance for the financial statements only will not be possible after this point.

Proposal development – what else was considered?

Consideration was given to possible simplifications or pragmatic exceptions that could be applied. However, the requirement for opening balances for funds with restrictions and funds without restrictions limited the options available. The need for a transition period for narrative reporting was considered, taking on board feedback from ED1. Not all feedback supported a transition period, but on balance this was considered helpful as long as full compliance with INPAG could not be deferred indefinitely. The prevailing view was that a limited transition window would encourage NPOs to adopt the narrative reporting requirements quickly.

What should I comment on?

Stakeholders have emphasised the importance of narrative reporting and balances on funds with and without restrictions to understanding the financial resilience of an NPO.

- Do you agree with the pragmatic approaches proposed for the first-time adoption of INPAG? What practical challenges are likely to be experienced? **(Question 6a)**
- Do you agree that compliance with INPAG can be expressed in relation to the financial statements only (for a transitional period)? **(Question 6b)**

12. Other topics

Proposal

ED3 includes a number of other INPAG sections, with the majority only updated for terminology revisions or to align with other sections.

Section 14 *Investment in associates*	Section 15 *Joint arrangements*	Section 20 *Leases*
Section 19 *Business combinations including goodwill*	Section 27 *Impairment of assets*	Section 34 *Specialised activities*

Addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard

- Section 7 Statement of Cash Flows (supplier finance arrangements)
- Section 30 Foreign currency translation (lack of exchangeability)

Section 19 *Business combinations including goodwill*. NPOs may acquire other businesses or more likely, merge operations with another NPO. Additional text has been added to reflect the characteristics of NPOs (Section 1 *Non-profit organisations)* and the NPO context (Section 9 *Consolidated and separate financial statements* (eg additional examples of control)). The guidance makes clear that businesses include organisations that provide services to service recipients. It also covers NPO combinations that are motivated by an NPO's missional objectives rather than purely financial considerations.

A simplification has been provided where two NPOs both with positive net assets combine. This is on the basis that the cost of applying additional procedures would be disproportionate to the benefit.

Section 27 *Impairment of assets* has been amended to reflect the new measurement base for donated inventory held for distribution at no or nominal consideration, which is measured at its cost adjusted for any loss of service potential. It also clarifies that in assessing the value in use of an asset, other economic benefits and service potential are considered.

The impairment guidance refers extensively to cash-generating units in making assessments for impairment. In INPAG the term 'cash-generating unit' has been changed to 'operating unit'. An operating unit is the smallest identifiable group of assets that includes the asset being impaired and that is operated independently from other assets or groups of assets. An operating unit will therefore include assets that do not generate cash.

Section 34 *Specialised activities* includes guidance on three types of specialised activity: agriculture, extractive activities and service concessions. No adaptations have been made to this section, but feedback is requested on whether these activities are relevant to NPOs.

Proposal development – what else was considered?

While some NPOs may not see themselves as carrying out a business, the principles were considered relevant. There were concerns that the term 'business combination' might be misunderstood, particularly when two NPOs merge, but changing terminology when 'business' is pervasive in the text would be risky. For impairment of assets, discussions included retaining the term 'cash-generating unit' but this was considered not to be meaningful for NPOs where they carry out activities that do not generate or maximise cash.

What should I comment on?

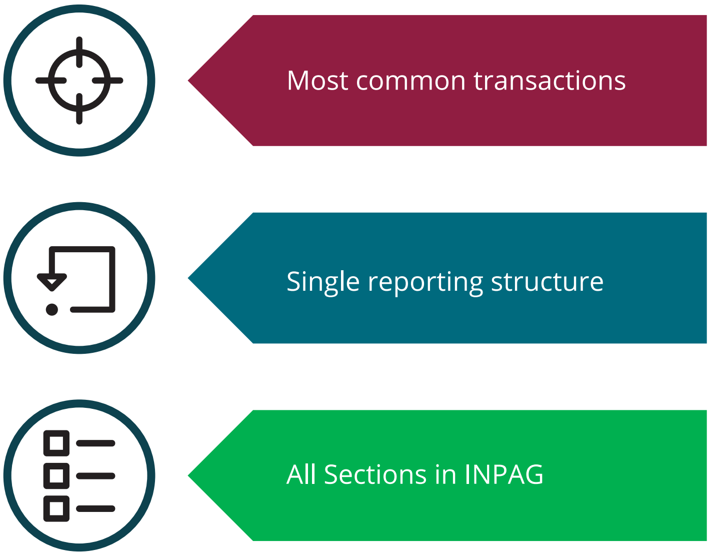
- Do you agree that the term operating unit better reflects the nature of an NPO's operations? **(Question 8b)**
- Do you agree that the term 'business' can be applied by NPOs? **(Question 9a)**
- Is any of the guidance in Section 34 needed by NPOs? **(Question 10b)**

13. Illustrative financial statements

Proposal

Illustrative financial statements were included as templates in ED1. The illustrative financial statements have been further developed to reflect all of the proposals across ED1, ED2 and ED3 and have been populated with data to aid understanding.

The illustrative financial statements show the primary statements and as well as examples of the notes to the financial statements. They are intended to cover those transactions that are most prevalent for NPOs and need to be read in conjunction with the illustrative examples for each Section. The focus is on requirements introduced by INPAG. They are not intended to capture all possible transactions and so do not cover every INPAG requirement.



The illustrative financial statements include information that may be useful in aiding an understanding of the relationship between note disclosures and in particular the Statement of Cash Flows and of an NPO's financial position.

Proposal development – what else was considered?

Multiple sources of material will be available to support users when INPAG is published including the illustrative examples in each Section, training materials and the illustrative financial statements. The intention is not to duplicate these sources.

The type and scope of transactions to be included in the illustrative financial statements was considered, particularly the inclusion of more complex reporting structures and less common transactions. Providing illustrations of more complex reporting structures can be useful. However, for NPOs with simpler structures these illustrations may be more difficult to use. On balance it was concluded to focus on the likely most common transactions. This approach also avoids the illustrative financial statements becoming too long.

Consideration was also given to the need for additional material in the illustrative financial statements that go beyond the INPAG requirements. Some additional information has been included where this could help users to understand the objectives of a note disclosure and/or the relationship between different pieces of information.

What should I comment on?

- Do you agree that the illustrative financial statements cover the transactions that are most prevalent for NPOs? **(Question 4a)**

Specific matters for comment

Question 1: Fund accounting (Section 36 and Section 5)	References
a) Do you agree that the ED1 requirement to present funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses should be removed? If not, why not?	G5.3, AG5.4
b) Do you agree that the guidance in Section 36 will ensure that material funds can be identified? If not, what changes would you propose? Is there a risk that funds are not identified?	G36.3–G36.4, Figure AG36.1
c) Do you agree that income, expenses, assets and liabilities are tracked for each fund? What are the costs and benefits? What, if anything, would you change and why? What are the practical considerations?	G36.5, G36.7, AG36.3
d) Do you agree with the two criteria for a fund to be a fund with restrictions? If not, what would you change and why?	G36.9
e) In order to provide transparency about the finances of an individual fund, do you agree that all the expenses should be charged against a fund with restrictions even if there are currently insufficient resources to cover these, or specific costs are not eligible under a grant arrangement? If not, what alternative would you propose and why?	G36.11–G36.12
f) Do you agree with the NPO funds disclosures requirements? If not, what would you change and why?	G36.21–G36.23
g) Do the Illustrative examples demonstrate the key concepts in fund accounting? If not, what would you change and why?	Implementation Guidance – Section 36

Question 2: Presentation of expenses, fundraising costs and related disclosures (Section 24 Part I, Section 24 Part II and Section 33)	References
a) Do you agree that there is a rebuttable presumption that a by nature classification of expenses is used unless this doesn't provide the most relevant and reliable information to the users of the financial statements? If not, why not?	G24.43–G24.47, AG24.45–AG24.47
b) Do you agree that the rationale for using a classification of expenses other than by nature should be disclosed? If not, why not?	G24.44
c) Do you agree that where a functional or mixed presentation of expenses is used, a narrative description of the types of expenses incurred on each function line item is sufficient and that a requirement for these to be quantified is not necessary? If not, why not?	G24.46, AG24.48
d) Do you agree with the expense disclosure requirements? If not, what would you change and why?	G24.50–G24.57, G33.7–G33.11, G28.38
e) Do you agree with the description of direct costs, shared costs and support costs and that these allow the full cost of an activity to be identified? If not, why not?	G24.48–G24.49
f) Do you agree that commercial and trading activities that are for the purposes of fundraising and investment management costs associated with a fund whose purpose is to generate future returns are included as fundraising activities? If not, why not?	G24.64–G24.66
g) Do you agree with the pragmatic exception that fundraising costs do not need to be split from other costs where the cost of doing so would exceed the information benefit to stakeholders? If not, what would you change and why?	G24.72
h) Do you agree that the costs for each of the three categories of fundraising activity should be separately disclosed and presented gross? If not, what should be disclosed and why?	G24.74

i) Do you agree that grants or donations made in arms'-length transactions with governing body members and any services they receive on the same terms as other eligible service recipients need not be disclosed as a related party transaction? If not, why not?	G33.18 a)–G33.18 b)

Question 3: Supplementary information (Section 37) and INPAG Practice Guide 1 – Supplementary statements	References
a) Do you agree that the requirements of Section 37 do not have to be met unless Supplementary statements are prepared in accordance with INPAG Practice Guide 1– Supplementary statements? If not, why not?	G37.1–G37.2
b) Do you agree that a whole of NPO supplementary statement need not be presented if the additional information is already in the financial statements and/or notes? If not, why not?	G37.3, G37.10–G37.12
c) Do you agree with the format of the Supplementary statement? If not, what would you change and why?	SS.5
d) Do you agree with the options for the disclosure of capital and inventory related costs? If not, what would you change and why?	SS.18–SS.21
e) Do you agree that the Supplementary statements are not part of the general purpose financial report but can be published as an annex? If not, why not?	SS.25–SS.26

Question 4: Illustrative financial statements (Implementation Guidance)	References
a) Do you agree that the illustrative financial statements cover the transactions that are prevalent for NPOs? If not, which prevalent transactions are missing and why do these need to be covered?	Illustrative financial statements

Question 5: Equity (Section 22 and Section 2)	References
a) Do you agree with the revised description of net assets and its inclusion as an element? If not, what would you change and why?	G2.73
b) Do you agree with the use of the term equity claims in Sections 2 and 22 and that equity claims are a subset of net assets? If not, what would you change and why?	G2.74, AG2.6, AG2.7, Section 22
c) Do you agree that the paragraphs relating to the sale of options, rights and warrants, extinguishing financial liabilities with equity claim instruments and treasury shares are removed from Section 22 and that the paragraphs relating to capitalisation or bonus issues of shares and share splits and convertible debt or similar compound financial instruments are retained? If not, why not?	G22.12–G22.15

Question 6: Transition to INPAG (Section 38)	References
a) Do you agree with the pragmatic approaches proposed for the first time adoption of INPAG? If not, what are the practical challenges that are likely to be experienced?	G38.11–G38.12
b) Do you agree that compliance with INPAG can be expressed in relation to the financial statements only for a two-year transitional period? If not, why not?	G38.5–G38.6

Question 7: Application of fair value (Sections 12, 16, 17 and 18)	References
a) Is the Section 12 application guidance that sets out how the fair value hierarchy applies to NPO assets and liabilities and the illustrative examples of fair valuing donations in-kind useful? If not, how could it be improved?	AG12.1–AG12.11
b) Do you agree with the additional guidance provided for donated:	
i) investment property (Section 16)?	G16.7
ii) property, plant and equipment (Section 17)?	G17.10
iii) intangible assets (Section 18)?	G18.14
If not, why not?	

Question 8: Impairments (Section 27)	References
a) Do you agree that inventory held for distribution is measured for impairment using cost adjusted for any loss of service potential? If not, what would you change and why?	G27.2–G27.4
b) Do you agree that the term operating unit better reflects the nature of an NPO's operations and with its proposed definition? If not, what alternative term would you use and why?	G27.8
c) Do you agree that impairments to assets that form an operating unit can take account of other economic benefits and service potential? If not, what would you change and why?	G27.15

Question 9: Combinations of entities (Section 19)	References
a) Do you agree that the term 'business' can be applied by NPOs when taken alongside the amendments proposed, (including the expansion of examples of control)? If not, why not? What practical issues are experienced?	G19.4, G19.5, AG19.1–AG19.2
b) Do you agree with the proposed exemption for two NPOs that have net assets and that it should not apply where one NPO has net liabilities? If not, describe the practical and accounting issues that arise?	G19.24

Question 10: Other topics (Sections 14, 15, 20 and 34)	References
a) Do you agree that no further alignment changes are needed to:	
i) Section 14 Investment in associates?	Section 14
ii) Section 15 Joint arrangements?	Section 15
iii) Section 20 Leases?	Section 20
If not, why not?	
b) Is any of the guidance in Section 34 needed by NPOs? If yes, which elements of the section are needed and why?	Section 34

Question 11: Addendum	References
a) Do you agree that the guidance for supplier finance arrangements is useful and relevant to NPOs? If not, what would you change and why?	G7.20A–G7.20B,
b) Do you agree that the guidance on lack of exchangeability is useful and relevant to NPOs? If not, what would you change and why?	G30.5A, G30.31–32, AG30.26–AG30.43

Information for respondents to the consultation

CIPFA, as the technical lead for the IFR4NPO project, invites comments on Exposure Draft International Non-Profit Accounting Guidance (INPAG) – Part 3 (ED3).

Specific matters for comment are included at the end of each Section and summarised in this invitation to comment. Feedback to these questions would be helpful, as well as any general comments on the proposals.

Comments are most helpful if they:

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

You do not need to respond to all of the questions.

Who should respond?

ED3 is relevant to a range of NPO stakeholders. Responses are particularly welcomed from:

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

Other relevant documents

The Exposure Draft includes:

- Authoritative Guidance for Sections in INPAG
- The Basis for Conclusions relating to the content of this Exposure Draft, which includes:
  - considerations in developing the proposals
  - the potential effects of the proposals
- Implementation Guidance with illustrative examples and illustrative financial statements
- INPAG Practice Guide 1 – Supplementary statements
- Invitation to comment with significant matters for comment (SMCs).

Submit your comments

Please submit your comments electronically by **16 September 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 – ED3 at a glance

New content in ED3

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 12 – Fair value measurement	This Section provides guidance on how to measure assets and liabilities using fair value and the required disclosures. Fair value is a market-based measurement and uses assumptions that market participants would use when pricing an asset and liability. Fair value is required to be used by NPOs when measuring donated assets. Additional guidance is provided for donations in-kind, including where a market price is not available. Additional illustrative examples have also been provided.	Editorial – Changes to align with other sections	Question 7 a)
Section 14 – Investments in associates	This Section provides guidance on accounting for associates in consolidated and separate financial statements. It defines an associate as an entity over which an NPO has significant influence, which is not a controlled entity or a joint arrangement.	Editorial – Changes to align with other sections	Question 10 a) i)
Section 15 – Joint arrangements	This Section specifies accounting for joint arrangements in consolidated and separate financial statements. A joint arrangement exists where the parties to the arrangement have collective control of the arrangement.	Editorial – Changes to align with other sections	Question 10 a) ii)
Section 16 – Investment property	This Section specifies the accounting for investments in land or buildings that are held to earn rentals or for their capital appreciation. This Section does not apply to property held to deliver an NPO's missional objectives, such as social housing. Investment property is measured at fair value where it can be measured reliably without undue cost or effort. Otherwise it is measured using the cost model in Section 17 *Property, plant and equipment.* The guidance distinguishes between purchased and donated investment property. All donated investment property is required to be initially measured at fair value.	Editorial – Changes to align with other sections	Question 7 b) i)

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 17 – Property, plant and equipment	This Section specifies the accounting for property, plant and equipment, including capitalisation and depreciation. It applies to all tangible assets that are held for use in the activities of the NPO and are expected to be used during more than one period. **There are no exceptions for assets that are funded by grants or donations**. It also applies to investment property whose fair value cannot be reliably measured without undue cost or effort. The guidance covers which tangible assets should be recognised, how they are measured and what disclosures are required. It permits these assets to be measured using a cost model or revaluation model. Guidance on approaches to depreciation is also provided. The guidance has been amended to require that donated property, plant and equipment are measured at fair value on initial recognition.	Editorial – Changes to align with other sections	Question 7 b) ii)
Section 18 – Intangibles other than goodwill	This Section applies to the accounting for all intangible assets other than goodwill. An intangible asset is an identifiable non-monetary asset that does not have a physical substance (eg licenses). The guidance covers which intangible assets should be recognised, how they are measured and what disclosures are required. The approach to measurement depends on whether the intangible asset was acquired, internally generated or exchanged for another asset. Guidance on the approaches to amortisation is also provided. The guidance has been amended to require that donated intangible assets are measured at fair value on initial recognition.	Editorial – Changes to align with other sections	Question 7 b) iii)

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 19 – Business combinations including goodwill	This Section applies to the combining of entities, (including NPOs) that meet the definition of a business. It provides guidance on the recognition and measurement of the assets and liabilities acquired in the combination. This includes the recognition and measurement of goodwill. The term business has been retained in this Section, with the characteristics of a business broadened to include the types of activities carried out by NPOs. A simplification has been added where there is a combination of two NPOs and both have positive net assets.	Editorial – Changes to align with other sections	Questions 9 a) and b)
Section 20 – Leases	This Section covers the accounting for all leases. It distinguishes between finance leases, where substantially all the risks and rewards incidental to ownership are transferred and operating leases, where they are not. This Section provides guidance on recognition, measurement and disclosures.	Editorial – Changes to align with other sections	Question 10 a) iii)
Section 22 – Liabilities and equity claims	This Section establishes the principles for classifying financial instruments as either liabilities or equity claims. The concept of ownership implied from equity in the private sector does not apply to NPOs that operate for the benefit of service beneficiaries rather than for private distributions. The definition of equity has been amended in Section 2 and as a consequence references to equity have been replaced by equity claims. This Section has therefore been amended to reflect that INPAG does not use the term equity, with consequential amendments that reflect the expected nature of NPO equity claims.	Updated – minor changes replacing equity with equity claims	Questions 5 b) and c)

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 24 – Expenses **Part II Classification of expenses**	Section 24 Part II is a new section that has been written to provide guidance relating to the presentation of expenses. It permits an expense analysis by nature, by function, or a mixture of the two. It includes a rebuttable presumption that an analysis by nature is used unless another analysis provides information that is more relevant and reliable. It permits the presentation of this information to be either on the face of the Statement of Income and Expenses or in the notes to the financial statements. Guidance is provided on the allocation and aggregation of costs where a functional or mixed presentation is used. Additional disclosure is required for for volunteer expenses, and losses, write-offs and special payments.	New Section specifically for NPOs	Questions 2 a) – g)
Part III Fundraising costs	Guidance is provided on the definition of fundraising activities. Three categories are identified that cover: activities to generate donations, gifts and similar transfers; commercial and trading activities; and investment management. The guidance on the allocation or aggregation of costs in Section 24 Part II is required to be used in calculating the cost of each category, which are required to be separately disclosed. There is a pragmatic exception where costs need to be split between fundraising and other activities.		

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 27 – Impairment of assets	This Section provides accounting guidance where the carrying amount of an asset is higher than its recoverable amount. It requires that the carrying amount is reduced to the recoverable amount. The Section includes the new measurement base for inventories held for distribution at no or nominal cost included in Section 13 *Inventories*. An amendment has been made to replace the term 'cash-generating unit' with 'operating unit' to encompass assets that are held for missional purposes rather than cash-generation. This Section confirms that value in use as specified in Section 2 *Concepts and pervasive principles* includes service potential.	Updated – minor changes to reflect the valuation of inventory held for no or nominal consideration and use of terminology	Questions 8 a) – c)
Section 33 – Related party disclosures	This Section requires disclosure to draw attention to the possibility that an NPO's financial position and/or its surplus or deficit have been affected by the existence of related parties because of transactions between the NPO and a related party. The Section requires that members of an NPO's governing body are considered to be a related party, whether or not they are paid. New disclosures have been added about personnel compensation and out of pocket expenses for these members. An exception to the disclosure of transactions with governing body members has been added to cover grants or donations they make or services they receive when these are made as part of an arms'-length transaction, or received on the same terms as other eligible service recipients.	Updated – minor changes to reflect relationships with the members of an NPO's governing body	Question 2 g)
Section 34 – Specialised activities	This section provides guidance on three types of specialised activities: agriculture, extractive activities and service concessions. The Section sets out the recognition, measurement and disclosure requirements for each activity.	Editorial – Changes to align with other sections	Question 10 b)

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 36 – Fund accounting	Section 36 is a new section that sets out the characteristics of a fund for the purposes of INPAG and whether a fund should be presented in the financial statements as being with or without restrictions. A fund where the use of resources is limited to a specific purpose or activity as a consequence of externally imposed legal or equivalent arrangements is a restricted fund. A fund established as a consequence of a fundraising campaign with an externally communicated commitment on the specific purpose to which the funds will be put will also be a restricted fund. The guidance requires that the income, expenses, assets and liabilities associated with a fund are recorded. New disclosures are required for fund balances and movements in the year.	New Section specifically for NPOs	Questions 1 b) – g)
Section 37 – Supplementary information	Section 37 is a new section that requires additional information to be disclosed when an NPO produces one or more supplementary statements using INPAG Practice Guide 1 – Supplementary statements (the Practice Guide). Section 37 requires that all of the categories of information required by the Practice Guide be disclosed. The Section places reliance on the disclosures required by other sections of INPAG with additional disclosures only needed where this is not available. NPOs may choose to prepare a note that covers all of the requirements of the Guide, or disclose only the additional information.	New Section specifically for NPOs	Questions 3 a) – c)

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 38 – Transition to INPAG	This Section applies to any NPO adopting INPAG for the first time irrespective of whether it has previously produced accounts conforming to another accounting framework. It sets out the requirements for recognising and measuring assets and liabilities to create a Statement of Financial Position compliant with INPAG. Fair value can be used to create a deemed cost for specified assets and liabilities. This includes property, plant and equipment, heritage assets and inventory. The requirement to recognise grant arrangements only extends to those that will not be completed within 12 months of the adoption date. Accumulated funds that contain historic surpluses and deficits must be split between funds with restrictions and funds without restrictions. A transition period for adoption is permitted. Compliance with just the financial statements can be asserted ahead of full compliance including the narrative report. The narrative reporting requirements must be completed within a two-year period to be able to continue to express compliance with INPAG.	Updated – minor changes to reflect requirements of INPAG	Questions 6 a) and b)
Illustrative financial statements	Illustrative financial statements have been prepared as an Annex to the Implementation Guidance. The templates have been populated with data to cover the most common NPO transactions. The illustrative financial statements focus on new INPAG requirements.	New – illustrative financial statements specifically for NPOs	Question 4

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
INPAG Practice Guide 1 – Supplementary statements	This Practice Guide has been created to enable the presentation of key financial information about a specified activity, project or grant. The Practice Guide requires the disclosure of specific categories of income, expenses other costs, transfers and balances, in a prescribed statement format. It requires each statement to be supported by notes that explain the purpose and scope of each statement and the basis of its preparation. A reconciliation to the general purpose financial statements and an attestation is also required. The Practice Guide provides templates for different variants of reporting that includes comparison to budget, multiple grants, multiple time periods and different currencies. The Practice Guide is not part of INPAG but is linked to it through Section 37 *Supplementary information.* Where Supplementary statements prepared using the Practice Guide are presented with the general purpose financial statements, they must be shown as an Annex.	New Practice Guide	Questions 3 d) – f)

Sections included in previous Exposure Drafts, where there are revisions in ED3

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 2 – Concepts and pervasive principles	This Section provides the concepts and principles on which INPAG is based. Since ED1, amendments are proposed to the paragraphs related to equity and net assets. Net assets is proposed to be a new element in the financial statements that reflects the residual amount of an NPO's assets and liabilities available to achieve its objectives. The term equity claim is introduced to describe equity type instruments. The definition of funds with restrictions is removed as it is now located in Section 36.	Modified – Major changes to reflect NPO-specific requirements	Questions 5 a) and b)
Section 5 – Statement of Income and Expenses	This Section sets out what information is required to be presented in the Statement of Income and Expenses. Since ED1, the requirement to separately disclose funds with and without restrictions on the face of the statement has been removed. Section 6 – *Statement of Changes in Net Assets* still requires the surplus or deficit for the period to be split between funds with restrictions and funds without restrictions. This information therefore remains accessible to users of the financial statements.	Modified – Major changes to reflect NPO-specific requirements	Question 1 a)
Section 7 – Statement of Cash Flows	This Section provides guidance on the preparation of the Statement of Cash Flows and related disclosures. ED3 includes additional text proposed in the Addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard issued by the International Accounting Standards Board on 28 March 2024.	Editorial – Changes to align with other sections	Question 11 a)
Section 28 – Employee benefits	This Section provides guidance on the recognition, measurement and disclosure of all employee related benefits. An additional disclosure on short-term employee benefits is proposed in ED3 as a consequence of the proposals on the classification of expenses.	Updated – minor changes to disclosure requirements	Question 2 c)
Section 30 – Foreign currency translation	This Section provides guidance on foreign currency translation. ED3 includes additional text proposed in the Addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard issued by the International Accounting Standards Board on 28 March 2024.	Editorial – Changes to align with other sections	Question 11 b)

Annex B – Main content of each Exposure Draft

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	Updated (Minor)
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	Updated (Minor)
			32	Events after the reporting period	Editorial	33	Related party disclosures	Updated (Minor)
						34	Specialised activities	Editorial
						36	Fund accounting	New
						37	Supplementary information	New
						38	Transition to the Guidance	Updated (Minor)
							INPAG Practice Guide 1 – Supplementary statements	New

Annex C – Acronyms

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 Standard.
IFAC	International Federation of Accountants	A global organisation for the accountancy profession. It serves the public interest by enhancing the relevance, reputation and value of the global accountancy profession.
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.
TAG	Technical Advisory group	A forum where the INPAG Secretariat can consult experienced individuals nominated by National Standard Setters (NSS), on the overall approach to the development of financial reporting guidance for non-profit organisations (NPOs).

INPAG

International Non-Profit Accounting Guidance Part 3

Authoritative Guidance

Comments to be received by 16 September 2024
Issued 28 May 2024

INPAG ED/2024/3

Contents

Note: all references to the *IFRS for SMEs* Accounting Standard in this draft of the Authoritative Guidance are to the draft Third edition of the *IFRS for SMEs* Accounting Standard exposed in September 2022 or the additional text exposed on 28 March 2024 unless otherwise stated.

The International Non-Profit Accounting Guidance (INPAG) is set out in the Preface and Sections 1–38. INPAG

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

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 1–11 and Section 35 were published as drafts in Exposure Draft 1 (ED1). Section 13, Section 21, Sections 23–24 Part I, Sections 25–26 and Sections 28–32 were published as drafts in Exposure Draft 2 (ED2). This document provides links to the previously published sections.

The Preface and Section 1 to Section 11

The Preface and Sections 1–10 were included in **ED1**, which closed for comment on 31 March 2023.

Section 11 was included in **ED2**, which closed for comment on 15 March 2024.

Consequential amendments to Section 2 and Section 5 arising from the development of Section 36 *Fund accounting* and incorporating feedback on ED1 are set out below. Also included below is an amendment to Section 7 arising from additional text related to supplier finance arrangements as set out in the Addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard published on 28 March 2024.

The remaining feedback on ED1 will be incorporated into the final version of INPAG.

Section 2 – Concepts and pervasive principles

As part of the development of the content of Exposure Draft 3 consequential amendments are proposed to paragraphs related to equity and funds with restrictions. These amendments also reflect respondent feedback on Exposure Draft 1. New text is underlined. Removed text is ~~struck through~~.

Core Guidance

G2.50 The elements of **financial statements** defined in this Section are:

- **Assets**, liabilities and net assets, which relate to a reporting NPO's **Statement of Financial Position**.
- Income and expenses, which relate to a reporting NPO's **Statement of Income and Expenses** where they contribute to surplus and deficit and to the **Statement of Changes in Net Assets** where they do not contribute to surplus and deficit.

G2.52 In addition to these elements, further important aspects of NPO financial statements are discussed in this Section. These include:

~~(a)~~ ~~net assets~~
~~(b)~~ (a) **equity claims**; and
~~(c)~~ (b) **funds with restrictions** and **funds without restrictions**.

G2.56 Many rights are established by **contract**, legislation or similar means. For example, an NPO might obtain rights from owning or leasing a physical object, from owning a debt instrument or an equity claim, or from owning a registered patent. However, an NPO might also obtain rights in other ways, for example:

(a) by acquiring or creating know-how that is not in the public domain; or
(b) through an obligation of another party that arises because that other party has no practical ability to act in a manner inconsistent with its customary practices, published policies or specific statements.

G2.73 Net assets ~~not a defined financial statements element but rather~~ are the residual of recognised assets minus recognised liabilities available to the NPO to achieve its objectives. ~~An NPO may recognise the element of equity within net assets where the holders of **equity claims** have established a financial interest in or entitlement to some of the net assets of the NPO (see paragraphs AG2.6-AG2.9). Net assets may exceptionally also include non-controlling interests. Net assets may be managed by an NPO in separate funds, which may be funds with restrictions and funds without restrictions. These are the funds within net assets~~. Net assets will include specific categories of items whose use may be either with restrictions or without restrictions as per paragraphs G2.74–G2.75.

G2.74 Some of the net assets of an NPO may not be available to it to achieve its objectives of providing a benefit to the public but instead are a financial interest that is due to the holders of equity claims. Equity claims are the financial interest in the net assets of an NPO that is due to holders of those claims. Where the holders of equity claims have established a financial interest in some of the net assets of the NPO (see paragraphs AG2.6–AG2.10), the equity claims shall be recognised as a subset of net assets.

Fund accounting

~~Funds with restrictions~~

~~G2.74 Funds with restrictions are to be used by an NPO when there are externally imposed funding or other legal arrangements placed on the NPO by a resource provider that restrict the financial resources~~

~~provided to be expended, invested or retained by the NPO for a specific purpose or activity. A breach of these funding or other legal requirements may require the NPO to return the financial resources to the party that originally provided them and the NPO may face censure from regulators for the misuse of these resources.~~

~~Funds without restrictions~~

~~G2.75~~ ~~Funds without restrictions are those 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, 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. Internal designations include those that are made by boards of directors or equivalent bodies that are charged with governance of the NPO.~~

G2.75 When assets and liabilities, and corresponding income and expenses, are recognised, they shall be accounted for in an appropriate fund. An NPO may have more than one fund for a variety of reasons. Where this is the case, each fund shall be categorised by an NPO as either being with restrictions or without restrictions. This allows an NPO to manage and present the elements by individual fund. Section 36 *Fund accounting* provides more detail on fund accounting.

G2.79 Recognition is the process of capturing for inclusion in the Statement of Financial Position, the Statement of Income and Expenses, or the Statement of Changes in Net Assets an item that meets the definition of one of the elements of financial statements – an asset, a liability, net assets, ~~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. The amount at which an asset, a liability, or net assets ~~equity~~ is recognised in the Statement of Financial Position is referred to as its '**carrying amount**'.

Figure 2.2 – how recognition impacts components of net assets

Net assets at the beginning of reporting period	**In reporting period recognition**			**Net assets at the end of the reporting period**
Funds without restrictions	plus income without restrictions	minus expenses without restrictions	plus/minus reclassifications between funds without restrictions and funds with restrictions	Funds without restrictions
Funds with restrictions	plus income with restrictions	minus expenses with restrictions	plus/minus reclassifications between funds without restrictions and funds with restrictions	Funds with restrictions
Equity claims (where they ~~it~~ exists~~s~~)	plus investments from holders of equity claims	minus distributions to holders of equity claims		Equity claims

G2.81 Only items that meet the definition of an asset, a liability, or net assets ~~equity~~ are recognised in the Statement of Financial Position. Items that meet the definition of income or expenses are recognised in the Statement of Income and Expenses or in the Statement of Changes in Net Assets depending on whether they contribute to surplus and deficit or not. However, not all items that meet the definition of one of those elements are recognised.

G2.83 Information about assets, liabilities, net assets, ~~equity,~~ income and expenses is relevant to users of financial statements. However, recognition of a particular asset or liability and any resulting income, expenses or changes in net assets may not always provide relevant information. That may be the case if, for example, it is uncertain whether an asset or liability exists; or an asset or liability exists, but the probability of an inflow or outflow of economic benefits is low. The presence of one or both of the factors does not lead automatically to a conclusion that the information provided by recognition lacks relevance, as other factors may need to be taken into account.

Measurement of net assets and equity claims

G2.129 In the rare circumstances where an NPO has equity claims it may be appropriate to measure directly the carrying amount of some individual classes of equity claims.

G2.130 A reporting NPO communicates information about its assets, liabilities, net assets ~~equity and funds with and without restrictions in net assets~~, income and expenses by presenting and disclosing information in its financial reports.

G2.131 Effective communication of information in financial reports makes that information more relevant and contributes to a faithful representation of an entity's assets, liabilities, net assets ~~equity and funds with and without restrictions in net assets~~, income and expenses. It also enhances the understandability and comparability of information in financial reports.

G2.138 Classification is the sorting of assets, liabilities, net assets, ~~equity and funds with and without restrictions in net assets~~ income or expenses on the basis of shared characteristics for presentation and disclosure purposes. Such characteristics include – but are not limited to – the nature of the item, its role (or function) within the activities conducted by the NPO, and how it is measured.

G2.139 Classifying dissimilar assets, liabilities, net assets, ~~equity and funds with and without restrictions in net assets,~~ income or expenses together can obscure relevant information, reduce understandability and comparability and may not provide a faithful representation of what it purports to represent.

Classification of components of net assets

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

G2.147 Aggregation is the adding together of assets, liabilities, net assets, ~~equity, funds with restrictions and funds without restrictions,~~ income or expenses that have shared characteristics and are included in the same classification.

Application Guidance: Section 2 – Concepts and pervasive principles

Equity claims in the NPO context

[Previous AG2.6 deleted and replaced with two new paragraphs AG2.6 and AG2.7]

~~AG2.6~~ ~~Equity in the NPO context is not expected to be common, and where it does exist, it is unlikely to be material by magnitude but may be material by nature. It is future economic benefits or service potential that have been contributed to the NPO by external parties, other than those that result in liabilities of the NPO, and that establish a financial interest in the net assets of the NPO, which:~~

~~(a)~~ ~~conveys entitlement to both:~~

~~(i)~~ ~~distributions of future economic benefits or service potential by the NPO during its life, such distributions being at the discretion of the NPO, and to~~

~~(ii)~~ ~~distributions of any excess of assets over liabilities in the event of the NPO being wound up; and/or~~

~~(b)~~ ~~can be sold, exchanged, transferred, or redeemed.~~

~~Movements in equity are comprised of contributions from holders of equity claims and distributions to holders of equity claims.~~

AG2.6 Equity claims in the NPO context are expected to be rare. It is expected that the net assets of an NPO will be available to be used to achieve its objectives, and not for distribution. Where equity claims do exist, they are unlikely to be material by magnitude but may be material by nature.

AG2.7 Where equity claims do exist, they provide a financial interest in the net assets of the NPO through an entitlement to (i) distributions of future economic benefits or service potential by the NPO during its life, such distributions being at the discretion of the NPO, and (ii) distributions of any excess of assets over liabilities in the event of the NPO being dissolved where this excess has not otherwise been distributed to another NPO or entity with a similar purpose. In some cases this financial interest may be sold, exchanged, transferred or redeemed. Such a financial interest is similar but not the same as the concept of ownership in the *IFRS for SMEs* Accounting Standard, where investors in equity instruments that provide entitlement to the residual interest in the assets of an entity after deducting all of its liabilities are deemed to be owners.

AG2.~~7~~8 Investments from holders of equity claims are an inflow of resources to the NPO, contributed by parties external ~~parties~~ to the NPO as a consequence of equity claims arrangements, that establish or increase a financial interest in the net assets of the NPO. Examples would include the purchase by external parties of share capital issued by the NPO or funds contributed by members that entitle them to a share of net assets.

AG2.9 The provision of funding by an external party that provides governance rights but does not establish a financial interest in the net assets of the NPO is not a contribution from holders of equity claims and does not lead to the recognition of equity claims. Also, if the amount contributed is required to be refunded in the future it will be recognised as a liability in accordance with Section 22.

AG2.~~8~~10 Distributions to holders of equity claims are outflows of resources from the NPO, distributed to parties external ~~parties~~ to the NPO in accordance with equity claims arrangements, which return or reduce a financial interest in the net assets of the NPO. Examples would include the repurchase from external parties of shares issued by the NPO, or paying funds back to members so that they no longer had a further entitlement to a share of net assets.

Section 5 – Statement of Income and Expenses

As part of the development of the content of Exposure Draft 3 consequential amendments are proposed to paragraphs related to funds with and without restrictions. These amendments also reflect respondent feedback on Exposure Draft 1. New text is underlined. Removed text is ~~struck through~~.

G5.3 Aggregated income and expenses with restrictions ~~shall~~ may be presented in a separate column to aggregated income and expenses without restrictions on the face of the Statement of Income and Expenses.

Authoritative Guidance: Section 5 – Statement of Income and Expenses

Income and expenses with restrictions

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

~~AG5.5 All income that meets the definition of a restriction in G2.74 shall be shown in the 'with restrictions' column. The expenses that relate to the activities being funded by income with restrictions are to be separately identified and included in the 'with restrictions' column.~~

~~AG5.6 An NPO should disaggregate the 'with restrictions' column into the individual funds, or a subgrouping of funds or programmes, in the notes to the accounts, where this provides information that is useful to the users of the financial statements. An NPO may present this analysis on the face of the Statement of Income and Expenses.~~

Section 7 – Statement of Cash Flows

This Section was updated following the decision by the International Accounting Standards Board to extend the scope of the Second Comprehensive Review of the IFRS for SMEs Accounting Standard.

Paragraphs G7.20A–G7.20B (including their related heading) are added.

Supplier finance arrangements

G7.20A Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide NPOs with extended payment terms, or the NPO's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements.

G7.20B An NPO shall disclose in aggregate for its supplier finance arrangements:

(a) the terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an NPO shall disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions.

(b) as at the beginning and end of the reporting period:

   (i) the carrying amounts, and associated line items presented in the NPO's statement of financial position, of the financial liabilities that are part of a supplier finance arrangement.

   (ii) the carrying amounts, and associated line items, of the financial liabilities disclosed in accordance with (i) for which suppliers have already received payment from the finance providers.

   (iii) the range of payment due dates (for example, 30–40 days after the invoice date) for both the financial liabilities disclosed in accordance with (i) and comparable operating payables that are not part of the supplier finance arrangement. Comparable operating payables are, for example, operating payables of the NPO with other NPOs similar objectives or jurisdiction as the financial liabilities disclosed in accordance with (i). If ranges of payment due dates are wide, an NPO shall disclose explanatory information about those ranges or divide them into narrower ranges.

(c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed in accordance with (b)(i). Examples of non-cash changes include the effect of business combinations, exchange differences and other transactions that do not require the use of cash or cash equivalents (see paragraph G7.18).

Comparison of Sections 2, 5 and 7 consequential amendments with the *IFRS for SMEs* Accounting Standard.

Sections 2, 5 and 7 of INPAG have been drawn from Sections 2, 5 and 7 of the *IFRS for SMEs* Accounting Standard. The main differences to the comparison provided in ED1 are as follows:

- The concept of ownership implied from equity in the private sector does not apply to non-profit organisations that operate for the benefit of service beneficiaries rather than for private distributions.
- Financial interests in the net assets held by private individuals are instead defined as equity claims. Equity claims are a subset of net assets as, given the characteristics of NPOs, equity claims are not expected to be the most significant claim on an NPO's net assets.
- Net assets are defined as the residual of recognised assets minus recognised liabilities available to the NPO to achieve its objectives.
- The previously proposed requirement to show funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses has been removed.
- The definition of funds with restrictions is located in Section 36 *Fund accounting.*
- In Section 7, references to similar business for assessing payables has been amended to replace references to other business to other NPOs with similar objectives. Minor amendments have also been made to reflect the terminology used in other sections of INPAG.
- The paragraph numbers have been updated to follow those used in Section 7 of INPAG.

Specific matter for comment	
Question 1:	**References**
(a) Do you agree that the requirement to present funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses should be removed? If not, why not?	G5.3, AG5.4
Question 5:	**References**
(a) Do you agree with the revised description of net assets and its inclusion as an element? If not, what would you change and why?	G2.73
(b) Do you agree with the approach of using the term equity claims in Sections 2 and 22 rather than equity and that equity claims are a subset of net assets? If not, what would you change and why?	G2.74, AG2.6, AG2.7 Section 22
Question 11:	**References**
(a) Do you agree that the guidance for supplier finance arrangements is useful and relevant to NPOs? If not, what would you change and why?	G7.20A–G7.20B

Section 12 – Fair value measurement

Scope of this section

G12.1 This section applies when another section requires or permits **fair value** measurements or disclosures about fair value measurements, except leasing transactions within the scope of Section 20 *Leases*.

G12.2 The disclosures required by this section are not required for:

(a) **plan assets** measured at fair value in accordance with Section 28 *Employee benefits*; and
(b) **assets** for which the **recoverable amount** is fair value less costs of disposal in accordance with Section 27 *Impairment of assets*.

Measurement

G12.3 The objective of a fair value measurement is to estimate the price at which an **orderly transaction** (not a forced transaction) to sell an asset or to transfer a liability would take place between **market participants** at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

G12.4 Fair value is a market-based measurement, not an entity-specific measurement. Therefore, it is measured using the assumptions that market participants would use when pricing the asset or liability. An NPO's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

G12.5 When measuring fair value an NPO shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:

(a) the condition and location of the asset; and
(b) restrictions, if any, on the sale or use of the asset.

G12.6 A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

(a) in the **principal market** for the asset or liability; or
(b) in the absence of a principal market, in the **most advantageous** market for the asset or liability.

The NPO must have access to the principal (or most advantageous) market at the measurement date.

G12.7 In the absence of evidence to the contrary, the market in which an NPO would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.

G12.8 The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for **transaction costs**. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction.

G12.9 If location is a characteristic of the asset, the price in the principal (or most advantageous) market shall be adjusted for transport costs.

Highest and best use of non-financial assets

G12.10 A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefit or **service potential** by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

G12.11 The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:

(a) a use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (for example, the location or size of a property).
(b) a use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (for example, the zoning regulations applicable to a property).
(c) a use that is financially feasible takes into account whether a use generates adequate income or cash flows that market participants would require from an investment in that asset put to that use.

G12.12 An NPO's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.

G12.13 If the highest and best use of a non-financial asset provides maximum value to market participants through its use in combination with other assets (and liabilities) as a group, the fair value of the asset would assume that the asset would be used with those other assets (and liabilities) and that those complementary assets (and liabilities) would be available to market participants. Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets and liabilities within which the asset would be used.

Valuation techniques

G12.14 When a price for an identical asset or liability is not observable, an NPO measures fair value using another valuation technique. The entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant **observable inputs** and minimising the use of **unobservable inputs**.

G12.15 Three widely used valuation techniques are the market approach, the cost approach and the income approach. An NPO shall use valuation techniques consistent with one or more of these approaches to measure fair value:

(a) the market approach uses prices and other relevant information generated by market transactions involving identical or comparable (that is, similar) assets, liabilities or a group of assets and liabilities. For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables.
(b) the cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
(c) the income approach converts future amounts (for example, cash flows or income and expenses) to a single current (that is, discounted) amount. Those valuation techniques include, for example, the following:

(i) present value techniques;
(ii) option pricing models, such as the Black-Scholes-Merton formula or a binomial model (that is, a lattice model); and
(iii) the multi-period excess earnings method, which is used to measure the fair value of some **intangible assets**.

G12.16 Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate in accordance with Section 10. However, the disclosures in Section 10 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.

G12.17 If an asset or a liability measured at fair value has a bid price and an ask price (for example, an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorised within the fair value hierarchy (that is Level 1, 2 or 3; see paragraphs G12.22–G12.27). The use of bid prices for asset positions and ask prices for liability positions is permitted but is not required.

Reliable measure of fair value

G12.18 A valuation technique would be expected to arrive at a reliable measure of the fair value if:

(a) it reasonably reflects how the market could be expected to price the asset; and
(b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset.

G12.19 The fair value of investments in assets that do not have a quoted market price in an **active market** is reliably measurable if:

(a) the variability in the range of reasonable fair value measures is not significant for that asset; or
(b) the probabilities of the various measures within the range can be reasonably assessed and used in estimating fair value.

G12.20 There are many situations in which the variability in the range of reasonable fair value measures of assets that do not have a quoted market price is likely not to be significant. Normally it is possible to estimate the fair value of an asset that an NPO has acquired from an outside party. However, if the range of reasonable fair value measures is significant and the probabilities of the various measures cannot be reasonably assessed, the NPO is precluded from measuring the asset at fair value.

G12.21 If a reliable measure of fair value is no longer available for an asset measured at fair value (or is not available without undue cost or effort when such an exemption is provided (see paragraphs G11.17(c) and G11.65(b)), its **carrying amount** at the last date the asset was reliably measurable becomes its new cost. An NPO shall measure the asset at this cost amount less impairment until a reliable measure of fair value becomes available (or becomes available without undue cost or effort when such an exemption is provided).

Fair value hierarchy

G12.22 This section establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Level 1 inputs

G12.23 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and shall normally be used without adjustment to measure fair value whenever available.

G12.24 If an NPO holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity.

Level 2 inputs

G12.25 Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following:

(a) quoted prices for similar assets or liabilities in active markets.
(b) quoted prices for identical or similar assets or liabilities in markets that are not active.
(c) inputs other than quoted prices that are observable for the asset or liability, for example:

  (i) interest rates and yield curves observable at commonly quoted intervals;
  (ii) implied volatilities; and
  (iii) credit spreads.

(d) market-corroborated inputs.

G12.26 An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorised within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

Level 3 inputs

G12.27 Level 3 inputs are unobservable inputs for the asset or liability. An NPO shall develop unobservable inputs using the best information available in the circumstances, which might include the NPO's own data. In developing unobservable inputs, an NPO may begin with its own data, but it shall adjust this data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (for example, an entity-specific synergy). An NPO need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an NPO shall take into account all information about market participant assumptions that is reasonably available.

Disclosures

G12.28 An NPO shall disclose for each **class of assets** and liabilities measured at fair value in the **Statement of Financial Position** after initial **recognition**:

(a) the carrying amounts at the end of the **reporting period**;
(b) the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3); and
(c) a description of the valuation technique(s) it used for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, and the inputs used in the fair value measurement.

G12.29 For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, an NPO shall disclose:

(a) total gains or losses for the period recognised in surplus or deficit, and the line items in surplus or deficit in which those gains or losses are recognised; and
(b) total gains or losses for the period recognised in **Statement of Changes in Net Assets**, and the line items in Statement of Changes in Net Assets in which those gains or losses are recognised.

G12.30 An NPO shall determine appropriate classes of assets and liabilities on the basis of:

(a) the nature, characteristics and risks of the asset or liability; and
(b) the level of the fair value hierarchy within which the fair value measurement is categorised.

G12.31 A class of assets and liabilities will often require greater disaggregation than the line items presented in the Statement of Financial Position. However, an NPO shall provide sufficient information to permit reconciliation to the line items presented in the Statement of Financial Position.

G12.32 An NPO shall present the quantitative disclosures required by paragraphs G12.28–G12.31 in a table unless another format is more appropriate.

Application Guidance: Section 12 – Fair value measurement

Scope

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

Applying fair value to NPOs

AG12.2 For NPOs:

(a) Level 1 'open market values' are likely to be limited to specific assets (see Illustrative Guidance example 3).

(b) Level 2 values that are derived from observable prices may be relevant to NPOs for some assets and liabilities – for example, investment properties. Where market values for an asset are available, yet the asset is used for social purposes rather than maximising **cash inflows**, a Level 3 technique shall be employed (see Illustrative Guidance example 1).

(c) Many assets and liabilities will be part of Level 3 in the fair value hierarchy.

AG12.3 **Social use assets** may be more difficult to value as they may be unusual or heritage in nature, or simply because they do not generate cash flows. Social use assets held for their service potential may mean that fair value is tied to value to a community.

AG12.4 Heritage assets shall be valued using the principles in Section 17 *Property, plant and equipment.* The fair value of assets held for their service potential shall be determined using the cost approach, where there is no observable market. The cost approach calculates the value based on the current cost required to replace the service capacity of an asset.

Fair value of restricted use assets

AG12.5 Where a restriction is placed on how an asset can be used over time, the fair value of that asset shall be evaluated based on its current usage within those restrictions. This will be the highest and best use of that asset under those circumstances. An NPO shall not determine the highest and best use as if the restriction were lifted.

AG12.6 The fair value of an asset that is subject to a restriction shall take account of the service potential of that asset in determining its value. This should take account of the capacity needed to support the delivery of services to beneficiaries rather than, for example, the location or technical specification of the asset that is subject to a restriction.

Fair value of donated assets

AG12.7 Application of fair value on initial recognition of a donated asset shall be its deemed cost.

AG12.8 Many NPO assets and liabilities will require the use of a Level 3 technique; that is either the market approach, cost approach or income approach. This will be particularly the case for assets arising from donations in-kind.

AG12.9 Where an asset can be freely disposed of, it shall be measured at its highest and best use, which shall not take account of any previous or existing restriction.

AG12.10 If an observable market price is not available and obtaining a reliable measurement of fair value under paragraph AG12.6 is **impracticable**, the fair value of donated items shall be determined as their 'replacement cost'. Replacement cost is the lowest economical cost that would be incurred in achieving the service potential created for use in delivering services to beneficiaries. This provides the value of an equivalent item in local use, or '**value in use**'. An NPO may use the cost to the donor as the deemed fair value where this is known and is relevant.

Fair value application in crisis situation

AG12.11 There may be situations where an NPO is operating in a crisis situation and is not able to determine a fair value for the assets that it is receiving (eg inventory) because to do so would be impracticable. In this situation it may not be possible to reliably measure such donated items and the NPO shall not recognise them. A disclosure is required to describe the affected items. Paragraphs AG13.8–AG13.9 set out these requirements and disclosures for donated inventory. The same principles also apply to other classes of assets.

Comparison of Section 12 with the *IFRS for SMEs* Accounting Standard

Section 12 of INPAG has been drawn from Section 12 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 12 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 12 of INPAG are as follows:

- The *IFRS for SMEs* Accounting Standard does not specifically consider when fair value is used to determine the deemed cost of a donated asset on initial recognition. Although the existing guidance can be applied to such assets, additional application guidance has been developed to assist NPOs with donated assets.
- The illustrative examples on this Section have been expanded to cover donated assets and all of the illustrative examples are included in the Implementation Guidance.
- References to share-based payments have been removed to align with other sections of INPAG.
- INPAG Section 12 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 7:	**References**
(ii) Is the Section 12 application guidance that sets out how the fair value hierarchy applies to NPO assets and liabilities and the illustrative examples of fair valuing donations in-kind useful? If not, how could it be improved?	AG12.1–AG12.11; Implementation Guidance Section 12 examples 5 and 6.

Section 13 – Inventories

Section 13 *Inventories* was included in **ED2**, which closed for comment on 15 March 2024.

Section 14 – Investment in associates

Scope of this section

G14.1 This section applies to accounting for associates in **consolidated financial statements** and in the financial statements of an investing NPO that is not a parent but that has a **beneficial interest** in one or more associates. Paragraph G9.45 establishes the requirements for accounting for associates in **separate financial statements**.

Associates defined

G14.2 An associate is an entity, including an entity such as a partnership, over which the investing NPO has significant influence and that is neither a **controlled entity** nor an interest in a **joint arrangement**.

G14.3 Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not **control** or **joint control** over those policies:

(a) if an investing NPO holds, directly or indirectly (for example, through controlled entities), 20 per cent or more of the voting power of the associate, it is presumed that the investing NPO has significant influence, unless it can be clearly demonstrated that this is not the case;

(b) conversely, if the investing NPO holds, directly or indirectly (for example, through controlled entities), less than 20 per cent of the voting power of the associate, it is presumed that the investing NPO does not have significant influence, unless such influence can be clearly demonstrated; and

(c) a substantial or majority ownership by another investor does not preclude an investing NPO from having significant influence.

Measurement – accounting policy election

G14.4 An investing NPO shall account for all of its beneficial interest in associates using one of the following:

(a) the cost model in paragraph G14.5;

(b) the equity method in paragraph G14.8; or

(c) the **fair value** model in paragraph G14.9.

Cost model

G14.5 An investing NPO shall measure its beneficial interests in associates, other than those for which there is a published price quotation (see paragraph G14.7) at cost less any accumulated **impairment losses** recognised in accordance with Section 27 *Impairment of assets*.

G14.6 The investing NPO shall recognise dividends and other distributions received from the beneficial interest as income without regard to whether the distributions are from accumulated surpluses of the associate arising before or after the date of acquisition.

G14.7 An investing NPO shall measure its beneficial interests in associates for which there is a published price quotation using the fair value model (see paragraph G14.9).

Equity method

G14.8 Under the equity method of accounting, an equity investment is initially recognised at the transaction price (including **transaction costs**) and is subsequently adjusted to reflect the investing NPO's share of the **surplus or deficit** and **changes in net assets** of the associate:

(a) *distributions and other adjustments to carrying amount*. Distributions received from the associate reduce the **carrying amount** of the investment. Adjustments to the carrying amount may also be required as a consequence of changes in the associate's equity arising from items that result in changes to net assets.

(b) *potential voting rights*. Although potential voting rights are considered in deciding whether significant influence exists, an investing NPO shall measure its share of surplus or deficit and changes in net assets of the associate and its share of changes in the associate's equity on the basis of present beneficial interests. Those measurements shall not reflect the possible exercise or conversion of potential voting rights.

(c) *implicit goodwill and fair value adjustments*. On acquisition of the beneficial interest in an associate, an investing NPO shall account for any difference (whether positive or negative) between the cost of acquisition and the investing NPO's share of the fair values of the net identifiable **assets** of the associate in accordance with paragraphs G19.23–G19.25 and G19.35. An investing NPO shall adjust its share of the associate's surplus or deficit after acquisition to account for additional **depreciation** or **amortisation** of the associate's depreciable or amortisable assets (including **goodwill**) on the basis of the excess of their fair values over their carrying amounts at the time the investment was acquired.

(d) *impairment*. If there is an indication that an investment in an associate may be impaired, an investing NPO shall test the entire carrying amount of the investment, including **financial instruments** that in substance form part of the investing NPO's net investment in the associate, for impairment in accordance with Section 27, as a single asset. A financial instrument for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, part of the investing NPO's net investment (for example, may include preference shares or long-term receivables or loans). An investing NPO shall apply Section 11 to any such financial instrument before it applies this paragraph or paragraph G14.8(h). Any goodwill included as part of the carrying amount of the investment in the associate is not tested separately for impairment but, instead, as part of the test for impairment of the investment as a whole.

(e) *investing NPO's transactions with associates*. The investing NPO shall eliminate unrealised surplus or deficit resulting from upstream (associate to investing NPO) and downstream (investing NPO to associate) transactions to the extent of the investing NPO's interest in the associate. Unrealised losses on such transactions may provide evidence of an impairment of the asset transferred.

(f) *date of associate's financial statements*. In applying the equity method, the investing NPO shall use the financial statements of the associate as of the same date as the financial statements of the investing NPO unless it is **impracticable** to do so. If it is impracticable, the investing NPO shall use the most recent available financial statements of the associate, with adjustments made for the effects of any significant transactions or events occurring between the accounting period ends.

(g) *associate's accounting policies*. If the associate uses **accounting policies** that differ from those of the investing NPO, the investing NPO shall adjust the associate's financial statements to reflect the investing NPO's accounting policies for the purpose of applying the equity method unless it is impracticable to do so.

(h) *losses in excess of investment*. If an investing NPO's share of losses of an associate equals or exceeds the carrying amount of its investment in the associate, the investing NPO shall discontinue recognising its share of further deficit. The interest in an associate is the carrying amount of the investment determined using the equity method together with any financial instruments that in substance form part of the investing NPO's net investment in the associate (see paragraph G14.8(d)). After the investing NPO's interest is reduced to zero, the investing NPO shall recognise additional deficits by a **provision** (see Section 21 *Provisions and contingencies*) only to the extent that the investing NPO has incurred legal or **constructive obligations** or has made payments on behalf of the associate. If the associate subsequently reports surpluses, the investing NPO shall resume recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

(i) *discontinuing the equity method*. An investing NPO shall cease using the equity method from the date that significant influence ceases:

(i) if the associate becomes a controlled entity or a **jointly controlled entity**, the investing NPO shall remeasure its previously held equity interest to fair value and recognise the resulting **gain or loss**, if any, in surplus or deficit.

(ii) if an investing NPO loses significant influence over an associate as a result of a full or partial disposal, it shall derecognise that associate and recognise in surplus or deficit the difference between, on the one hand, the sum of the proceeds received plus the fair value of any retained interest and, on the other hand, the carrying amount of the investment in the associate at the date significant influence is lost. Thereafter, the investing NPO shall account for any retained interest using Section 11.

(iii) if an investing NPO loses significant influence for reasons other than a partial disposal of its investment, the investing NPO shall regard the carrying amount of the investment at that date as a new cost basis and shall account for the investment using Section 11.

Fair value method

G14.9 When an investment in an associate is recognised initially, an investing NPO shall measure it at the transaction price. Transaction price excludes transaction costs.

G14.10 At each **reporting date**, an investing NPO shall measure its investments in associates at fair value, with changes in fair value recognised in surplus or deficit, using the fair value measurement guidance in Section 12 *Fair value measurement*. An investing NPO using the fair value model shall use the cost model for any investment in an associate for which fair value cannot be measured reliably without undue cost or effort.

Financial statement presentation

G14.11 An investing NPO shall classify investments in associates as non-current assets.

Disclosures

G14.12 An NPO shall disclose the following:

(a) its **accounting policy** for investments in associates;

(b) the carrying amount of investments in associates (see paragraph G4.2(k)); and

(c) the fair value of its investment in an associate if a market price for the investment is quoted and the NPO accounts for the associate using the equity method.

G14.13 For investments in associates accounted for using the cost model, an investing NPO shall disclose the amount of dividends and other distributions recognised as income.

G14.14 For investments in associates accounted for using the equity method, an investing NPO shall disclose separately its share of the surplus or deficit and its share of any **discontinued operations**.

G14.15 For investments in associates accounted for using the fair value model, an investing NPO shall make the disclosures required in Section 12. If an investing NPO applies the undue cost or effort exemption in paragraph G14.10 for any associates it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of investments in associates accounted for under the cost model.

Comparison of Section 14 with the *IFRS for SMEs* Accounting Standard
Section 14 of INPAG has been drawn from Section 14 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 14 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 14 of INPAG are as follows: • INPAG Section 14 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. • Section 14 uses terminology to align with other sections, including the replacement of the term 'subsidiary' with 'controlled entity', 'investor' with 'investing NPO' and 'ownership interest' with 'beneficial interest'.

Specific matter for comment	
Question 10: (a) Do you agree that no further alignment changes are needed to: (i) Section 14 Investments in associates? If not, why not?	**References** Section 14

Section 15 – Joint arrangements

Scope of this section

G15.1 This section applies to an NPO that is a party to a joint arrangement in **consolidated financial statements** and, if the NPO is not a **controlling NPO**, in the individual financial statements. Paragraph G9.45 establishes the requirements for accounting for a party's interest in a jointly controlled entity in **separate financial statements**. References to 'party' in this section are to an NPO or other entity that participates in a joint arrangement.

Joint arrangements defined

G15.2 Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

G15.3 An NPO that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (that is, the relevant activities).

G15.4 A joint arrangement is an arrangement of which two or more parties have joint control. Joint arrangements can take the form of jointly controlled operations, jointly controlled assets or jointly controlled entity.

Jointly controlled operations

G15.5 The operation of some joint arrangements involves the use of the **assets** and other resources of the parties to the joint arrangement instead of the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the parties themselves. Each party uses its own **property, plant and equipment** and carries its own **inventories**. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint arrangement activities may be carried out by the party's employees alongside the party's similar activities. The joint arrangement agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the parties.

G15.6 In respect of its interests in jointly controlled operations, an NPO shall recognise in its financial statements:

(a) the assets that it controls and the liabilities that it incurs; and
(b) the expenses that it incurs and its share of the revenue that it earns from the sale of goods or services by the joint arrangement.

Jointly controlled assets

G15.7 Some joint arrangements involve the joint control, and often the joint ownership, by the parties of one or more assets contributed to, or acquired for the purpose of, the joint arrangement and dedicated to the purposes of the joint arrangement.

G15.8 In respect of its interest in a jointly controlled asset, an NPO shall recognise in its financial statements:

(a) its share of the jointly controlled assets, classified according to the nature of the assets;
(b) any liabilities that it has incurred;
(c) its share of any liabilities incurred jointly with the other parties in relation to the joint arrangement;
(d) any revenue from the sale or use of its share of the output of the joint arrangement, together with its share of any expenses incurred by the joint arrangement; and
(e) any expenses that it has incurred in respect of its interest in the joint arrangement.

Jointly controlled entities

G15.9 A jointly controlled entity is 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.

Measurement – accounting policy election

G15.10 An NPO shall account for all of its interests in jointly controlled entities using one of the following:

(a) the cost model in paragraph G15.11;
(b) the equity method in paragraph G15.14; or
(c) the **fair value** model in paragraph G15.15.

Cost model

G15.11 An NPO shall measure its **beneficial interest**s in jointly controlled entities, other than those for which there is a published price quotation (see paragraph G15.13) at cost less any accumulated impairment losses recognised in accordance with Section 27 *Impairment of assets*.

G15.12 The NPO shall recognise distributions received from the beneficial interest as income without regard to whether the distributions are from accumulated surpluses of the jointly controlled entity arising before or after the date of acquisition.

G15.13 An NPO shall measure its beneficial interests in jointly controlled entities for which there is a published price quotation using the fair value model (see paragraph G15.15).

Equity method

G15.14 An NPO shall measure its beneficial interests in jointly controlled entities by the equity method using the procedures in paragraph G14.8 (substituting 'joint control' where that paragraph refers to 'significant influence').

Fair value method

G15.15 When a beneficial interest in a jointly controlled entity is recognised initially, an NPO shall measure it at transaction price. Transaction price excludes **transaction costs**.

G15.16 At each **reporting date**, an NPO shall measure its beneficial interests in jointly controlled entities at fair value, with changes in fair value recognised in surplus or deficit, using the fair value measurement guidance in Section 12 *Fair value measurement*. An NPO using the fair value model shall use the cost model for any beneficial interest in a jointly controlled NPO for which fair value cannot be measured reliably without undue cost or effort.

Transactions between a party to the joint arrangement and the joint arrangement

G15.17 When an NPO that is a party to the joint arrangement contributes or sells assets to a joint arrangement, **recognition** of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint arrangement, and provided the party to the joint arrangement has transferred the significant risks and rewards of ownership, the NPO shall recognise only that portion of the gain or loss that is attributable to the interests of the other parties. The NPO shall recognise the full amount of any deficit when the contribution or sale provides evidence of an impairment loss.

G15.18 When an NPO that is a party to the joint arrangement purchases assets from a joint arrangement, that NPO shall not recognise its share of the surpluses of the joint arrangement from the transaction until it resells the assets to an independent party. An NPO to the joint arrangement shall recognise its share of the deficits resulting from these transactions in the same way as surpluses except that deficits shall be recognised immediately when they represent an impairment loss.

If an NPO does not have joint control

G15.19 An NPO that participates in, but does not have joint control of, a jointly controlled entity shall account for its interest in the arrangement in accordance with Section 11 *Financial instruments*, unless it has significant influence over the jointly controlled entity, in which case it shall account for it in accordance with Section 14 *Investments in associates*.

G15.20 An NPO that participates in, but does not have joint control of, a jointly controlled operation involving the use of assets and other resources instead of the establishment of a separate vehicle shall account for its interest in the arrangement in accordance with paragraph G15.6.

G15.21 An NPO that participates in, but does not have joint control of, a jointly controlled asset involving joint ownership of one or more assets contributed to, or acquired for the purpose of, the joint arrangement and dedicated to the purpose of the joint arrangement shall account for its interest in the arrangement in accordance with paragraph G15.8.

Disclosures

G15.22 An NPO shall disclose the following:

(a) the accounting policy it uses for recognising its interests in jointly controlled NPOs;
(b) the **carrying amount** of beneficial interests in jointly controlled entities (see paragraph G4.2(l));
(c) the fair value of its beneficial interests in a jointly controlled entity, if a market price for the beneficial interest is quoted and the NPO accounts for the jointly controlled entities using the equity method; and
(d) the aggregate amount of its commitments relating to jointly controlled entities, including its share in the commitments that have been incurred jointly with other parties.

G15.23 For jointly controlled entities accounted for in accordance with the equity method, the NPO shall also make the disclosures required by paragraph G14.14 for equity method investments.

G15.24 For jointly controlled entities accounted for in accordance with the fair value model, the NPO shall make the disclosures required in Section 12. If an NPO applies the undue cost or effort exemption in paragraph G15.16 for any jointly controlled entities it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of beneficial interests in jointly controlled entities accounted for under the cost model.

Comparison of Section 15 with the *IFRS for SMEs* Accounting Standard

Section 15 of INPAG has been drawn from Section 15 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 15 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 15 of INPAG are as follows:

- INPAG paragraphs G15.17 and G15.18 have been amended to reflect the requirements for the NPO only where the NPO is a party to a joint arrangement with another party.
- INPAG Section 15 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.
- INPAG Section 15 uses terminology to align with other sections, including the replacement of the term ‘interest’ with ‘beneficial interest’.

Specific matter for comment	
Question 10: (a) Do you agree that no further alignment changes are needed to: (ii) Section 15 *Joint arrangements*? If not, why not?	**References** Section 15

Section 16 – Investment property

Scope of this section

G16.1 This section applies to accounting for investments in land or buildings that meet the definition of **investment property** in paragraph G16.2 and some property interests held by a lessee under an **operating lease** (see paragraph G16.4) that are treated like investment property. Only investment property whose **fair value** can be measured reliably without undue cost or effort on an ongoing basis is accounted for in accordance with this section at fair value through **surplus or deficit**. All other investment property is accounted for using the cost model in Section 17 *Property, plant and equipment* and remains within the scope of Section 17 unless a reliable measure of fair value becomes available and it is expected that fair value will be reliably measurable on an ongoing basis.

Definition and initial recognition of investment property

G16.2 Investment property is property (land or a building, or 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:

(a) use in the ordinary activities of the NPO, or for NPO's administrative purposes; or
(b) sale where this is in the ordinary course of NPO activity.

G16.3 A property held by an NPO primarily for activities to deliver its missional objectives and which also generates **cash inflows**, for example social housing, shall not be classified as an investment property. Instead, it should be accounted for as property, plant, and equipment in accordance with Section 17.

G16.4 A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property using this section if, and only if, the property would otherwise meet the definition of an investment property and the lessee can measure the fair value of the property interest without undue cost or effort on an ongoing basis. This classification alternative is available on a property-by-property basis.

G16.5 An NPO shall use its judgement to determine whether the acquisition of investment property is the acquisition of an **asset** or of a group of assets, or a business combination within the scope of Section 19 *Business combinations and goodwill.* Determining whether a specific transaction meets the definition of a business combination as defined in Section 19 and includes an investment property as defined in this section requires the separate application of both sections.

G16.6 Mixed use property shall be separated between investment property and **property, plant and equipment**. However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property shall be accounted for as property, plant and equipment in accordance with Section 17.

Measurement at initial recognition

G16.7 An NPO shall measure purchased investment property at its cost at initial **recognition**. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other **transaction costs**. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments. An NPO shall determine the cost of a self-constructed investment property in accordance with paragraphs G17.10–G17.14.

G16.8 An NPO shall measure donated investment property at fair value in accordance with Section 12 *Fair value measurement.* Application of fair value on initial recognitions shall be the deemed cost of the investment property.

G16.9 The initial cost of a property interest held under a **lease** and classified as an investment property shall be as prescribed for a finance lease by paragraph G20.9, even if the lease would otherwise be classified as an operating lease if it was in the scope of Section 20 *Leases*. In other words, the asset is recognised at the lower of the fair value of the property and the present value of the **minimum lease payments**. An equivalent amount is recognised as a **liability** in accordance with paragraph G20.9.

Measurement after initial recognition

G16.10 Investment property whose fair value can be measured reliably without undue cost or effort shall be measured at fair value at each **reporting date** with changes in fair value recognised in surplus or deficit. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Section 12 *Fair value measurement* provides guidance on determining fair value. An NPO shall account for all other investment property using the cost model in Section 17.

Transfers

G16.11 If a reliable measure of fair value is no longer available without undue cost or effort for an item of investment property measured using the fair value model, the NPO shall thereafter account for that item in accordance with Section 17 until a reliable measure of fair value becomes available. The **carrying amount** of the investment property on that date becomes its cost under Section 17. Paragraph G16.12(d)(iii) requires disclosure of this change. It is a change of circumstances and not a change in accounting policy.

G16.12 Other than as required by paragraph G16.10, an NPO shall transfer a property to, or from, investment property only when there is a change in use. This occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use.

Disclosures

G16.13 An NPO shall disclose the following for all investment property accounted for at fair value through surplus or deficit (paragraph G16.12):

(a) the extent to which the fair value of investment property (as measured or disclosed in the **financial statements**) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.

(b) the existence and amounts of restrictions on the realisability of investment property or the remittance of **income** and proceeds of disposal.

(c) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

(d) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:

  (i) additions, disclosing separately those additions resulting from acquisitions through **business combinations**;

  (ii) net **gains** or losses from fair value adjustments;

  (iii) transfers to and from investment property carried at cost less accumulated **depreciation** and **impairment** (see paragraph G16.11);

  (iv) transfers to and from **inventories** and owner-occupied property; and

  (v) other changes.

This reconciliation need not be presented for prior periods.

G16.14 In accordance with Section 20, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An NPO that holds an investment property under a finance lease or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.

Comparison of Section 16 with the *IFRS for SMEs* Accounting Standard

Section 16 of INPAG has been drawn from Section 16 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 16 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 16 of INPAG are as follows:

- Section 16 includes an additional paragraph to distinguish between purchased and donated investment property. The new paragraph addresses the measurement of the investment property on receipt to provide clarity about the measurement base. It requires a donated investment property to be measured at fair value in line with Section 12 *Fair value measurement* on initial recognition.
- INPAG clarifies that assets that might otherwise be considered investment property but are held for an NPOs missional objectives (eg social housing) shall not be classed as investment property but instead as property, plant and equipment. Such assets should follow the requirements of Section 17 *Property, plant and equipment*.
- INPAG Section 16 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 7:	**References**
(b) Do you agree with the additional guidance provided for donated: (i) investment property (Section 16)? If not, why not?	G16.8

Section 17 – Property, plant and equipment

Scope of this Section

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

G17.2 Property, plant and equipment are tangible **assets** that:

(a) are held for use in the ordinary activities of the NPO, for rental to others, or for NPO's administrative purposes; and
(b) are expected to be used during more than one period.

G17.3 Property, plant and equipment does not include:

(a) **biological assets** related to **agricultural activity** other than **bearer plants** that can be measured separately from the produce on them without undue cost or effort (see Section 34 *Specialised activities*). This section applies to bearer plants but it does not apply to the produce on bearer plants; and
(b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

Recognition

G17.4 An NPO shall recognise the cost of an item of property, plant and equipment as an asset if, and only if:

(a) it is **probable** that economic benefits or **service potential** associated with the item will flow to the NPO; and
(b) the cost of the item can be measured reliably.

G17.5 Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Section when they meet the definition of property, plant and equipment. Otherwise, such items are classified as **inventory**.

G17.6 Parts of some items of property, plant and equipment may require replacement at regular intervals (for example, the roof of a building). An NPO shall add to the **carrying amount** of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefit or service potential to the NPO. The carrying amount of those parts that are replaced is **derecognised** in accordance with paragraphs G17.32–G17.35 regardless of whether the replaced parts had been depreciated separately. If it is not practicable for an NPO to determine the carrying amount of the replaced part, the NPO may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Paragraph G17.21 provides that if the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits or service potential, an NPO shall allocate the initial cost of the asset to its major components and **depreciate** each such component separately over its **useful life**.

G17.7 A condition of continuing to operate an item of property, plant and equipment (for example, a bus) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous major inspection (as distinct from physical parts) is derecognised. This is done regardless of whether the cost of the previous major inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

G17.8 Land and buildings are separable assets and an NPO shall account for them separately, even when they are acquired together.

Measurement at initial recognition

G17.9 An NPO shall measure an item of property, plant and equipment that has been acquired or constructed at initial **recognition** at its cost.

G17.10 An NPO shall measure the cost of an item of property, plant and equipment that has been donated at its fair value in line with the guidance in Section 12 *Fair value measurement*. Application of fair value on initial recognition shall be the deemed cost of the asset.

Elements of cost

G17.11 The cost of an item of property, plant and equipment comprises all of the following:

(a) its purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include the costs of site preparation, initial delivery and handling, installation and assembly and testing of functionality.
(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

G17.12 The following costs are not costs of an item of property, plant and equipment and an NPO shall recognise them as an **expense** when they are incurred:

(a) costs of opening a new facility;
(b) costs of introducing a new service or product (including costs of advertising and promotional activities);
(c) costs of conducting operations in a new location or with a new class of **service recipient** or customer (including costs of staff training);
(d) administration and other general overhead costs; and
(e) **borrowing costs** (see Section 25 *Borrowing costs*).

G17.13 The **income** and related **expenses** of incidental operations during construction or development of an item of property, plant and equipment are recognised in **surplus or deficit** if those operations are not necessary to bring the item to its intended location and operating condition.

Measurement of cost

G17.14 The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments.

Exchanges of assets

G17.15 An item of property, plant or equipment may be acquired in exchange for a non-monetary asset, or assets, or a combination of monetary and non-monetary assets. An NPO shall measure the cost of the acquired asset at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the carrying amount of the asset given up.

Measurement after initial recognition

G17.16 An NPO shall choose either the cost model in paragraph G17.17 or the revaluation model in paragraph G17.18 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. An NPO shall apply the cost model to investment property whose fair value cannot be measured reliably without undue cost or effort. An NPO shall recognise the costs of day-to-day servicing of an item of property, plant and equipment in surplus or deficit in the period in which the costs are incurred.

Cost model

G17.17 An NPO shall measure an item of property, plant and equipment after initial recognition at cost less any accumulated **depreciation** and any accumulated **impairment losses**.

Revaluation model

G17.18 An NPO shall measure an item of property, plant and equipment whose fair value can be measured reliably at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ **materially** from that which would be determined using fair value at the end of the **reporting period**. Section 12 provides guidance on determining fair value. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

G17.19 If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in the **Statement of Changes in Net Assets** and accumulated under the heading of revaluation surplus. However, the increase shall be recognised in **surplus or deficit** to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

G17.20 If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be recognised in the Statement of Changes in Net Assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in the Statement of Changes in Net Assets reduces the amount accumulated under the heading of revaluation surplus.

Depreciation

G17.21 If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits or service potential, an NPO shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life. Other assets shall be depreciated over their useful lives as a single asset. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated.

G17.22 The depreciation charge for each period shall be recognised in surplus or deficit unless another section of this Guidance requires the cost to be recognised as part of the cost of an asset. For example, the depreciation of manufacturing property, plant and equipment is included in the costs of **inventories** (see Section 13 *Inventories*).

Depreciable amount and depreciation period

G17.23 An NPO shall allocate the **depreciable amount** of an asset on a systematic basis over its useful life.

G17.24 Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement and changes in market prices may indicate that the **residual value** or useful life of an asset has changed since the most recent annual **reporting date**. If such indicators are present, an NPO shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The NPO shall account for the change in residual value, depreciation method or useful life as a change in an **accounting estimate** in accordance with paragraphs G10.18–G10.21.

G17.25 Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

G17.26 An NPO shall consider all the following factors in determining the useful life of an asset:

(a) the expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
(b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
(c) technical or commercial obsolescence arising from changes or improvements in usage, or from a change in the market demand for the service or product output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset.
(d) legal or similar limits on the use of the asset, such as the expiry dates of related **leases**.

Depreciable method

G17.27 An NPO shall select a depreciation method that reflects the pattern in which it expects to consume the asset's economic benefits or service potential. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method. A depreciation method that is based on **revenue** that is generated by an activity that includes the use of an asset is not appropriate.

G17.28 If there is an indication that there has been a significant change since the last annual reporting date in the pattern by which an NPO expects to consume an asset's future economic benefits, the NPO shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern. The NPO shall account for the change as a change in an accounting estimate in accordance with paragraphs G10.18–G10.21.

Impairment

Recognition and measurement of impairment

G17.29 At each reporting date, an NPO shall apply Section 27 *Impairment of assets* to determine whether an item or group of items of property, plant and equipment is impaired and, if so, how to recognise and measure the impairment loss. That section explains when and how an NPO reviews the carrying amount of its assets, how it determines the **recoverable amount** of an asset, and when it recognises or reverses an impairment loss.

Compensation for impairment

G17.30 An NPO shall include in surplus or deficit compensation from third parties for items of property, plant and equipment that were impaired, lost or given up only when the compensation becomes receivable.

Property, plant and equipment held for sale

G17.31 Paragraph G27.9(f) states that a plan to dispose of an asset before the previously expected date is an indicator of impairment that triggers the calculation of the asset's recoverable amount for the purpose of determining whether the asset is impaired.

Derecognition

G17.32 An NPO shall derecognise an item of property, plant and equipment:

(a) on disposal; or
(b) when no future economic benefits or service potential are expected from its use or disposal.

G17.33 An NPO shall recognise the **gain** or loss on the **derecognition** of an item of property, plant and equipment in surplus or deficit when the item is derecognised (unless Section 20 *Leases* requires otherwise on a sale and leaseback). The NPO shall not classify such gains as revenue.

G17.34 The date of disposal of an item is the date the recipient obtains control of that item in accordance with the requirements in paragraphs G23.142–G23.157 for determining when a promise is satisfied. Section 20 applies to disposal by a sale and leaseback.

G17.35 An NPO shall determine the gain or loss arising from the derecognition of an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Disclosures

G17.36 An NPO shall disclose the following for each class of property, plant and equipment determined in accordance with paragraph G4.11(a) and separately for investment property carried at cost less accumulated depreciation and impairment:

(a) the **measurement** bases used for determining the gross carrying amount;
(b) the depreciation methods used;
(c) the useful lives or the depreciation rates used;
(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period; and
(e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:

   (i) additions;
   (ii) disposals;
   (iii) acquisitions through **business combinations**;
   (iv) increases or decreases resulting from revaluations under paragraphs G17.18–G17.20 and from impairment losses recognised or reversed in the Statement of Changes in Net Assets in accordance with Section 27;
   (v) transfers to and from investment property carried at fair value through surplus or deficit (see paragraph G16.10);
   (vi) impairment losses recognised or reversed in surplus or deficit in accordance with Section 27;
   (vii) depreciation; and
   (viii) other changes.

This reconciliation need not be presented for prior periods.

G17.37 An NPO shall also disclose the following:

(a) the existence and carrying amounts of property, plant and equipment to which the NPO has restricted title or that is pledged as security for **liabilities**;
(b) the amount of contractual commitments for the acquisition of property, plant and equipment; and
(c) if an NPO has investment property whose fair value cannot be measured reliably without undue cost or effort it shall disclose that fact and the reasons why fair value measurement would involve undue cost or effort for those items of investment property.

G17.38 If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following:

(a) the effective date of the revaluation;
(b) whether an independent valuer was involved;
(c) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and
(d) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance.

Comparison of Section 17 with the *IFRS for SMEs* Accounting Standard

Section 17 of INPAG has been drawn from Section 17 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 17 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 17 of INPAG are as follows:

- Additional text has been added to make clear that assets sharing characteristics with an investment property but primarily used for service delivery are to be treated in accordance with Section 17.
- Consistent with investment property, an additional paragraph has been added to the guidance for property, plant and equipment for assets that have been donated, clarifying that fair value is to be used on initial recognition.
- INPAG Section 16 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 7: (c) Do you agree with the additional guidance provided for donated: (iii) property, plant and equipment (Section 17)? If not, why not?	**References** G17.10

Section 18 – Intangibles other than goodwill

Scope and objective of this section

G18.1 This section applies to accounting for all **intangible assets** other than **goodwill** (see Section 19 *Business combinations and goodwill*), intangible assets held by an NPO for sale in the ordinary course of business (see Section 13 *Inventories*) and assets arising from contracts with customers (see Section 23 *Revenue*).

G18.2 An intangible asset is an identifiable non-monetary **asset** without physical substance. Such an asset is identifiable when:

(a) it is separable, ie capable of being separated or divided from the NPO and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or **liability**; or

(b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the NPO or from other rights and obligations.

G18.3 This section does not apply to the following:

(a) **financial assets**; or

(b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

Recognition

G18.4 An NPO shall recognise an intangible asset as an asset if, and only if:

(a) it is **probable** that the expected economic benefit or **service potential** that are attributable to the asset will flow to the NPO;

(b) the cost or value of the asset can be measured reliably; and

(c) the asset does not result from expenditure incurred internally on an intangible item.

General principle for recognising intangible assets

G18.5 This section uses the term asset in a way that differs in some respects from the definition of an asset in the Glossary. Therefore, when applying this section, an NPO shall apply the definition of an asset in paragraph G18.6.

G18.6 For the purpose of this section, an asset is a resource controlled by the NPO as a result of past events and from which economic benefit or service potential is expected to flow to the NPO.

G18.7 An NPO shall assess the probability of expected economic benefit or service potential using reasonable and supportable assumptions that represent management's best estimate of the economic conditions that will exist over the **useful life** of the asset.

G18.8 An NPO uses judgement to assess the degree of certainty attached to the flow of economic benefit or service potential that are attributable to the use of the asset on the basis of the evidence available at the time of initial **recognition**, giving greater weight to external evidence.

G18.9 The probability recognition criterion in paragraph G18.4(a) is always considered satisfied for intangible assets that are separately acquired.

G18.10 An intangible asset acquired in a **business combination** shall be recognised unless its **fair value** cannot be measured reliably without undue cost or effort at the acquisition date.

Initial measurement

G18.11 An NPO shall measure an intangible asset initially at cost.

Separate acquisition

G18.12 The cost of a separately acquired intangible asset comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
(b) any directly attributable cost of preparing the asset for its intended use.

Acquisition as part of a business combination

G18.13 An intangible asset acquired in a business combination shall be recognised unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date.

Acquisition by way of grant or donation

G18.14 If an intangible asset is acquired by way of a **grant or donation**, the cost shall be determined in accordance with Section 12 *Fair value measurement*. The fair value on initial recognition shall be the deemed cost of the asset.

Exchanges of assets

G18.15 An intangible asset may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. An NPO shall measure the cost of such an intangible asset at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the **carrying amount** of the asset given up.

Internally generated assets

G18.16 An NPO shall recognise expenditure incurred internally on an intangible item, including all expenditure for both **research** and **development** activities, as an **expense** when it is incurred unless it forms part of the cost of another asset that meets the recognition criteria in this Guidance.

G18.17 As examples of applying the preceding paragraph, an NPO shall recognise expenditure on the following items as an expense and shall not recognise such expenditure as intangible assets:

(a) internally generated brands, logos, publishing titles, customer lists and items similar in substance;
(b) start-up activities (ie start-up costs), which include establishment costs such as legal and secretarial costs incurred in establishing an NPO, expenditure to open a new facility or activity (ie pre-opening costs) and expenditure for starting new operations or launching new products or processes (ie pre-operating costs);
(c) training activities;
(d) advertising and promotional activities;
(e) relocating or reorganising part or all of an NPO; and
(f) internally generated goodwill.

G18.18 Paragraph G18.17 does not preclude recognising a prepayment as an asset when payment for goods or services has been made in advance of the delivery of the goods or the rendering of the services.

Past expenses not to be recognised as an asset

G18.19 Expenditure on an intangible item that was initially recognised as an expense shall not be recognised at a later date as part of the cost of an asset.

Measurement after recognition

G18.20 An NPO shall measure intangible assets at cost less any accumulated **amortisation** and any accumulated **impairment losses**. The requirements for amortisation are set out in this section. The requirements for recognition of impairment are set out in Section 27 *Impairment of assets*.

Useful life

G18.21 For the purpose of this Guidance, all intangible assets shall be considered to have a finite useful life. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights but may be shorter depending on the period over which the NPO expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

G18.22 If the useful life of an intangible asset cannot be established reliably, the life shall be determined based on management's best estimate but shall not exceed ten years.

Amortisation period and amortisation method

G18.23 An NPO shall allocate the **depreciable amount** of an intangible asset on a systematic basis over its useful life. The amortisation charge for each period shall be recognised 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**.

G18.24 Amortisation begins when the intangible asset is available for use, ie when it is in the location and condition necessary for it to be usable in the manner intended by management. Amortisation ceases when the asset is derecognised. The NPO shall choose an amortisation method that reflects the pattern in which it expects to consume the asset's economic benefit or service potential. If the NPO cannot determine that pattern reliably, it shall use the straight-line method.

G18.25 There is a presumption that an amortisation method based on the **revenue** generated by an activity that includes the use of an intangible asset is inappropriate. However, an NPO may rebut this presumption and use an amortisation method based on revenue generated by an activity that includes the use of an intangible asset only if it provides a reliable pattern of how economic benefit or service potential are consumed:

(a) in which the intangible asset is expressed as a measure of revenue (that is, when rights over the use of an intangible asset is specified as a fixed total amount of revenue to be generated); or
(b) when it can be demonstrated that revenue and the consumption of the intangible asset's economic benefit or service potential are highly correlated.

Residual value

G18.26 An NPO shall assume that the **residual value** of an intangible asset is zero unless:

(a) there is a commitment by a third party to purchase the asset at the end of its useful life; or
(b) there is an **active market** for the asset and:
    (i) residual value can be determined by reference to that market; and
    (ii) it is probable that such a market will exist at the end of the asset's useful life.

Review of amortisation period and amortisation method

G18.27 Factors such as a change in how an intangible asset is used, technological advancement; and changes in market prices may indicate that the residual value or useful life of an intangible asset has changed since the most recent annual **reporting date**. If such indicators are present, an NPO shall review its previous estimates and, if current expectations differ, amend the residual value, amortisation method or useful life. The NPO shall account for the change in residual value, amortisation method or useful life as a **change in an accounting estimate** in accordance with paragraphs Section 10.

Recoverability of the carrying amount – impairment losses

G18.28 To determine whether an intangible asset is impaired, an NPO shall apply Section 27. That section explains when and how an NPO reviews the carrying amount of its assets, how it determines the **recoverable amount** of an asset and when it recognises or reverses an impairment loss.

Retirements and disposals

G18.29 An NPO shall derecognise an intangible asset, and shall recognise a **gain** or loss in **surplus or deficit**:

- (a) on disposal; or
- (b) when no economic benefit or service potential are expected from its use or disposal.

Disclosures

G18.30 An NPO shall disclose the following for each class of intangible assets:

- (a) the useful lives or the amortisation rates used;
- (b) the amortisation methods used;
- (c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the **reporting period**;
- (d) the line item(s) in the **Statement of Income and Expenses**, in which any amortisation of intangible assets is included; and
- (e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
  - (i) additions;
  - (ii) disposals;
  - (iii) acquisitions through business combinations;
  - (iv) amortisation;
  - (v) impairment losses recognised or reversed in surplus or deficit in accordance with Section 27; and
  - (vi) other changes.

This reconciliation need not be presented for prior periods.

G18.31 An NPO shall also disclose:

- (a) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is **material** to the NPO's **financial statements**;
- (b) for intangible assets acquired by way of a grant and initially recognised at fair value (see paragraph G18.14):
  - (i) the fair value initially recognised for these assets; and
  - (ii) their carrying amounts.

(c) the existence and carrying amounts of intangible assets to which the NPO has restricted title or that are pledged as security for liabilities; and

(d) the amount of contractual commitments for the acquisition of intangible assets.

G18.32 An NPO shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period (ie the amount of expenditure incurred internally on research and development that has not been capitalised as part of the cost of another asset that meets the recognition criteria in this Guidance).

Comparison of Section 18 with the *IFRS for SMEs* Accounting Standard

Section 18 of INPAG has been drawn from Section 18 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 18 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 18 of INPAG are as follows:

- Consistent with Sections 16 and 17, an additional paragraph has been added to the section to provide guidance on determining the deemed cost of donated assets, where donated assets are valued at fair value on initial recognition.
- INPAG Section 18 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 7:	**References**
(c) Do you agree with the additional guidance provided for donated: (iii) intangible assets (Section 18)? If not, why not?	G18.14

Section 19 – Business combinations and goodwill

Scope of this section

G19.1 This section applies to a transaction or other event that meets the definition of **business combination** (see paragraph G19.4). It establishes principles and requirements for how an **acquiring NPO**:

(a) recognises and measures in its financial statements the identifiable **assets** acquired, **liabilities** assumed and any **non-controlling interest** in the **acquiree**; and
(b) recognises and measures the **goodwill** acquired (both at the time of a business combination and subsequently) or a gain from a bargain purchase.

G19.2 This section does not apply to:

(a) combinations of entities or **businesses** under common **control**. Common control means that all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.
(a) formations of a **joint arrangement** in the financial statements of the joint arrangement itself.
(a) acquisitions of an asset or a group of assets that does not constitute a business.

Business combinations defined

G19.3 An NPO shall determine whether a transaction or other event is a business combination by applying the definition in paragraph G19.4, which requires that the assets acquired and the liabilities assumed constitute a business. If the assets acquired do not constitute a business, the NPO shall account for the transaction or other event as an asset acquisition. Paragraphs AG19.1–AG19.10 provide guidance on the definition of a business.

G19.4 A business combination is a transaction or other event in which an acquiring NPO, obtains control of one or more businesses. An acquiring NPO might obtain control of an acquiree in a variety of ways, for example:

(a) by transferring **cash, cash equivalents** or other assets (including net assets that constitute a business);
(b) by incurring liabilities;
(c) by issuing equity instruments;
(d) by providing more than one type of consideration;
(e) by obtaining powers to appoint and/or remove a majority of an NPO's governing board; or
(f) by entering into a formal agreement for transfer.

G19.5 A business combination may be structured in a variety of ways for legal, taxation or other reasons, which include but are not limited to:

(a) one or more businesses become subsidiaries of an acquiring NPO or the net assets of one or more businesses are legally merged into the acquiring NPO;
(b) one combining entity transfers its net assets, or its **owners** transfer their equity instruments, to another combining entity or its owners;
(c) all of the combining entities transfer their net assets, or the owners of those entities transfer their equity interests, to a newly formed entity;
(d) a group of former owners of one of the combining entities obtains control of the combined entity; or
(e) any of the above combinations in relation to an NPO (or multiple NPOs).

Accounting

G19.6 An NPO shall account for each combination by applying the acquisition method.

G19.7 Applying the acquisition method requires:

(a) identifying the acquiring NPO;
(b) determining the acquisition date;
(c) recognising and measuring identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
(d) recognising and measuring goodwill or a gain from a bargain purchase.

Identifying the acquiring NPO

G19.8 For each business combination, one of the combining entities shall be identified as the **acquirer**.

G19.9 The requirement in Section 9 *Consolidated and separate financial statements* shall be used to identify the acquiring NPO – that is, the entity that obtains control of the acquiree.

G19.10 If a business combination has occurred but applying the requirements in Section 9 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs AG19.11–AG19.15 shall be considered in making that determination.

Determining the acquisition date

G19.11 An acquiring NPO shall identify the acquisition date, which is the date on which it obtains control of the acquiree.

Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Recognition principle

G19.12 At the acquisition date, the acquiring NPO shall recognise, separately from the goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, if, and only if, the conditions in paragraph G19.13 are met.

G19.13 To qualify for **recognition** as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must:

(a) meet the definitions of assets and liabilities in Section 2 *Concepts and pervasive principles* at the acquisition date; and
(b) be part of what the acquiring NPO and the acquiree (or its former owners) exchanged in the business combination transaction rather than the result of separate transactions (see paragraph G19.30).

Measurement principle

G19.14 The acquiring NPO shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

G19.15 For each business combination, the acquiring NPO shall measure at the acquisition date any non-controlling interests in the acquiree at the non-controlling interest’s proportionate share in the recognised amounts of the acquiree’s net identifiable assets.

Exceptions to the recognition or measurement principles

G19.16 Paragraphs G19.17–G19.22 provide exceptions to the recognition and measurement principles set out in paragraphs G19.12–G19.15 and specify both the particular items for which exceptions are provided and the nature of those exceptions.

G19.17 In accordance with paragraph G18.10, an acquiring NPO shall recognise an **intangible asset** acquired in a business combination, that meets the recognition principles set out in Section 18 *Intangible assets other than goodwill*, if its **fair value** can be measured reliably without undue cost or effort at the acquisition date.

G19.18 For liabilities and **contingent liabilities** that would be within the scope of Section 21 *Provisions and contingencies* if they were incurred separately rather than assumed in a business combination, an acquiring NPO shall apply paragraph G21.6 to determine whether at the acquisition date a present obligation exists as a result of past events for a **provision** or contingent liability.

G19.19 Paragraph G19.20 applies to a present obligation identified in accordance with paragraph G19.18 that meets the definition of a contingent liability as set out in paragraph G21.13 (that is, when it is 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).

G19.20 At the acquisition date, the acquiring NPO shall recognise a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to paragraphs G21.4(b) and G21.13, the acquiring NPO recognises a contingent liability assumed in a business combination at the acquisition date even if it is not **probable** that the acquiring NPO will be required to transfer economic benefits in settlement.

G19.21 A **deferred tax asset** or **deferred tax liability** arising from the assets acquired and liabilities assumed in a business combination shall be recognised and measured in accordance with Section 29 *Income tax*.

G19.22 A **liability** (or asset, if any) related to the acquiree's **employee benefit** arrangements shall be recognised and measured in accordance with Section 28 *Employee benefits*.

Recognising and measuring goodwill or a gain from a bargain purchase

G19.23 The acquiring NPO shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below:

- (a) the aggregate of:
    - (i) the consideration transferred measured in accordance with paragraph G19.26, which generally requires acquisition date fair value;
    - (ii) the amount of any non controlling interest in the acquiree measured in accordance with paragraph G19.15; and
    - (iii) in a business combination achieved in stages (see paragraphs G19.30–G19.31), the acquisition date fair value of the acquiring NPO's previously held interest in the acquiree.
- (b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with paragraphs G19.14–G19.22.

Bargain purchase

G19.24 Occasionally, an acquiring NPO will make a bargain purchase, which is a business combination in which the amount in paragraph G19.23(b) exceeds the aggregate of the amounts specified in paragraph G19.23(a). If that excess remains after applying paragraph G19.25, the acquiring NPO shall recognise the resulting gain in surplus or deficit on the acquisition date. The gain shall be attributed to the acquiring NPO. If two NPOs combine that both have positive net assets at the date they are combined, the requirements of G19.25 do not apply.

G19.25 Before recognising a gain on a bargain purchase, the acquiring NPO shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognise any additional assets or liabilities that are identified in that reassessment. The acquiring NPO shall then review the procedures used to measure the amounts required to be recognised at the acquisition date for all of the following:

(a) the identifiable assets acquired and the liabilities assumed;
(b) for a business combination achieved in stages, the acquiring NPO's previously held interest in the acquiree; and
(c) the consideration transferred.

Consideration transferred

G19.26 The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquiring NPO, the liabilities incurred by the acquiring NPO to former owners of the acquiree and the equity holdings issued by the acquiring NPO. Examples of potential forms of consideration include cash, other assets, a business or a **controlled entity** of the acquiring NPO, **contingent consideration**, ordinary or preference equity instruments, options and warrants. For NPOs, this also includes a formal transfer agreement, or agreements to exchange **service potential**.

Contingent consideration

G19.27 The consideration the acquiring NPO transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement (see paragraph G19.26). The acquiring NPO shall recognise the acquisition date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree if it can be measured reliably.

G19.28 However, if the acquisition-date fair value of contingent consideration cannot be measured reliably without undue cost or effort, the acquiring NPO shall recognise, at the acquisition date, an estimate of the most likely amount of contingent consideration.

G19.29 The acquiring NPO shall classify an obligation to pay contingent consideration that meets the definition of a **financial instrument** as a **financial liability** or as **equity** on the basis of the definitions of an equity instrument and a financial liability in Section 22 *Liabilities and equity*. The acquiring NPO shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met.

A business combination achieved in stages (so-called 'step acquisition')

G19.30 An acquiring NPO sometimes obtains control of an acquiree in which it held an interest immediately before the acquisition date. If this is the case, the acquiring NPO shall remeasure its previously held interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in surplus or deficit.

G19.31 When a party to a joint arrangement obtains control of a business that is a jointly controlled operation or a jointly controlled asset immediately before the acquisition date, the transaction is a business combination achieved in stages. The acquiring NPO shall therefore apply the requirements for a business combination achieved in stages, including remeasuring its entire previously held interest in the jointly controlled operation or the jointly controlled asset in accordance with paragraph G19.30.

Measurement period

G19.32 If the initial accounting for a business combination is incomplete by the end of the **reporting period** in which the combination occurs, the acquiring NPO shall recognise in its **financial statements** provisional amounts for the items for which the accounting is incomplete. Within 12 months after the acquisition date, the acquiring NPO shall retrospectively adjust the provisional amounts recognised as assets and liabilities at the acquisition date (ie account for them as if they were made at the acquisition date) to reflect new information obtained about any relevant facts and circumstances that existed at the acquisition date. Any adjustments made will have an impact upon the goodwill acquired or a gain from a bargain purchase recognised. Beyond 12 months after the acquisition date, adjustments to the initial accounting for a business combination shall be recognised only to correct an **error** in accordance with Section 10 *Accounting policies, estimates and errors*.

Acquisition-related costs

G19.33 Acquisition-related costs are costs the acquiring NPO incurs to effect a business combination. Those costs are to be accounted for separately from the business combination. The acquiring NPO shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception: the cost to issue debt or equity securities shall be recognised in accordance with Section 11 and Section 22, respectively.

Subsequent measurement and accounting

G19.34 In general, an acquiring NPO shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity holdings issued in a business combination in accordance with the applicable sections of this Guidance. However, paragraphs G19.35–G19.37 provide requirements on subsequently measuring and accounting for the following:

(a) goodwill;
(b) contingent liabilities recognised as of the acquisition date; and
(c) contingent consideration.

Goodwill

G19.35 After its initial recognition, the acquiring NPO shall measure goodwill acquired in a business combination at cost less accumulated **amortisation** and accumulated **impairment losses**:

(a) the acquiring NPO shall follow the principles in paragraphs G18.22–G18.28 for amortisation of goodwill. If the **useful life** of goodwill cannot be established reliably, the life shall be determined based on management's best estimate but shall not exceed ten years.
(b) the acquiring NPO shall follow Section 27 *Impairment of assets* for recognising and measuring the impairment of goodwill.

Contingent liabilities

G19.36 After their initial recognition and until the liability is settled, cancelled or expires, the acquiring NPO shall measure a contingent liability recognised in a business combination at the higher of:

(a) the amount that would be recognised in accordance with Section 21; and
(b) the amount initially recognised less, if appropriate, the cumulative amount of **income** recognised in accordance with the principles of Section 23 *Revenue*.

Contingent consideration

G19.37 Except for those changes in the amount of contingent consideration that are measurement period adjustments in accordance with paragraph G19.32, changes resulting from events after the acquisition date, such as meeting a fundraising target, or reaching a milestone on a research and development project, are not measurement period adjustments. The acquiring NPO shall account for changes in the amount of contingent consideration that are not measurement period adjustments as follows:

(a) contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity.

(b) other contingent consideration that:

 (i) is within the scope of Part II of Section 11 *Other financial instrument issues* (whose fair value can be measured reliably without undue cost or effort) shall be measured at fair value at each **reporting date** with changes in fair value recognised in surplus or deficit.
 (ii) is not within the scope of Part II of Section 11 (whose fair value cannot be measured reliably without undue cost or effort (see paragraph G19.28)) shall be reviewed at each reporting date and adjusted to reflect the current estimate of the most likely amount of the contingent consideration at that reporting date. Any adjustments to the amounts previously recognised shall be recognised in surplus or deficit.

Disclosures

For business combinations during the period

G19.38 For each business combination during the period, the acquiring NPO shall disclose the following:

(a) the name and description of the acquiree;
(b) the acquisition date;
(c) the percentage of voting equity holdings acquired;
(d) the acquisition-date fair value of the total consideration transferred and a description of the components of that consideration (such as cash, equity holdings and debt instruments);
(e) for contingent consideration arrangements:

 (i) the amount recognised as of the acquisition date;
 (ii) a description of the arrangement and the basis for determining the amount of the payment; and
 (iii) if the acquisition-date fair value of contingent consideration cannot be measured reliably without undue cost or effort (see paragraph G19.28), at the acquisition date, the acquiring NPO shall disclose that fact and the reasons why a reliable fair value measurement would involve undue cost or effort.

(f) the amounts recognised at the acquisition date for each class of the acquiree’s assets, and liabilities;
(g) for a bargain purchase, the amount of any surplus recognised in surplus of deficit in accordance with paragraph G19.24 and the line item in the **Statement of Changes in Net Assets** or **Statement of Income and Expenses** in which the gain is recognised;
(h) a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquiring NPO, intangible assets not recognised in accordance with paragraph G19.17 or other factors; and
(i) for each contingent liability that is not recognised in accordance with paragraph G19.20 because its fair value cannot be measured reliably, the acquiring NPO shall disclose the information required by paragraph G21.16.

For all business combinations

G19.39 An acquiring NPO shall disclose the useful lives used for goodwill and a reconciliation of the **carrying amount** of goodwill at the beginning and end of the reporting period. The reconciliation should show separately:

(a) additional goodwill recognised during the reporting period changes arising from new business combinations;
(b) impairment losses recognised during the reporting period applying Section 27;

(c) goodwill derecognised during the reporting period disposals of previously acquired businesses; and
(d) other changes.

This reconciliation need not be presented for prior periods.

For each reporting period after the acquisition date

G19.40 For each reporting period after the acquisition date until the NPO collects, sells or otherwise loses the right to a contingent consideration asset, or until the NPO settles a contingent consideration liability or the liability is cancelled or expires, the NPO shall disclose for each material business combination and in aggregate for individually immaterial business combinations that are **material** collectively:

(a) any changes in the recognised amounts, including any differences arising upon settlement; and
(b) the valuation techniques and key model inputs used to measure contingent consideration.

Application Guidance: Section 19 – Business combinations including goodwill

Definition of a business (application of paragraph G19.3)

AG19.1 A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The three elements of a business are defined as follows:

(a) **input:** any economic resource that creates outputs, or has the ability to contribute to the creation of outputs when one or more processes are applied to it. Examples include noncurrent assets, intellectual property, the ability to obtain access to necessary materials or rights and employees.
(b) **process:** any system, standard, protocol, convention or rule that when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs. Examples include strategic management processes, operational processes and resource management processes.
(c) **output:** the result of inputs and processes applied to those inputs that provide goods or services to service beneficiaries, customers, generate investment income or generate other income from ordinary activities.

AG19.2 A business will exist where these criteria are met regardless of the size of the inputs, processes or outputs. The requirements of this section will therefore apply to all businesses of all sizes including small businesses.

Optional test to identify concentration of fair value

AG19.2 Paragraph AG19.3 sets out an optional concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. An NPO may elect to apply, or not apply, the test. An NPO may make such an election separately for each transaction or other event. The concentration test has the following consequences:

(a) if the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.
(b) if the concentration test is not met, or if the NPO elects not to apply the test, the NPO shall then perform the assessment set out in paragraphs AG19.4–AG19.10.

AG19.3 The concentration test is met if substantially all of the fair value of the gross assets (not net assets) acquired is concentrated in a single identifiable asset or group of similar identifiable assets. For the concentration test:

(a) gross assets acquired shall exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities.

(b) the fair value of the gross assets acquired shall include any consideration transferred (plus the non controlling interest's proportionate share in the recognised amounts of the acquiree's net identifiable assets and the fair value of any previously held interest) in excess of the fair value of net identifiable assets acquired.

(c) a single identifiable asset shall include any asset or group of assets that would be recognised and measured as a single identifiable asset in a business combination.

(d) if a tangible asset is attached to, and cannot be physically removed and used separately from, another tangible asset, without incurring significant cost, or significant diminution in utility or fair value to either asset (for example, land and buildings), those assets shall be considered a single identifiable asset.

(e) when assessing whether assets are similar, an NPO shall consider the nature of each single identifiable asset and the risks associated with managing and creating outputs from the assets (that is, the risk characteristics).

Elements of a business

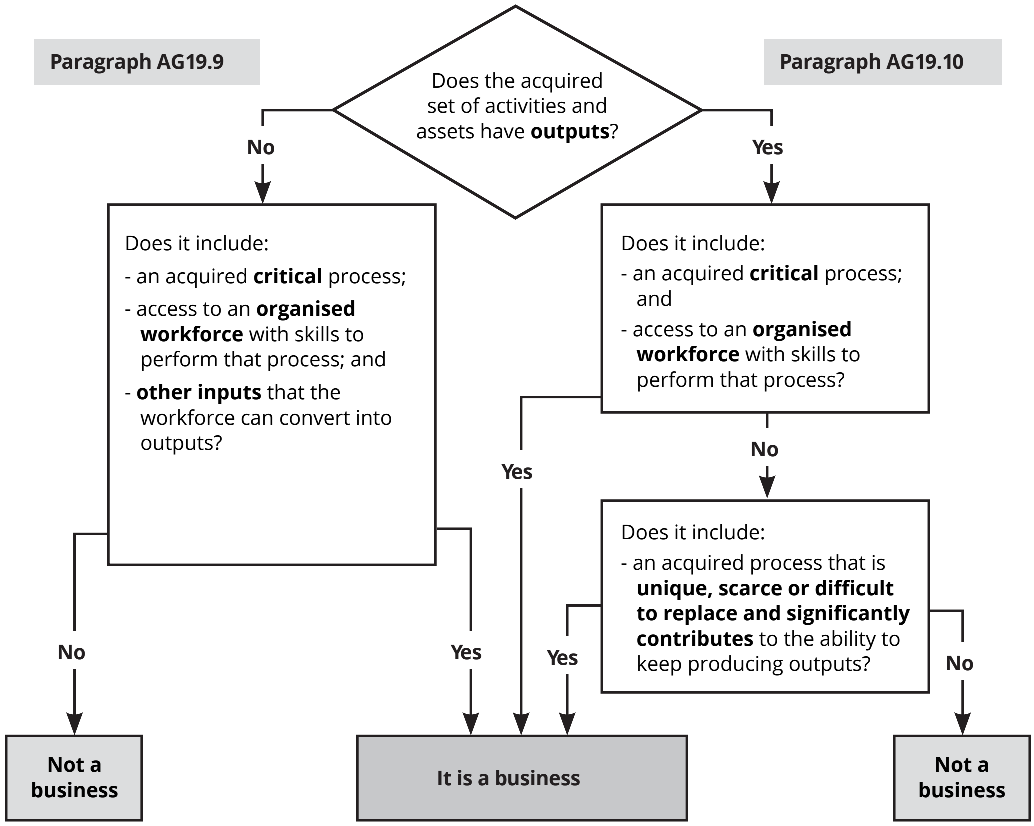
AG19.4 Although businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be capable of being conducted and managed for the purpose identified in the definition of a business, an integrated set of activities and assets requires two essential elements – inputs and processes applied to those inputs. A business need not include all of the inputs or processes that were used in operating that business. However, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Paragraphs AG19.7–AG19.10 specify how to assess whether a process is substantive.

AG19.5 If an acquired set of activities and assets has outputs, continuation of **revenue** does not on its own indicate that both an input and a substantive process have been acquired.

AG19.6 Determining whether a particular set of activities and assets is a business shall be based on whether the integrated set is capable of being conducted and managed as a business by a market participant. Thus, in evaluating whether a particular set is a business, it is not relevant whether a seller operated the set as a business or whether the acquiring NPO intends to operate the set as a business.

Assessing whether an acquired process is substantive

AG19.7 Paragraphs AG19.8–AG19.10 explain how to assess whether an acquired process is substantive if the acquired set of activities and assets does not have outputs (paragraph AG19.9) and if it does have outputs (paragraph AG19.10). The following decision tree summarises how an NPO assesses whether an acquired process is substantive.



AG19.8 An example of an acquired set of activities and assets that does not have outputs at the acquisition date is an early-stage entity that has not started generating revenue. Moreover, if an acquired set of activities and assets was generating revenue at the acquisition date, it is considered to have outputs at that date, even if subsequently it will no longer generate revenue from external customers, for example because it will be integrated by the acquiring NPO.

AG19.9 If a set of activities and assets does not have outputs at the acquisition date, an acquired process (or group of processes) shall be considered substantive only if:

(a) it is critical to the ability to develop or convert an acquired input or inputs into outputs; and

(b) the inputs acquired include both an organised workforce that has the necessary skills, knowledge, or experience to perform that process (or group of processes) and other inputs that the organised workforce could develop or convert into outputs. Those other inputs could include:

(i) intellectual property that could be used to develop a good or service;

(ii) other economic resources that could be developed to create outputs; or

(iii) rights to obtain access to necessary materials or rights that enable the creation of future outputs.

Examples of the inputs mentioned in subparagraphs (b)(i)–(iii) include technology, in-process research and development projects and real estate.

AG19.10 If a set of activities and assets has outputs at the acquisition date, an acquired process (or group of processes) shall be considered substantive if, when applied to an acquired input or inputs, it:

(a) is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge or experience to perform that process (or group of processes); or

(b) significantly contributes to the ability to continue producing outputs and:

(i) is considered unique or scarce; or

(ii) cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

Identifying the acquirer (application of paragraphs G19.8–G19.10)

AG19.11 In a business combination effected primarily by transferring cash or other assets or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets or incurs the liabilities.

AG19.12 In a business combination effected primarily by exchanging equity instruments, the acquirer is usually the entity that issues its equity holdings. Other pertinent facts and circumstances shall also be considered in identifying the acquirer in a business combination effected by exchanging equity instruments. For example, the acquirer is usually the combining entity:

(a) whose owners as a group retain or receive the largest portion of the voting rights in the combined entity – after the business combination.

(b) whose single owner or organised group of owners holds the largest minority voting interest in the combined entity – if no other owner or organised group of owners has a significant voting interest.

(c) whose owners have the ability to elect or appoint or to remove a majority of the members of the governing body of the combined entity.

(d) whose (former) management dominates the senior management of the combined entity.

(e) that pays a premium over the pre combination fair value of the equity instruments of the other combining entity or entities.

AG19.13 The acquirer is usually the combining entity whose relative size (measured in, for example, assets, revenues or profit) is significantly greater than that of the other combining entity or entities.

AG19.14 In a business combination involving more than two entities, determining the acquirer shall include a consideration of, among other things, which of the combining entities initiated the combination, as well as the relative size of the combining entities.

AG19.15 A new entity formed to effect a business combination is not necessarily the acquirer. If a new entity is formed to issue equity instruments to effect a business combination, one of the combining entities that existed before the business combination shall be identified as the acquirer by applying the guidance in paragraph G19.10 and paragraphs AG19.11–AG19.14. In contrast, a new entity that transfers cash or other assets or incurs liabilities as consideration may be the acquirer.

Comparison of Section 19 with the *IFRS for SMEs* Accounting Standard
Section 19 of INPAG has been drawn from Section 19 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 19 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 19 of INPAG are as follows: • The concept of 'business' may not resonate with NPOs and minor amendments have been made to the text to include circumstances more relevant to NPOs. This includes additional examples of control, the purpose of the organisation and to make clear that the section applies to all NPOs. • A simplification has been added for the combination of two NPOs that both have positive net assets. The requirement to follow the additional procedures in paragraph G19.25 have been removed. • INPAG Section 19 uses different terminology, referring specifically to acquiring NPOs rather than acquirers more generally when this is relevant, and to other sections of INPAG rather than the *IFRS for SMEs* Accounting Standard. • Alignments have also been made to other sections in removing references to share price and equity where these are not relevant to NPOs. • INPAG Section 19 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 9:	**References**
(a) Do you agree that the term 'business' can be applied by NPOs when taken alongside the amendments proposed, (including the expansion of examples of control)? If not, why not? Are there issues that NPOs experience in practice that need to be addressed in the guidance? If so, why?	G19.4, G19.5, AG19.1 and AG19.2
(b) Do you agree with the proposed exemption for two NPOs that have net assets and that it should not apply where one NPO has net liabilities? If not, describe the practical and accounting issues that arise.	G19.24

Section 20 – Leases

Scope of this section

G20.1 This section covers accounting for all leases other than:

(a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (see Section 34 *Specialised activities*);
(b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights (see Section 18 *Intangible assets other than goodwill*);
(c) measurement of property held by lessees that is accounted for as **investment property** and measurement of investment property provided by lessors under operating leases (see Section 16 *Investment property*);
(d) measurement of **biological assets** held by lessees under **finance leases** and biological assets provided by lessors under operating leases (see Section 34);
(e) leases that could lead to a loss to the lessor or the lessee as a result of contractual terms that are unrelated to changes in the price of the leased asset, changes in foreign exchange rates, changes in lease payments based on variable market interest rates, or a default by one of the counterparties (see paragraph G11.60(f)); and
(f) operating leases that are onerous.

G20.2 This section applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This section does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

G20.3 Some arrangements, such as some outsourcing arrangements, telecommunication contracts that provide rights to capacity and take-or-pay contracts, do not take the legal form of a lease but convey rights to use assets in return for payments. Such arrangements are in substance leases of assets and they shall be accounted for under this section.

Classification of leases

G20.4 A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

G20.5 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction instead of the form of the **contract**. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

(a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
(b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the **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;
(c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
(d) at the inception of the lease the **present value** of the **minimum lease payments** amounts to at least substantially all of the fair value of the leased asset; and
(e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

G20.6 Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

(a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(b) **gains** or losses from the fluctuation in the **residual value** of the leased asset accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and

(c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

G20.7 The examples and indicators in paragraphs G20.5 and G20.6 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, this may be the case if ownership of the asset is transferred to the lessee at the end of the lease for a variable payment equal to the asset's then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all risks and rewards incidental to ownership.

G20.8 Lease classification is made at the inception of the lease and is not changed during the term of the lease unless the lessee and the lessor agree to change the provisions of the lease (other than simply by renewing the lease), in which case the lease classification shall be re-evaluated.

Financial statements of lessees – finance leases

Initial recognition

G20.9 At the commencement of the lease term, a lessee shall recognise its rights of use and obligations under finance leases as assets and liabilities in its **Statement of Financial Position** at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease. Any initial direct costs of the lessee (incremental costs that are directly attributable to negotiating and arranging a lease) are added to the amount recognised as an asset.

G20.10 The present value of the minimum lease payments shall be calculated using the **interest rate implicit in the lease**. If this cannot be determined, the **lessee's incremental borrowing rate** shall be used.

Subsequent measurement

G20.11 A lessee shall apportion minimum lease payments between the finance charge and the reduction of the outstanding liability using the **effective interest method** (see paragraphs G11.19–G11.24). The lessee shall allocate the finance charge to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. A lessee shall charge contingent rents as **expenses** in the periods in which they are incurred.

G20.12 A lessee shall depreciate an asset leased under a finance lease in accordance with the relevant section of this Guidance for that type of asset, for example, Section 17 *Property, plant and equipment*, Section 18, or Section 19 *Business combinations and goodwill*. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its **useful life**. A lessee shall also assess at each **reporting date** whether an asset leased under a finance lease is impaired (see Section 27 *Impairment of assets*).

Disclosures

G20.13 A lessee shall make the following disclosures for finance leases:

(a) for each **class of asset**, the net **carrying amount** at the end of the **reporting period**;

(b) the total of future minimum lease payments at the end of the reporting period, for each of the following periods:

(i) not later than one year;
(ii) later than one year and not later than five years; and
(iii) later than five years.

(c) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases and restrictions imposed by lease arrangements.

G20.14 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessees for assets leased under finance leases.

Financial statements of lessees – operating leases

G20.15 A lessee shall recognise lease payments under operating leases (excluding costs for services such as insurance and maintenance) as an expense over the lease term on a straight-line basis unless either:

(a) another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis; or
(b) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases.

If payments to the lessor vary because of factors other than general inflation, then condition (b) is not met.

Disclosures

G20.16 A lessee shall make the following disclosures for operating leases:

(a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

(i) not later than one year;
(ii) later than one year and not later than five years; and
(iii) later than five years.

(b) lease payments recognised as an expense; and
(c) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

Financial statements of lessors – finance leases

Initial recognition and measurement

G20.17 A lessor shall recognise assets held under a finance lease in its Statement of Financial Position and present them as a receivable at an amount equal to the **net investment in the lease**. The net investment in a lease is the lessor's **gross investment in the lease** discounted at the interest rate implicit in the lease. The gross investment in the lease is the aggregate of:

(a) the minimum lease payments receivable by the lessor under a finance lease; and
(b) any unguaranteed residual value accruing to the lessor.

G20.18 For finance leases other than those involving manufacturer or dealer lessors, initial direct costs (costs that are incremental and directly attributable to negotiating and arranging a lease) are included in the initial measurement of the finance lease receivable and reduce the amount of revenue recognised over the lease term.

Subsequent measurement

G20.19 The **recognition** of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income. If there is an indication that the estimated unguaranteed residual value used in computing the lessor's gross investment in the lease has changed significantly, the income allocation over the lease term is revised, and any reduction in respect of amounts accrued is recognised immediately in **surplus or deficit**.

Manufacturer or dealer lessors

G20.20 Manufacturers or dealers often offer to customers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or dealer lessor gives rise to two types of income:

(a) surplus or deficit equivalent to the surplus or deficit resulting from an outright sale of the asset being leased, at normal selling prices, reflecting any applicable volume or trade discounts; and
(b) finance income over the lease term.

G20.21 The sales **revenue** recognised at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest. The cost of sale recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased asset less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the **surplus**, which is recognised in accordance with the NPO's policy for outright sales.

G20.22 If artificially low rates of interest are quoted, surplus shall be restricted to that which would apply if a market rate of interest were charged. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease shall be recognised as an expense when the surplus is recognised.

Disclosures

G20.23 A lessor shall make the following disclosures for finance leases:

(a) a reconciliation between the gross investment in the lease at the end of the reporting period and the present value of minimum lease payments receivable at the end of the reporting period. In addition, a lessor shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period, for each of the following periods:
    (i) not later than one year;
    (ii) later than one year and not later than five years; and
    (iii) later than five years.
(b) unearned finance income.
(c) the unguaranteed residual values accruing to the benefit of the lessor.
(d) the accumulated allowance for uncollectable minimum lease payments receivable.
(e) contingent rents recognised as income in the period.

(f) a general description of the lessor's significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

Financial statements of lessors – operating leases

Recognition and measurement

G20.24 A lessor shall present assets subject to operating leases in its Statement of Financial Position according to the nature of the asset.

G20.25 A lessor shall recognise lease income from operating leases (excluding amounts for services such as insurance and maintenance) in surplus or deficit on a straight-line basis over the lease term, unless either:

(a) another systematic basis is representative of the time pattern of the lessee's benefit from the leased asset, even if the receipt of payments is not on that basis; or
(b) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases.

If payments to the lessor vary according to factors other than inflation, then condition (b) is not met.

G20.26 A lessor shall recognise as an expense costs, including **depreciation**, incurred in earning the lease income. The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets.

G20.27 A lessor shall add to the carrying amount of the leased asset any initial direct costs it incurs in negotiating and arranging an operating lease and shall recognise such costs as an expense over the lease term on the same basis as the lease income.

G20.28 To determine whether a leased asset has become impaired, a lessor shall apply Section 27.

G20.29 A manufacturer or dealer lessor does not recognise any surplus on entering into an operating lease because it is not the equivalent of a sale.

Disclosures

G20.30 A lessor shall disclose the following for operating leases:

(a) the future minimum lease payments under non-cancellable operating leases for each of the following periods:

(i) not later than one year;
(ii) later than one year and not later than five years; and
(iii) later than five years.

(b) total contingent rents recognised as income; and
(c) a general description of the lessor's significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses and restrictions imposed by lease arrangements.

G20.31 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessors for assets provided under operating leases.

Sale and leaseback transactions

G20.32 A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends on the type of lease.

Sale and leaseback transaction results in a finance lease

G20.33 If a sale and leaseback transaction results in a finance lease, the seller-lessee shall not recognise immediately, as income, any excess of sales proceeds over the carrying amount. Instead, the seller-lessee shall defer such excess and amortise it over the lease term.

Sale and leaseback transaction results in an operating lease

G20.34 If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, the seller-lessee shall recognise any surplus or deficit immediately. If the sale price is below fair value, the seller-lessee shall recognise any surplus or deficit immediately unless the deficit is compensated for by future lease payments at below market price. In that case the seller-lessee shall defer and amortise such deficit in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the seller-lessee shall defer the excess over fair value and amortise it over the period for which the asset is expected to be used.

Disclosures

G20.35 Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of significant leasing arrangements includes description of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.

Comparison of Section 20 with the *IFRS for SMEs* Accounting Standard

Section 20 of INPAG has been drawn from Section 20 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 20 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 20 of INPAG are as follows:

- INPAG Section 20 uses different terminology, referring to surpluses and deficits and to other sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.

Specific matter for comment	
Question 10: (a) Do you agree that no further alignment changes are needed to: (iii) Section 20 Leases? If not, why not?	**References** Section 20

Section 21 – Provisions and contingencies

Section 21 *Provisions and contingencies* was included in **ED2**, which closed for comment on 15 March 2024.

Section 22 – Liabilities and equity claims

Scope of this section

G22.1 This Section establishes principles for classifying **financial instruments** as either liabilities or **equity claims** and addresses accounting for equity instruments issued to individuals or other parties acting in their capacity as investors in equity instruments (ie in their capacity as **holders of equity claims**).

G22.2 This section shall be applied when classifying all types of financial instruments except:

(a) those interests in **controlled entities**, **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) employers' rights and obligations under **employee benefit** plans, to which Section 28 *Employee benefits* applies.

Classification of a financial instrument as liability or equity claims

G22.3 For the purpose of this Section, a liability is a present obligation of the NPO arising from past events, the settlement of which is expected to result in an outflow from the NPO of resources embodying economic benefits. Equity claims are the financial interest in the net assets of an NPO. Equity claims include investments by the holders of equity claims, plus or minus changes to those investments earned through their share of retained surpluses, minus reductions as a result of deficits and distributions.

G22.4 An NPO shall classify a financial instrument as a **financial liability** or as equity claims in accordance with the substance of the contractual arrangement, not merely its legal form, and in accordance with the definitions of a financial liability and an equity claims instrument. Unless an NPO has an unconditional right to avoid delivering **cash** or another **financial asset** to settle a contractual obligation, the obligation meets the definition of a financial liability, and is classified as such, except for those instruments classified as equity claims instruments in accordance with paragraph G22.5.

G22.5 Some financial instruments that meet the definition of a liability are classified as equity claims because they represent a financial interest in the net assets of the NPO:

(a) a puttable instrument is a financial instrument that gives the holder the right to sell that instrument back to the issuer for cash or another financial asset or is automatically redeemed or repurchased by the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder. A puttable instrument that has all of the following features is classified as an equity claims instrument:

(i) it entitles the holder to a pro rata share of the NPO's net assets in the event of the NPO's liquidation or ceasing to be an NPO as set out in the equity claims agreement.

(ii) the instrument is in the class of instruments that is subordinate to all other classes of instruments.

(iii) all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.

(iv) apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the NPO, and it is not a contract that will or may be settled in the NPO's own equity claims instruments.

(b) instruments, or components of instruments, that are subordinate to all other classes of instruments are classified as equity claims if they impose on the NPO an obligation to deliver to another party a financial interest in the net assets of the NPO only on liquidation or ceasing to be an NPO.

G22.6 The following are examples of instruments that are classified as liabilities instead of equity claims:

(a) an instrument is classified as a liability if the distribution of net assets on liquidation or on ceasing to be an NPO is subject to a maximum amount (a ceiling). For example, the holders of the instrument receive a pro rata share of the net assets, but this amount is limited to a ceiling and the excess net assets are distributed to another NPO or the **government**, the instrument is not classified as equity claims.

(b) an instrument is classified as a liability if the instrument can only be redeemed at par or at an amount index linked to the amount originally paid. In other words, the holder of the equity claims instrument does not have a financial interest in the net assets of the NPO.

(c) a puttable instrument is classified as equity claims if, when the put option is exercised, the holder receives a financial interest in the net assets of the NPO as set out in the equity claim arrangement measured in accordance with this Guidance. However, if the holder is entitled to an amount measured on some other basis (such as local GAAP), the instrument is classified as a liability.

(d) an instrument is classified as a liability if it obliges the NPO to make payments to the holder before liquidation or on ceasing to be an NPO, such as a mandatory distribution.

(e) a puttable instrument that is classified as equity or equity claims in a controlled entity's **financial statements** is classified as a liability in the **controlling NPO's consolidated financial statements**.

(f) a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

G22.7 Members' shares in a co-operative and similar instruments are equity claims if:

(a) the NPO has an unconditional right to refuse redemption of the members' shares; or

(b) redemption is unconditionally prohibited by local law, regulation or the NPO's governing charter.

Original issue of shares or other equity claim instruments

G22.8 An NPO shall recognise the issue of shares or other equity claim instrument as equity claims when it issues those instruments and another party is obliged to provide cash or other resources to the NPO in exchange for the instruments:

(a) if the equity claim instruments are issued before the NPO receives the cash or other resources, the NPO shall present the amount receivable as an offset to equity claims in its **Statement of Financial Position**, not as an **asset**;

(b) if the NPO receives the cash or other resources before the equity claim instruments are issued, and the NPO cannot be required to repay the cash or other resources received, the NPO shall recognise the corresponding increase in equity claims to the extent of consideration received; and

(c) to the extent that the equity claim instruments have been subscribed for but not issued, and the NPO has not yet received the cash or other resources, the NPO shall not recognise an increase in equity claims.

G22.9 An NPO shall measure equity claim instruments, other than those issued as part of a **business combination** or those accounted for in accordance with paragraphs G22.13–G22.15, at the **fair value** of the cash or other resources received or receivable, net of **transaction costs**. If payment is deferred and the time value of money is **material**, the initial measurement shall be on a **present value** basis.

G22.10 An NPO shall account for the transaction costs of an equity claim transaction as a deduction from equity claims. **Income tax** relating to the transaction costs shall be accounted for in accordance with Section 29 *Income tax*.

G22.11 How the increase in equity claims arising on the issue of shares or other equity claim instruments is presented in the Statement of Financial Position is determined by applicable laws. For example, the par value (or other nominal value) of shares and the amount paid in excess of par value may be required to be presented separately.

Capitalisation or bonus issues of shares and share splits

G22.12 A capitalisation or bonus issue (sometimes referred to as a stock dividend) is the issue of new shares to equity claim holders in proportion to their existing holdings. For example, an NPO may give its equity claim holders one dividend or bonus share for every five shares held. A share split (sometimes referred to as a stock split) is the dividing of an NPO's existing shares into multiple shares. For example, in a share split, each equity claim holder may receive one additional share for each share held. In some cases, the previously outstanding shares are cancelled and replaced by new shares. Capitalisation and bonus issues and share splits do not change total equity claims. An NPO shall reclassify amounts within equity claims as required by applicable laws.

Convertible debt or similar compound financial instruments

G22.13 On issuing convertible debt or similar **compound financial instruments** that contain both a liability and an equity claims component, an NPO shall allocate the proceeds between the liability component and the equity claims component. To make the allocation, the NPO shall first determine the amount of the liability component as the fair value of a similar liability that does not have a conversion feature or similar associated equity component. The NPO shall allocate the residual amount as the equity component. Transaction costs shall be allocated between the debt component and the equity component on the basis of their relative fair values.

G22.14 The NPO shall not revise the allocation in a subsequent period.

G22.15 In periods after the instruments were issued, the NPO shall account for the liability component as follows:

(a) in accordance with Part I of Section 11 *Basic financial instruments* if the liability component meets the conditions in paragraph G11.8. In these cases, the NPO shall systematically recognise any difference between the liability component and the principal amount payable at maturity as additional interest **expense** using the **effective interest method** (see paragraphs G11.19–G11.24).

(b) in accordance with Part II of Section 11 *Other financial instrument issues* if the liability component does not meet the conditions in paragraph G11.8.

Distributions to holders of equity claims

G22.16 An NPO shall reduce equity claims for the amount of distributions to its holders of equity claims (holders of its equity instruments). Income tax relating to **distributions to holders of equity claims** shall be accounted for in accordance with Section 29.

G22.17 Sometimes an NPO distributes assets other than cash to its holders of equity claims ('non-cash distributions'). When an NPO declares such a distribution and has an obligation to distribute non-cash assets to its holders of equity claims, it shall recognise a liability. It shall measure the liability at the fair value of the assets to be distributed unless it meets the conditions in paragraph G22.18. At the end of each **reporting period** and at the date of settlement, the NPO shall review and adjust the

carrying amount of the capital distribution payable to reflect changes in the fair value of the assets to be distributed, with any changes recognised in equity claims as adjustments to the amount of the distribution. When an NPO settles the capital distribution payable, it shall recognise in surplus or deficit any difference between the carrying amount of the assets distributed and the carrying amount of the capital distribution payable.

G22.18 If the fair value of the assets to be distributed cannot be measured reliably without undue cost or effort, the liability shall be measured at the carrying amount of the assets to be distributed. If prior to settlement the fair value of the assets to be distributed can be measured reliably without undue cost or effort, the liability is remeasured at fair value with a corresponding adjustment made to the amount of the distribution and accounted for in accordance with paragraph G22.17.

G22.19 Paragraphs G22.17–G22.18 do not apply to the distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an NPO that makes the distribution.

Disclosures

G22.20 If the fair value of the assets to be distributed as described in paragraphs G22.17–G22.18 cannot be measured reliably without undue cost or effort, the NPO shall disclose that fact and the reasons why a reliable fair value measurement would involve undue cost or effort.

Comparison of Section 22 with the *IFRS for SMEs* Accounting Standard

Section 22 of INPAG has been drawn from Section 22 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 22 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 22 of INPAG are as follows:

- The concept of ownership implied from equity in the private sector does not apply to non-profit organisations that operate for the benefit of service beneficiaries rather than for private distributions. The definition of equity has been amended in Section 2 and as a consequence references to equity have been replaced by equity claims.
- References to share-based payments have been removed consistent with the proposal to remove Section 26 on share-based payments.
- The paragraphs relating to the sale of options, rights and warrants, extinguishing financial liabilities with equity claim instruments and treasury shares have been removed as they are not considered relevant to NPOs.
- Additional text has been added to clarify that an instrument shall be classified as a liability if the instrument can only be redeemed at par or at an amount index linked to the amount originally paid. This is because in substance the holder of the equity claim instrument does not have a financial interest in the net assets of the NPO.
- Amendments have been made to the guidance on puttable instruments to reflect the definition of equity claims used in INPAG and the expectation that future cashflows from a puttable instrument will not be a feature of equity claims for NPOs. The example of a puttable instrument has been removed from illustrative examples as it is considered to be less relevant for NPOs.
- The example of an instrument that can only be redeemed at par or an index-linked amount has been added. All examples are included in the Implementation Guidance.
- Terminology has been updated to align with that used throughout INPAG, which includes the use of NPOs rather than entities and the references to the INPAG financial statements.

Specific matter for comment	
Question 5:	**References**
(b) Do you agree with the approach of using the term equity claims in Sections 2 and 22 rather than equity and that equity claims are a subset of net assets? If not, what would you change and why?	G2.74, AG2.6, AG2.7 Section 22
(c) Do you agree that the paragraphs relating to the sale of options, rights and warrants, extinguishing financial liabilities with equity claim instruments and treasury shares are removed and the paragraphs relating to capitalisation or bonus issues of shares and share splits and convertible debt or similar compound financial instruments are retained? If not, why not?	G22.12–G22.15

Sections 23 – 24 Part I

Section	
23	**Revenue**
24 Part I	**Expenses on grants and donations**

Sections 23–24 Part I were included in **ED2** which closed for comment on 15 March 2024.

Section 24 – Expenses Part II Classification of expenses

Scope

G24.42 This Section specifies the requirements for an analysis of **expenses** that an NPO shall present in accordance with paragraph G5.11.

Classification methods

G24.43 An NPO shall provide an analysis of expenses using a **classification** based on either the nature of expenses, the function of expenses within the NPO, or a mixed presentation (with part natural expenses classification and part functional classification), whichever provides information that is more **relevant** and **reliable** to the users of the **financial statements**. This analysis shall be presented in the **Statement of Income and Expenses** or in the **notes** to the financial statements.

G24.44 There is a rebuttable presumption that the most relevant and reliable information to users will be provided by an analysis of expenses based on the nature of expenses. If the presumption is rebutted and a classification based on the function of expenses within the NPO or a mixed presentation is used, an NPO must explain by way of a note why this provides information that is more relevant and reliable to the users of the financial statements.

Analysis by nature of expense

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

Analysis by function of expense

G24.46 The function of expense analysis allocates and combines expenses according to the activity to which the item relates. For example, costs of distributing humanitarian aid could be a functional line item that combines employee benefits, travel and subsistence, supplies and materials, external services related to that activity. Other functional line items could include major operational programmes or administrative support activities, whatever is most relevant to the NPO. Where an NPO presents functional line items it shall disclose a narrative description of what types of expenses (based on their nature) are included in each functional line item.

Analysis by mixed presentation

G24.47 The mixed presentation combines analysis by nature and analysis by function. Under this classification, expenses are aggregated in the Statement of Income and Expenses partly according to their nature and partly according to their function. Where an NPO presents functional line items as part of a mixed presentation it shall disclose a narrative description of what types of expenses (based on their nature) are included in each functional line item.

Allocation and aggregation of expenses

G24.48 Analysis by function of expense and analysis using a mixed presentation involves the allocation and **aggregation** of some or all expenses to the activity to which the consumed resource relates. NPOs shall ensure that the methods of allocating and aggregating expenses are reasonable and consistently applied and consistent between **reporting periods** unless circumstances change. NPOs shall select a method that ensures that the accounts provide a faithful representation of the costs of activities.

G24.49 In attributing costs to activities, NPOs shall apply the following general principles:

(a) direct costs attributable to a single activity shall be allocated directly to that activity (for example the salary cost of someone solely employed on a particular activity or the cost of running a vehicle used wholly for a particular activity);
(b) shared costs that contribute directly to more than one activity shall be apportioned between those activities (for example the cost of a staff member whose time is divided between a fundraising activity and working on the delivery of a programme);
(c) support costs that are organisation wide shall be apportioned between the activities being supported (for example governance costs) or disclosed separately.

Disclosures

G24.50 An NPO shall disclose the basis used in apportioning shared costs and support costs where an analysis by function or mixed presentation of expenses has been used.

G24.51 An NPO shall disclose, if not already presented in the Statement of Income and Expenses, in the analysis of expenses or the notes:

(a) benefits received by volunteers;
(b) losses, write-offs and special payments.

Benefits received by volunteers

G24.52 Where volunteers receive benefits such as free or subsidised services or goods, these shall be disclosed separately from employee benefit disclosures required by Section 28 *Employee benefits*.

G24.53 Where volunteers are part of key management personnel, these benefits shall not be included in this disclosure but separately disclosed as per paragraph G33.6 of Section 33 *Related party disclosures*.

Losses, write-offs and special payments

G24.54 Losses, write-offs and special payments relate to a range of expenses that are outside of the normal activities of an NPO. Given the different nature of NPOs activities, it is not possible to provide an exhaustive list of the expenses that may be included in this disclosure. Judgement shall be applied by an NPO to determine whether the substance of an expense means it should be included in this disclosure.

G24.55 Losses and write-offs include expenses arising from **cash** losses, unrecoverable overpayments, losses from fraud, theft, arson or other deliberate acts, payments for which a **liability** should not have been incurred, constructive losses, claims waived or abandoned and similar items.

G24.56 Special payments include extra-contractual payments, payments to contractors outside of a binding contract, compensation payments, special severance payments, and payments that those charged with governance of the NPO have no legal obligation or legal power to make but which they believe they have a moral obligation to make.

G24.57 NPOs shall disclose details of losses, write-offs and special payments made including those where the NPO has been required to obtain authority to make payments from a court, regulator or similar body. NPOs may aggregate losses, write-offs and special payments of a similar nature where this does not impact on the **understandability** of the information provided. For each loss, write-off or special payment (or aggregation) the notes to the accounts shall state the amount and provide an explanation of the nature of the loss, write-off or special payment and the reason why it occurred.

Application Guidance: Section 24 Part II – Classification of expenses

Determining which analysis of expenses is most relevant and reliable

AG24.45 Paragraph G24.43 requires an NPO to provide an analysis of expenses using a classification based on either the nature of expenses, the function of expenses within the NPO, or a mixed presentation, whichever provides information that is more relevant and reliable to the users of the financial statements. There is a rebuttable presumption in paragraph G24.44 that the most relevant and reliable information to users will be provided by an analysis of expenses using a classification based on the nature of expenses.

AG24.46 In determining whether to rebut the presumption, an NPO shall consider:

(a) which analysis provides the most useful relevant and reliable information to users of the financial statements about key components of the NPO's **surplus or deficit**. For example, for an NPO that primarily generates **revenue** through retail activities before distributing surpluses to local good causes, a key component of surplus or deficit could be costs of sales. Presenting a cost of sales line item can provide relevant information about whether the revenue generated from the sale of goods covers directs costs associated with those sales and by what margin. However, presenting a costs of sales line item is unlikely to provide relevant information when the link between revenue and costs is less direct. For example, if the same NPO instead primarily generated revenue through returns on capital endowments, information about the expenses presented using a nature of expense analysis, such as investment costs, may be more relevant to users.

(b) which analysis most closely represents the way the NPO is managed and how management reports internally. For example, an international humanitarian NPO managed on the basis of major functions such as emergency response, long-term humanitarian programmes, and governmental lobbying and legal activities, might use a function of expense method for internal reporting. However, an NPO that has a single predominant function, such as medical research related to an individual disease, may find a more detailed analysis of expenses by nature of expense provides more useful information.

(c) sector practice. The use of similar analyses of expenses would enable users to more easily compare expenses across entities in the same sector.

(d) whether the allocation of expenses to functions would be arbitrary and therefore would not provide a sufficiently faithful representation of the line items presented. In such cases, the nature of expense analysis shall be used.

AG24.47 There may be occasions where a mixed presentation can provide more relevant information to users. For example, an NPO with two or more distinct types of activities may present some of its expenses by function and others by nature, to provide information about the key components of surplus or deficit.

AG24.48 Paragraphs G24.47 and G24.48 require an NPO to provide a narrative description of the types of expenses (based on their nature) that contribute to the total costs of each functional line item. This will include, for example, employee benefits, supplies and materials and **depreciation**. Quantification of these amounts may be useful to the users of the financial statements as part of the narrative description.

Allocation and aggregation of expenses

AG24.49 Support costs are essential to enable the NPO to carry out its activities and are often organisation wide. Support costs cannot be directly attributed to one or more activities. Where such costs are apportioned to functions or activities as per paragraph G24.49(c), a basis shall be selected that most faithfully represents the use of the components that comprise support costs.

Specific matter for comment	
Question 2:	**References**
(a) Do you agree that there is a rebuttable presumption that a by nature classification of expenses is used unless this doesn't provide the most relevant and reliable information to the users of the financial statements? If not, why not?	G24.43–G24.47, AG24.45–AG24.47
(b) Do you agree that the rationale for using a classification of expenses other than by nature should be disclosed? If not, why not?	G24.44
(c) Do you agree that where a functional or mixed presentation of expenses is used, a narrative description of the types of expenses incurred on each function line item is sufficient and that a requirement for these to be quantified is not necessary? If not, why not?	G24.46, AG24.48
(d) Do you agree with the expense disclosure requirements? If not, what would you change and why?	G24.50–G24.57
(e) Do you agree with the description of direct costs, shared costs and support costs, and that these allow the full cost of an activity to be identified? If not, why not?	G24.48–G24.49

Section 24 – Expenses Part III Fundraising costs

Scope of this Section

G24.58 This Part of Section 24 specifies the requirements for calculating and disclosing costs associated with fundraising activities. Whichever expense analysis permissible under Part II of Section 24 is adopted by an NPO, fundraising costs shall be separately calculated and disclosed either in the Statement of Income and Expenses or the notes to the financial statements.

Fundraising activities

G24.59 Fundraising activities can be one of three distinct categories of activity that an NPO carries out in order to generate funds for the provision of services and goods for the benefit of the public, carrying out programme and similar activities in pursuit of the NPO's stated mission or objectives, or supporting other activities.

G24.60 The three categories of fundraising activities under INPAG are:

(i) donations, gifts, grants and similar transfers;
(ii) commercial and trading;
(iii) investment management.

G24.61 Under INPAG fundraising activities do not include the development of corporate documents applicable to the whole of an NPOs activities such as business plans or annual reports.

Donations, gifts, grants and similar transfers

G24.62 This category involves activities relating to requesting or obtaining present or future donations, gifts, grants and similar transfers of cash or non-cash assets from entities or individuals external to the NPO.

G24.63 Fundraising costs in this category include but are not limited to those costs incurred in:

(a) seeking donations, grants and legacies including application costs;
(b) researching and developing fundraising strategies and plans for approaching prospective donors;
(c) operating membership schemes or social lotteries;
(d) staging events, including performance fees, licence fees and other related costs;
(e) contracting with agents to raise funds on behalf of the NPO;
(f) advertising, marketing and direct mail materials, but *not* costs associated with educational material designed to further an NPO's mission.

Commercial and trading

G24.64 This category includes those activities where an NPO aims to generate profits from transactions that are on a commercial and trading basis for use in achieving the NPO's mission. Fundraising costs in this category include but are not limited to those costs incurred in:

(a) operating a trading outlet to sell donated and/or bought-in goods; and
(b) operating a trading company undertaking other commercial or trading activities.

G24.65 Where a charge is made to partially cover the costs of services or goods provided to those intended to directly benefit from the NPOs activities, and those charges are part of the operating model established to meet an NPO's mission or objectives, the costs of those activities are not fundraising costs.

Investment management

G24.66 Where an NPO holds an investment that it relies on to generate returns to be able to carry out its missional purposes, investment management is considered as a category of fundraising costs. Fundraising costs in the investment management category include but are not limited to those costs incurred in:

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

Calculating fundraising costs

G24.67 In many cases, fundraising costs will need to be calculated by attributing direct, shared and support costs to fundraising activities to determine the full cost of those activities. In attributing costs to a fundraising activity, an NPO shall apply the general principles in paragraph G24.49.

G24.68 In accordance with paragraph G24.49, NPOs shall select methods of cost allocation that ensure that the financial reports provide a reliable and faithful representation of the costs of fundraising activities and provide information that is relevant to the users of the financial statements. Different methods may be appropriate depending on the type of fundraising activity.

G24.69 NPOs shall ensure that the methods of allocating and aggregating costs attributed to fundraising activities are reasonable and consistently applied within and between reporting periods unless circumstances change.

G24.70 Where an NPO has the commercial and trading activities outlined in paragraph G24.63, fundraising costs shall include all costs to sell donated or commercial products including direct production costs, shared production costs and support costs.

G24.71 Where an NPO has investments and investment managers deduct management fees from investment income, the NPO shall report the gross investment income before fees and then report the management fees charged as a cost. Investment management costs specific to a fund shall be charged to that specific fund in accordance with the requirements of Section 36 *Fund accounting*.

Activities that have more than one purpose

G24.72 Where an NPO has expenses that have been incurred for more than one purpose, such as raising funds while also raising awareness of the activities of the NPO, they shall be split between those related to fundraising and those that are not related to fundraising using the cost allocation methods in paragraph G24.49.

G24.73 NPOs may consider all such costs as either relating to fundraising or to another activity depending on what is the primary purpose of the activity where splitting the costs results in undue cost or effort.

Disclosures

G24.74 Costs related to each category of fundraising activities shall be disclosed separately.

G24.75 An NPO shall present fundraising costs in each category on a gross basis. Costs shall not be netted off from the **income** they have assisted in generating. This follows the general INPAG requirement to account for transactions gross except where explicitly permitted. Where an NPO deems that users of the **general purpose financial reports** would find the information useful, it may present an analysis of revenue raised alongside the costs associated with specific activities provided that the costs and related revenue are presented gross.

G24.76 An NPO shall provide a narrative description of the method of cost allocation and bases of apportionment adopted to calculate fundraising costs. Where activities have more than one purpose, an NPO shall provide a narrative description of these activities including whether costs have been allocated between more than one purpose and/or whether the pragmatic exemption in paragraph G24.71 has been applied.

Application Guidance: Section 24 Part III – Fundraising costs

Activities that have more than one purpose

AG24.50 NPOs may utilise the pragmatic exemption in paragraph G24.71 and consider all fundraising costs for a particular activity/campaign as either relating to fundraising activities or another activity where the costs are for more than one purpose. The pragmatic exemption applies when the costs of estimating or measuring the split are greater than the benefit. It is most likely to be used when the amounts involved are small or the allocation between fundraising activities and other activities involves amounts that are immaterial. The allocation shall depend on the primary purpose of the activity/campaign.

Disclosures

AG24.51 Costs related to each category of fundraising activities shall be disclosed separately unless an individual category is immaterial. This is necessary to ensure transparency and comparability of fundraising costs as the nature of the costs associated with each category of fundraising activity may vary significantly.

Specific matter for comment	
Question 2:	**References**
(f) Do you agree that commercial and trading activities that are for the purposes of fundraising and investment management costs associated with a fund whose purpose is to generate future returns are included as fundraising costs? If not, why not?	G24.64–G24.66
(g) Do you agree with the pragmatic exception that fundraising costs do not need to be split from other costs where the cost of doing so would exceed the information benefits to stakeholders? If not, what would you change and why?	G24.72
(h) Do you agree that the costs for each of the three categories of fundraising activity should be separately disclosed and presented gross? If not, what should be disclosed and why?	G24.74

Sections 25–26

Section	
25	**Borrowing costs**
26	**Share-based payments**

Section 25 *Borrowing costs* was included in ED2.

Section 26 *Share-based payments* was proposed to be deleted in ED2.

ED2 closed for comments on 15 March 2024.

Section 27 – Impairment of assets

Scope and objective of this section

G27.1 An **impairment loss** occurs when the **carrying amount** of an **asset** exceeds its **recoverable amount**. This section shall be applied in accounting for the impairment of all assets other than the following, for which other sections of this Guidance establish impairment requirements:

(a) **deferred tax assets** (see Section 29 *Income tax*);

(b) assets arising from **employee benefits** (see Section 28 *Employee benefits*);

(c) **financial assets** within the scope of Section 11 *Financial instruments*;

(d) **investment property** measured at **fair value** (see Section 16 *Investment property*);

(e) **biological assets** related to **agricultural activity** measured at fair value less estimated costs to sell (see Section 34 *Specialised activities*); and

(f) **contract assets** and assets arising from costs to obtain or fulfil a **contract** (see Section 23 *Revenue*).

Impairment of inventories

Measurement basis

G27.2 An NPO shall assess at each **reporting date** whether any **inventories** are impaired. An NPO shall make the assessment by comparing the carrying amount of each item of inventory, (or group of similar items – see paragraph G27.5) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, the NPO shall reduce the carrying amount of the inventory (or the group) to its selling price less costs to complete and sell.

G27.3 For inventories held for distribution at no or nominal consideration, the cost adjusted for any loss of **service potential** (adjusted cost) shall be used instead of its selling price less costs to complete and sell. An NPO may refer to the replacement cost of an item in determining whether there has been a loss of service potential. If inventory held for distribution at no or nominal consideration is impaired, the NPO shall reduce the carrying amount to its adjusted cost.

G27.4 Such reductions are an impairment loss, which is recognised immediately in **surplus or deficit**.

G27.5 If it is **impracticable** to determine the selling price less costs to complete and sell for inventories held for sale or, for inventories held for distribution at no or nominal consideration, the adjusted cost item by item, the NPO may group items of inventory relating to the same product line that have similar purposes or end uses and are produced and, where relevant, marketed in the same geographical area for the purpose of assessing impairment.

Reversal of impairment

G27.4 An NPO shall make a new assessment of selling price less costs to complete and sell or, for inventories held for distribution at no or nominal consideration, adjusted cost at each subsequent reporting date. When the circumstances that previously caused inventories to be impaired no longer exist or when there is clear evidence of an increase in selling price less costs to complete and sell or adjusted cost because of changed economic circumstances, the NPO shall reverse the amount of the impairment (ie the reversal is limited to the amount of the original impairment loss) so that the new carrying amount is the lower of the cost and the revised selling price less costs to complete and sell or adjusted cost.

Impairment of assets other than inventories

General principles

G27.5 If, and only if, the recoverable amount of an asset is less than its carrying amount, the NPO shall reduce the carrying amount of the asset to its recoverable amount. That reduction is an impairment loss. Paragraphs G27.11–G27.20 provide guidance on measuring recoverable amount.

G27.6 An NPO shall recognise an impairment loss immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with the revaluation model in Section 17 *Property, plant and equipment*. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with paragraph G17.20.

G27.7 An NPO shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the NPO shall estimate the recoverable amount of the asset. If there is no indication of impairment, it is not necessary to estimate the recoverable amount.

G27.8 If it is not possible to estimate the recoverable amount of the individual asset, an NPO shall estimate the recoverable amount of the **operating unit** to which the asset belongs. This may be the case because measuring recoverable amount requires forecasting **cash flows** and sometimes individual assets do not generate cash flows by themselves. An asset's operating unit is the smallest identifiable group of assets that includes the asset and that are operated largely independently from other assets or groups of assets.

G27.9 In assessing whether there is any indication that an asset may be impaired, an NPO shall consider, as a minimum, the following indications:

External sources of information

(a) *during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.*
(b) *significant changes with an adverse effect on the NPO have taken place during the period, or will take place in the near future, in the technological, market, economic, service delivery, or legal environment in which the NPO operates or in the activities to which an asset is dedicated.*
(c) *market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect materially the discount rate used in calculating an asset's* value in use *and decrease the asset's fair value less costs to sell.*
(d) *the carrying amount of the net assets of the NPO is more than the estimated fair value of the NPO as a whole (such an estimate may have been made, for example, in relation to the potential sale of part or all of the NPO).*

Internal sources of information

(e) *evidence is available of obsolescence or physical damage of an asset.*
(f) *significant changes with an adverse effect on the NPO have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs and plans to dispose of an asset before the previously expected date.*
(g) *evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. In this context economic performance includes operating results and cash flows.*

G27.10 If there is an indication that an asset may be impaired, this may indicate that the NPO should review the remaining **useful life**, the **depreciation** (**amortisation**) method or the **residual value** for the asset and adjust it in accordance with the section of this Guidance applicable to the asset (for example, Section 17 and Section 18 *Intangible assets other than goodwill*), even if no impairment loss is recognised for the asset.

G27.11 The recoverable amount of an asset or an operating unit is the higher of its fair value less costs to sell and its value in use. If it is not possible to estimate the recoverable amount of an individual asset, references in paragraphs G27.12–G27.20 to an asset should be read as references also to an asset's operating unit.

G27.12 It is not always necessary to determine both an asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

G27.13 If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will often be the case for an asset that is held for disposal.

Fair value less costs to sell

G27.14 Section 12 *Fair value measurement* provides guidance on fair value measurement.

Value in use

G27.15 Value in use is the **present value** of the future cash flows, other economic benefits or service potential expected to be derived from an asset. This present value calculation involves the following steps:

(a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal;
(b) estimating the economic benefit or service potential the NPO expects to derive from the asset; and
(c) applying the appropriate discount rate to those future cash flows.

G27.16 The following elements shall be reflected in the calculation of an asset's value in use:

(a) an estimate of the future cash flows, other economic benefits or service potential the NPO expects to derive from the asset;
(b) expectations about possible variations in the amount or timing of those future benefits;
(c) the time value of money, represented by the current market risk-free rate of interest;
(d) the price for bearing the uncertainty inherent in the asset; and
(e) other factors, such as illiquidity, that **market participants** would reflect in pricing the future cash flows the NPO expects to derive from the asset.

G27.17 In measuring value in use, estimates of future cash flows shall include:

(a) projections of cash inflows from the continuing use of the asset;
(b) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
(c) net cash flows, if any, expected to be received (or paid) for the disposal of the asset at the end of its useful life in an arm's length transaction between knowledgeable, willing parties.

The NPO may wish to use any recent financial budgets or forecasts to estimate the cash flows, if available. To estimate cash flow projections beyond the period covered by the most recent budgets or forecasts an NPO may wish to extrapolate the projections based on the budgets or forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified.

G27.18 Estimates of future cash flows shall not include:

(a) cash inflows or outflows from **financing activities**; or
(b) **income tax** receipts or payments.

G27.19 Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:

(a) a future restructuring to which an NPO is not yet committed; or
(b) improving or enhancing the asset's performance.

G27.20 The discount rate (rates) used in the present value calculation shall be a pre-tax rate (rates) that reflect(s) current market assessments of:

(a) the time value of money; and
(b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.

The discount rate (rates) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted, to avoid double-counting.

Recognising and measuring an impairment loss for an operating unit

G27.21 An impairment loss shall be recognised for an operating unit if, and only if, the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit in the following order:

(a) first, to reduce the carrying amount of any **goodwill** allocated to the operating unit; and
(b) then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the operating unit.

G27.22 However, an NPO shall not reduce the carrying amount of any asset in the operating unit below the highest of:

(a) its fair value less costs to sell (if determinable);
(b) its value in use (if determinable); and
(c) zero.

G27.23 Any excess amount of the impairment loss that cannot be allocated to an asset because of the restriction in paragraph G27.22 shall be allocated to the other assets of the unit pro rata on the basis of the carrying amount of those other assets.

Additional requirements for impairment of goodwill

G27.24 Goodwill, by itself, cannot be sold. Nor does it generate cash flows to an entity that are independent of the cash flows of other assets. As a consequence, the fair value of goodwill cannot be measured directly. Consequently, the fair value of goodwill must be derived from measurement of the fair value of the operating unit(s) of which the goodwill is a part.

G27.25 For the purpose of impairment testing, goodwill acquired in a **business combination** shall, from the acquisition date, be allocated to each of the **acquiring NPO's** operating units that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the **acquiree** are assigned to those units.

G27.26 Part of the recoverable amount of an operating unit is attributable to the **non-controlling interest** in goodwill. For the purpose of impairment testing a non-wholly-owned operating unit with goodwill, the carrying amount of that unit is notionally adjusted, before being compared with its recoverable amount, by grossing up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This notionally adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the operating unit is impaired.

G27.27 If goodwill cannot be allocated to individual operating units (or groups of operating units) on a non-arbitrary basis, then for the purposes of testing goodwill the NPO shall test the impairment of goodwill by determining the recoverable amount of either:

(a) the acquired entity in its entirety, if the goodwill relates to an acquired entity that has not been integrated (integrated means the acquired operation has been restructured or dissolved into the **reporting NPO** or other **controlled entities**); or
(b) the entire group of entities, excluding any entities that have not been integrated, if the goodwill relates to an entity that has been integrated.

In applying this paragraph, an NPO will need to separate goodwill into goodwill relating to entities that have been integrated and goodwill relating to entities that have not been integrated. Also, the NPO shall follow the requirements for operating units in this section when calculating the recoverable amount of, and allocating impairment losses and reversals to assets belonging to, the acquired entity or group of entities.

Reversal of an impairment loss

G27.28 An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

G27.29 For all assets other than goodwill, an NPO shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Indications that an impairment loss may have decreased or may no longer exist are generally the opposite of those set out in paragraph G27.9. If any such indication exists, the NPO shall determine whether all or part of the prior impairment loss should be reversed. The procedure for making that determination will depend on whether the prior impairment loss on the asset was based on:

(a) the recoverable amount of that individual asset (see paragraph G27.30); or
(b) the recoverable amount of the operating unit to which the asset belongs (see paragraph G27.31).

Reversal where recoverable amount was estimated for an individual impaired asset

G27.30 When the prior impairment loss was based on the recoverable amount of the individual impaired asset, the following requirements apply:

(a) the NPO shall estimate the recoverable amount of the asset at the current reporting date.
(b) if the estimated recoverable amount of the asset exceeds its carrying amount, the NPO shall increase the carrying amount to recoverable amount, subject to the limitation described in (c). That increase is a reversal of an impairment loss. The NPO shall recognise the reversal immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with the revaluation model in paragraph G17.18. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with paragraph G17.19.
(c) the reversal of an impairment loss shall not increase the carrying amount of the asset above the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.
(d) after a reversal of an impairment loss is recognised, the NPO shall adjust the depreciation (amortisation) charge for the asset in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal when recoverable amount was estimated for an operating unit

G27.31 When the original impairment loss was based on the recoverable amount of the operating unit to which the asset belongs, the following requirements apply:

(a) the NPO shall estimate the recoverable amount of that operating unit at the current reporting date.

(b) if the estimated recoverable amount of the operating unit exceeds its carrying amount, that excess is a reversal of an impairment loss. The NPO shall allocate the amount of that reversal to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets, subject to the limitation described in (c). Those increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and be recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with the revaluation model in paragraph G17.18. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with paragraph G17.19.

(c) in allocating a reversal of an impairment loss for an operating unit, the reversal shall not increase the carrying amount of any asset above the lower of:

(i) its recoverable amount; and

(ii) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

(d) any excess amount of the reversal of the impairment loss that cannot be allocated to an asset because of the restriction in (c) shall be allocated pro rata to the other assets of the operating unit, except for goodwill.

(e) after a reversal of an impairment loss is recognised, if applicable, the NPO shall adjust the depreciation (amortisation) charge for each asset in the operating unit in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Disclosures

G27.32 An NPO shall disclose the following for each **class of assets** indicated in paragraph G27.33:

(a) the amount of impairment losses recognised in surplus or deficit during the period and the line item(s) in the **Statement of Income and Expenses**, in which those impairment losses are included; and

(b) the amount of reversals of impairment losses recognised in surplus or deficit during the period and the line item(s) in the Statement of Income and Expenses, in which those impairment losses are reversed.

G27.33 An NPO shall disclose the information required by paragraph G27.32 for each of the following classes of asset:

(a) **property, plant and equipment** (including investment property accounted for by the cost method);

(b) goodwill;

(c) **intangible assets** other than goodwill;

(d) investments in **associates**; and

(e) investments in **jointly controlled entities**.

Comparison of Section 27 with the *IFRS for SMEs* Accounting Standard

Section 27 of INPAG has been drawn from Section 27 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 27 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 27 of INPAG are as follows:

- The scope of inventory in Section 13 *Inventories* was broadened to include inventory held for distribution and specifically inventory held for distribution to service recipients at no or nominal consideration. Additional measurement requirements were included for these types of inventories. As a consequence a method of assessing the impairment of this type of inventory was added. Inventory held for distribution at no or nominal consideration is valued at the cost adjusted for any loss of service potential (adjusted cost).
- The term cash-generating unit is used in Section 27 of the *IFRS for SMEs* Accounting Standard. Many NPOs hold assets to deliver its missional objectives rather than to generate cash flows. As a consequence the term cash-generating unit has been broadened to include all activities and termed 'operating unit'.
- The description of value in use used in Section 27 of the *IFRS for SMEs* Accounting Standard has been broadened to include other economic benefits and service potential. This is consistent with the description of value in use in INPAG Section 2 *Concepts and pervasive principles.*
- With the inclusion of other economic benefits and service potential in the description of value in use an additional step has been added into the calculation of present value. NPOs are required to estimate future other economic benefit and service potential in carrying out such calculations.
- INPAG Section 27 uses different terminology, referring specifically to NPOs rather than entities more generally, and has been updated to align with other sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.

Specific matter for comment	
Question 8:	**References**
(a) Do you agree that inventory held for distribution is measured for impairment using cost adjusted for any loss of service potential? If not, what would you change and why?	G27.2–G27.4
(b) Do you agree that the term operating unit better reflects the nature of an NPO's operation and with its proposed definition? If not, what alternative term would you use and why?	G27.8
(c) Do you agree that impairments to assets that form an operating unit can take account of other economic benefits and service potential? If not, what would you change and why?	G27.15

Sections 28–32

Section	
28	**Employee benefits**
29	**Income tax**
30	**Foreign currency translation**
31	**Hyperinflation**
32	**Events after the end of the reporting period**

Section 28–32 were included in **ED2**, which closed for comment on 15 March 2024.

Consequential amendments to Section 28 arising from the development of Section 24 Part II *Classification of expenses* have been made. These relate to the disclosure of short-term employee benefits.

In addition, Section 30 has been updated from that included in ED2 to reflect the content of the Addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard issued on 28 March 2024. The added content relates to lack of exchangeability.

Section 28 – Employee benefits

As part of the development of the content of ED3 consequential amendments are proposed to the disclosure of short-term employee benefits. New text is underlined. Removed text is ~~struck through~~.

Disclosures

Disclosures about short-term employee benefits

G28.38 ~~This section does not require specific disclosures about short-term employee benefits.~~ Disclosure shall be made for each of the following short-term employee benefits that are recognised as an expense in the reporting period:

(a) wages, salaries and social security contribution;

(b) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services (other than those provided on the same terms as other eligible service recipients) for current employees;

(c) bonuses paid within 12 months after the end of the reporting period in which the employees render the related service; and

(d) other staff-related statutory or contractual costs.

Short-term employee benefits shall be disclosed separately from other employee benefits. **Termination benefits** shall be reported in accordance with paragraph G28.47. The cost of pension arrangements shall be reported in accordance with paragraphs G28.39 (defined contribution plans) and G28.40 (defined benefit plans).

G28.38A Members of the NPO's governing body are not considered employees for the purposes of this disclosure and their personnel compensation and expenses are to be disclosed in accordance with paragraph G33.7.

Comparison of Section 28 consequential amendments with the *IFRS for SMEs* Accounting Standard.
Section 28 of INPAG has been drawn from Section 28 of the *IFRS for SMEs* Accounting Standard. The main difference to the comparison provided in ED2 is as follows: • A new disclosure has been added requiring information about short-term employee benefits. This covers the major categories of employee expenses including salaries, wages, taxes and national insurance, as well as bonuses and non-cash benefits and other staff related statutory or contractual costs.

Specific matter for comment	
Question 2	**References**
(c) Do you agree with the proposed expense disclosure requirements? If not, what would you change and why?	G28.38

Section 30 – Foreign currency translation

Paragraph G30.5A (including its related heading) and paragraphs G30.31–30.32 are added.

Reporting foreign currency transactions in the functional currency

Estimating the spot exchange rate when a currency is not exchangeable (paragraphs AG30.37–AG30.43)

G30.5A If, at a measurement date, a currency is not exchangeable into another currency (as described in paragraphs AG30.27–AG30.36), an NPO shall estimate the spot exchange rate at that date. An NPO's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

...

Disclosures

...

G30.31 When an NPO estimates a spot exchange rate because a currency is not exchangeable into another currency (see paragraph G30.5A), the NPO shall disclose:

(a) the currency and a description of the restrictions that result in that currency not being exchangeable into the other currency;
(b) a description of affected transactions;
(c) the carrying amount of affected assets and liabilities;
(d) the spot exchange rates used and whether those rates are:

   (i) observable exchange rates without adjustment (see paragraphs AG30.38–AG30.42); or
   (ii) spot exchange rates estimated using another estimation technique (see paragraph G30.43); and

(e) information about the estimation process, including qualitative and quantitative information about the inputs and assumptions used.

G30.32 When a foreign operation's functional currency is not exchangeable into an NPO's presentation currency or the presentation currency is not exchangeable into a foreign operation's functional currency, an NPO shall disclose:

(a) the name of the foreign operation; whether the foreign operation is a controlled entity, joint arrangement, associate or branch; and its principal place of business;
(b) summarised financial information about the foreign operation; and
(c) the nature and terms of any contractual arrangements that could require the NPO to provide financial support to the foreign operation, including events or circumstances that could expose the NPO to a loss.

Application Guidance: Section 30 – Foreign currency translation

Paragraphs AG30.26–AG30.48 are added.

Exchangeability

AG30.26 The purpose of this application guidance is to help entities assess whether a currency is exchangeable (see paragraphs AG30.27–AG30.36) and estimate the spot exchange rate when a currency is not exchangeable (see paragraphs AG30.37–AG30.43).

Step I: Assessing whether a currency is exchangeable

AG30.27 A currency is exchangeable into another currency when an NPO is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. An NPO assesses whether a currency is exchangeable into another currency:

(a) at a measurement date; and
(b) for a specified purpose.

AG30.28 If an NPO is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency.

AG30.29 An NPO might determine that a currency is not exchangeable into another currency, even though that other currency might be exchangeable in the other direction. For example, an NPO might determine that currency PC is not exchangeable into currency LC, even though currency LC is exchangeable into currency PC.

Time frame

AG30.30 A spot exchange rate is the exchange rate for immediate delivery. However, an exchange transaction might not always complete instantaneously because of legal or regulatory requirements, or for practical reasons such as public holidays. A normal administrative delay in obtaining the other currency does not preclude a currency from being exchangeable into that other currency. What constitutes a normal administrative delay depends on the facts and circumstances surrounding the exchange transaction.

Ability to obtain the other currency

AG30.31 In assessing whether a currency is exchangeable into another currency, an NPO shall consider its ability to obtain the other currency (either directly or indirectly), instead of its intention or decision to do so. For example, subject to the other requirements in paragraphs AG30.27–AG30.36, regardless of whether the NPO intends or decides to obtain currency PC, currency LC is exchangeable into currency PC if the NPO is able either (directly) to exchange LC for PC, or (indirectly) to exchange LC for another currency (FC) and then exchange FC for PC.

Markets or exchange mechanisms

AG30.32 In assessing whether a currency is exchangeable into another currency, an NPO shall consider only markets or exchange mechanisms in which a transaction to exchange the currency for the other currency would create enforceable rights and obligations. Enforceability is a matter of law. Whether an exchange transaction in a market or exchange mechanism would create enforceable rights and obligations depends on the facts and circumstances surrounding the exchange transaction.

Purpose of obtaining the other currency

AG30.33 Exchange rates might vary depending on how the currency is to be used. For example, the relevant authorities of a jurisdiction might set a preferential exchange rate for imports of specific goods and a 'penalty' exchange rate for dividend payments to other jurisdictions.

AG30.34 Accordingly, whether a currency is exchangeable into another currency could depend on the purpose for which an NPO obtains (or hypothetically might need to obtain) the other currency. In assessing exchangeability, an NPO shall assume its purpose in obtaining the other currency is:

(a) to realise or settle individual foreign currency transactions, assets or liabilities when the NPO reports foreign currency transactions in its functional currency (see paragraphs G30.6–G30.12 and G30.15–G30.17).

(b) to realise or settle its net assets or net liabilities when the NPO uses a presentation currency other than its functional currency (see paragraphs G30.18–G30.22). The NPO's net assets might be realised by, for example, distributions to holders of equity claims.

(c) to realise or settle its net investment in the foreign operation when the NPO translates the results and financial position of a foreign operation into a presentation currency (see paragraphs G30.23–G30.24). The NPO's beneficial interest in a foreign operation might be realised by, for example, receipt of distributions from the foreign operation or disposal of its beneficial interest in the foreign operation.

AG30.35 An NPO shall assess whether a currency is exchangeable into another currency separately for each purpose specified in paragraph AG30.34.

Ability to obtain only limited amounts of the other currency

AG30.36 A currency is not exchangeable into another currency at the measurement date if, for a purpose specified in paragraph AG30.34, an NPO is able to obtain no more than an insignificant amount of the other currency. For example, an NPO with a functional currency of LC has liabilities denominated in currency FC. The NPO assesses whether the total amount of FC it can obtain for the purpose of settling those liabilities is no more than an insignificant amount compared with the aggregated amount (the sum) of its liability balances denominated in FC.

Step II: Estimating the spot exchange rate when a currency is not exchangeable (paragraph G30.5A)

AG30.37 This Guidance does not specify how an NPO estimates the spot exchange rate when a currency is not exchangeable. In estimating the spot exchange rate to meet the objective in paragraph G30.5A, an NPO is permitted to use either:

(a) an observable exchange rate without adjustment (see paragraphs AG30.38–AG30.42); or

(b) another estimation technique (see paragraph AG30.43).

Using an observable exchange rate without adjustment

AG30.38 Examples of an unadjusted observable exchange rate include:

(a) a spot exchange rate for a purpose other than that for which an NPO assesses exchangeability (see paragraphs AG30.39–AG30.40); and

(b) the first exchange rate at which an NPO is able to obtain the other currency for the specified purpose after exchangeability of the currency is restored (first subsequent exchange rate) (see paragraphs AG30.41–AG30.42).

Using an observable exchange rate for another purpose

AG30.39 A currency that is not exchangeable into another currency for one purpose might be exchangeable into that currency for another purpose. For example, an NPO might be able to obtain a currency to import specific goods but not to pay dividends. In such situations, the NPO might conclude that an observable exchange rate for another purpose meets the objective described in paragraph G30.5A.

AG30.40 An observable exchange rate for another purpose might not reflect the prevailing economic conditions when, for example:

(a) it includes an 'incentive' or 'penalty' set to encourage, or deter, NPOs from obtaining the other currency for particular purposes;

(b) an NPO is able to obtain the other currency only for limited purposes (such as to import emergency supplies);

(c) it is set through regular interventions by the relevant authorities; or

(d) it is unchanged over time instead of being updated daily (or even more frequently).

Using the first subsequent exchange rate

AG30.41 A currency that is not exchangeable into another currency at the measurement date for a specified purpose might subsequently become exchangeable into that currency for that purpose. In such situations, an NPO might conclude that the first subsequent exchange rate meets the objective described in paragraph G30.5A.

AG30.42 The first subsequent exchange rate might not reflect the prevailing economic conditions when, for example:

(a) the date at which exchangeability is restored is long after the measurement date; or

(b) an economy is subject to hyperinflation or high inflation and prices often change quickly, perhaps several times a day.

Using another estimation technique

AG30.43 An NPO using another estimation technique is permitted to use any observable exchange rate – including rates from exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations – and adjust that rate, as necessary, to meet the objective described in paragraph G30.5A.

Comparison of Section 30 additions with the *IFRS for SMEs* Accounting Standard.
Section 30 of INPAG has been drawn from Section 30 of the *IFRS for SMEs* Accounting Standard. This Section was updated following the decision by the International Accounting Standards Board to extend the scope of the Second Comprehensive Review of the *IFRS for SMEs* Accounting Standard. The main differences to the *IFRS for SMEs* Accounting Standard are as follows: • References to dividend payments made to shareholders and the disposal of investments in NPOs to realise or settle currency transactions has been amended to align with the characterisation of equity claims in INPAG. • Minor amendments have been made to reflect the terminology used in other sections of INPAG. • The paragraph numbers have been updated to follow those used in Section 30 of INPAG.

Specific matter for comment	
Question 11	**References**
(a) Do you agree that the guidance on lack of exchangeability is useful and relevant to NPOs? If not, what would you change and why?	G30.5A, G30.31–G30.32, AG30.26–AG30.43

Section 33 – Related party disclosures

Scope of this section

G33.1 This section requires an NPO to include in its **financial statements** the disclosures necessary to draw attention to the possibility that its **financial position** and **surplus or deficit** have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Related party defined

G33.2 A **related party** is a person or entity that is related to the NPO that is preparing its financial statements (the **reporting NPO**):

(a) a person or a **close member of that person's family** is related to a reporting NPO if that person:

(i) is a member of the key management personnel of the reporting NPO or of an entity that **controls** the reporting NPO;
(ii) is a member of the reporting NPO's governing body (paid or not) which provides oversight of the NPO's activities;
(iii) has control or **joint control** over the reporting NPO; or
(iv) has significant influence over the reporting NPO.

(b) an entity is related to a reporting NPO if any of the following conditions applies:

(i) the entity and the reporting NPO are members of the same **group** (which means that each **controlling NPO**, and any **controlled entity**, is related to the others).
(ii) the entity is an **associate** or **jointly controlled** by the reporting NPO (or an associate or jointly controlled entity of a member of a group of which the reporting NPO 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 NPO or an entity related to the reporting NPO. If the reporting NPO is itself such a plan, the sponsoring employers are also related to the reporting NPO.
(vi) the NPO 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 NPO or to the **parent** of the reporting NPO.
(viii) a person identified in (a)(iii) 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).

G33.3 In considering each possible related party relationship, an NPO shall assess the substance of the relationship and not merely the legal form. This includes an assessment of the characteristics of the NPO's governance arrangements.

G33.4 In the context of this Guidance, the following are not necessarily related parties:

(a) two NPOs simply because they have members of key management personnel in common;
(b) two parties simply because they share joint control over a jointly controlled NPO;

(c) any of the following simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an NPO or participate in its decision-making process):

   (i) providers of finance;
   (ii) trade unions;
   (iii) public utilities; or
   (iv) government departments and agencies.

d) a **customer**, **grant provider**, supplier, franchisor, distributor or general agent with whom an NPO transacts a significant volume of business, merely by virtue of the resulting economic dependence.

Disclosures

Disclosure of controlling party relationships

G33.5 Relationships between a controlling NPO and its controlled entities shall be disclosed irrespective of whether there have been **related party transactions**. An NPO shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the NPO's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so (if any) shall also be disclosed.

Disclosure of key management personnel compensation

G33.6 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the NPO, directly or indirectly, including any director (whether executive or otherwise) of that NPO. Compensation includes all **employee benefits** (as defined in Section 28 *Employee benefits*). Employee benefits include all forms of consideration paid, payable or provided by the NPO, or on behalf of the NPO (for example, by its parent), in exchange for services rendered to the NPO. It also includes such consideration paid on behalf of a parent of the NPO in respect of goods or services provided to the NPO.

G33.7 An NPO shall disclose key management personnel compensation in total.

Disclosure of governing body member compensation

G33.8 Governing body members are those persons having authority and responsibility for oversight of the NPO's activities (whether paid or not). Compensation includes all **employee benefits** (as defined in Section 28 *Employee benefits).* Employee benefits include all forms of consideration paid, payable or provided by the NPO, or on behalf of the NPO (for example, by its parent), in exchange for services rendered to the NPO. It also includes such consideration paid on behalf of a parent of the NPO in respect of goods or services provided to the NPO.

G33.9 A disclosure shall be made in the **notes** to the financial statements that either:

(a) none of the members of the governing body have been paid any compensation (see paragraph G33.8) or benefits from employment with the NPO; or

(b) one or more of the members of the governing body has been paid compensation or other benefits from employment with the NPO.

G33.10 Where paragraph G33.8(b) is required to be followed, the disclosure shall include:

(a) who was paid and the nature of the work for which they were paid;
(b) the amounts paid broken down into salary, pension, other benefits;
(c) the legal arrangement for payment, ie employment or self-employed services and how this is distinguished from any governance role within the NPO; and
(d) confirmation that the NPO is allowed to make such payments under law/constitution.

G33.11 Where any member of the governing body has claimed expenses, then the disclosure shall include:

(a) how many members have been paid; and
(b) the value of expenses paid where **material**, with disclosure of expenses by natural category.

G33.12 An NPO that obtains key management personnel services from another entity (management entity) is not required to make any disclosure that might otherwise be required by paragraph G33.7 in relation to the compensation paid or payable by the management entity to the management entity's employees or directors. However, the amounts incurred by an NPO for the provision by a separate management entity of such services shall be disclosed.

Disclosure of related party transactions

G33.13 A related party transaction is a transfer of resources, services or obligations between a reporting NPO and a related party, regardless of whether a price is charged. Examples of related party transactions that are common to NPOs include, but are not limited to:

(a) transactions between an NPO and those that have **equity claims**;
(b) transactions between an NPO and another entity when both entities are under the common control of a single entity or person; and
(c) transactions in which an entity or governing body member and/or key management personnel of the reporting NPO incurs **expenses** directly that otherwise would have been borne by the reporting NPO.

G33.14 If an NPO has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements in paragraphs G33.7 and G33.9–G33.10 to disclose key management personnel and governing body member compensation including expenses. At a minimum, disclosures shall include:

(a) the amount of the transactions;
(b) the amount of outstanding balances and commitments and:
    (i) their terms and conditions, including whether they are secured and the nature of the consideration to be provided in settlement; and
    (ii) details of any guarantees given or received.
(c) **provisions** for uncollectable receivables related to the amount of outstanding balances; and
(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

Such transactions could include **income** or expense items, transfers (or donations) of goods, services; **leases**; guarantees; and settlements by the NPO on behalf of the related party or vice versa.

G33.15 An NPO shall make the disclosures required by paragraph G33.13 separately for each of the following categories:

(a) entities or individuals with control, joint control or significant influence over the NPO;
(b) entities over which the NPO has control, joint control or significant influence;

(c) key management personnel and governing body members of the NPO or its parent (in the aggregate); and
(d) other related parties.

G33.16 An NPO is exempt from the disclosure requirements of paragraph G33.13 in relation to related party transactions and outstanding balances, including commitments, with:

(a) a **government** that has control, joint control or significant influence over the reporting NPO; and
(b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting NPO and the other entity.

G33.17 The following are examples of transactions that shall be disclosed if they are with a related party:

(a) purchases or sales of goods (finished or unfinished);
(b) donations;
(c) purchases or sales of property and other **assets**;
(d) rendering or receiving of services;
(e) leases;
(f) transfers of **research** and **development**;
(g) transfers under license agreements;
(h) transfers under finance arrangements (including loans and equity contributions in **cash** or in kind);
(i) provision of guarantees or collateral;
(j) commitments to do something if a particular event occurs or does not occur in the future;
(k) settlement of **liabilities** on behalf of the NPO or by the NPO on behalf of another party; and
(l) participation in a **defined benefit plan** that shares risks between the reporting NPO and other entities in the group.

G33.18 Transactions with a governing body member need not be disclosed where the governing body member:

(a) makes a donation, provided that this is an arm's length transaction and have not required the NPO to amend its normal activities, eg use certain suppliers or sources of inputs;
(b) is a recipient of services made in accordance with the NPO's primary purpose, where the services are provided on the same terms as other eligible **service recipients**.

G33.19 An NPO shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.

G33.20 An NPO may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the NPO.

G33.21 If a reporting NPO applies the exemption in paragraph G33.15, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph G33.15:

(a) the name of the government and the nature of its relationship with the reporting NPO (that is, control, joint control or significant influence);
(b) the nature and amount of each individually significant transaction;
(c) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent. Types of transactions include those listed in paragraph G33.16.

Application Guidance: Section 33 – Related party disclosures

Related parties for NPOs

AG33.1 NPOs often have a separate governing body exercising authority, separately from the executive officers. Such members of governing bodies may be connected to counterparts, eg with funders or other NPOs, which is common in the sector to leverage co-operation. Transactions between NPOs with connected governing body members are related party transactions. This is because it is important for users of financial statements to understand where such links exist.

AG33.2 While in some jurisdictions it is not legal to compensate the governing body members for their governing body membership, in others it may be customary practice to do so. In either case it is necessary to make disclosures to show no potential for a conflict of interest. Paragraphs G33.8–G33.10 therefore require the disclosure of personnel compensation, other benefits or employment and expenses claimed.

AG33.3 Paragraph G33.15 provides exemptions from reporting related party transactions with government entities. This exemption has been provided to reduce the potential burden of reporting such transactions. NPO's may report such transactions where this is important to the understanding of the NPO's financial position.

AG33.4 Paragraph G33.17(a) permits donations from a governing body member to not be included as a related party transaction, provided there are no obligations for the NPO to vary its normal activities beyond those that would be required in an arm's length transaction. Grant arrangements that include any form of obligation on the NPO to undertake to deliver specified outputs, carry out specified activities or use resources in a specified way will create a unique obligation. Paragraph G33.17(a) will therefore not apply to such arrangements.

Comparison of Section 33 with the *IFRS for SMEs* Accounting Standard
Section 33 of INPAG has been drawn from Section 33 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 33 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 33 of INPAG are as follows: • The description of related parties has been broadened to specifically include members of a reporting NPO's governing body (paid or not) who provide oversight of the NPO's activities. • The scope of possible related party transactions has been widened in paragraph G33.3 to include an assessment of the characteristics of an NPO's governance arrangements as these can take a variety of forms. • INPAG Section 33 requires that the NPO shall disclose details of the personnel compensation paid to governing board members (if any) and the legal basis of those payments. There is also a requirement to disclose the nature and amount of all out-of-pocket expenses reimbursed. • Where a governing body member makes a donation that does not create obligations for the NPO to amend its normal activities beyond those that would be required in an arm's length transaction, the transaction does not need to be disclosed. • Similarly, services received in accordance with an NPO's primary purpose and that are provided on the same terms as any other eligible individual or entity do not need to be disclosed. • The type of relationships that might not be a related party relationship has been widened to include grant providers. • The wording in paragraphs G33.2 and G33.16 has been slightly amended such that in paragraph G33.2 'controlled entity and fellow controlled entities' is replaced with 'any controlled entities' to encompass them both. In paragraph G33.16 the words 'parent and subsidiary' have been removed in the context of participation in shared benefit plans as this is clear in the description of the entities that participate in the sharing of risks. • The disclosures in paragraph G33.14(a) have been broadened from only entities to also include individuals with control, joint control or significant influence, reflecting the broader nature of those who might hold equity claims. • INPAG Section 33 uses different terminology, referring specifically to NPOs rather than entities more generally, and has been updated to be consistent with other sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.

Specific matter for comment	
Question 2:	**References**
(d) Do you agree with the proposed expense disclosure requirements? If not, what would you change and why?	G33.7–G33.11
(i) Do you agree that donations or grants or donations made in arm's length transactions with governing body members and any services they receive on the same terms as other eligible service recipients need not to be disclosed as a related party transaction? If not, why not?	G33.18(a)–G33.18(b)

Section 34 – Specialised activities

Scope of this section

G34.1 This section provides guidance on financial reporting by NPOs involved in three types of specialised activities – agriculture, extractive activities and service concessions.

Agriculture

G34.2 An NPO applying this Guidance that is engaged in **agricultural activity** shall determine its accounting policy for each class of its **biological assets**, except for **bearer plants** that can be measured separately from the produce on them without undue cost or effort, as follows:

(a) the NPO shall use the **fair value** model in paragraphs G34.6–G34.9 for those biological assets for which fair value is readily determinable without undue cost or effort; and
(b) the NPO shall use the cost model in paragraphs G34.10–G34.12 for all other biological assets.

G34.3 This section does not apply to bearer plants that can be measured separately from the produce on them without undue cost or effort (see Section 17 *Property, plant and equipment*). However, this section applies to the produce on those bearer plants. If bearer plants cannot be measured separately from the produce on them without undue cost or effort, this section applies to the entire plant.

G34.4 The following are not bearer plants:

(a) plants cultivated to be harvested as **agricultural produce** (for example, trees grown for use as lumber or trees that are cultivated both for their fruit and their lumber); and
(b) annual crops (for example, maize and wheat).

Recognition

G34.5 An NPO shall recognise a biological asset or agricultural produce when, and only when:

(a) the NPO controls the **asset** as a result of past events;
(b) it is **probable** that future economic benefits associated with the asset will flow to the NPO; and
(c) the fair value or cost of the asset can be measured reliably without undue cost or effort.

Measurement – fair value model

G34.6 An NPO shall **measure** a biological asset on initial **recognition** and at each **reporting date** at its fair value less costs to sell. Changes in fair value less costs to sell shall be recognised in **surplus or deficit**.

G34.7 Agricultural produce harvested from an NPO's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying Section 13 *Inventories* or another applicable section of this Guidance.

G34.8 Section 12 *Fair value measurement* provides guidance on determining fair value measurement.

Disclosures – fair value model

G34.9 An NPO shall disclose the following with respect to its biological assets measured at fair value:

(a) a description of each class of its biological assets.

(b) a reconciliation of changes in the **carrying amount** of biological assets between the beginning and the end of the current period. The reconciliation shall include:

  (i) the gain or loss arising from changes in fair value less costs to sell;
  (ii) increases resulting from purchases;
  (iii) decreases resulting from harvest;
  (iv) increases resulting from **business combinations**;
  (v) net exchange differences arising on the translation of **financial statements** into a different **presentation currency** and on the translation of a **foreign operation** into the presentation currency of the **reporting entity**; and
  (vi) other changes.

This reconciliation need not be presented for prior periods.

Measurement – cost model

G34.10 The NPO shall measure at cost less any accumulated **depreciation** and any accumulated **impairment** losses those biological assets whose fair value is not readily determinable without undue cost or effort.

G34.11 The NPO shall measure agricultural produce harvested from its biological assets at fair value less estimated costs to sell at the point of harvest. Such measurement is the cost at that date when applying Section 13 or other sections of this Guidance.

Disclosures – cost model

G34.12 An NPO shall disclose the following with respect to its biological assets measured using the cost model:

(a) a description of each class of its biological assets;
(b) an explanation of why fair value cannot be measured reliably without undue cost or effort;
(c) the depreciation method used;
(d) the useful lives or the depreciation rates used; and
(e) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

Exploration for and evaluation of mineral resources

G34.13 An NPO using this Guidance that is engaged in the exploration for, or evaluation of, mineral resources shall determine an accounting policy that specifies which expenditures are recognised as exploration and evaluation assets in accordance with paragraph G10.4 and apply the policy consistently. An entity is exempt from applying paragraph G10.5 to its **accounting policies** for the recognition and measurement of exploration and evaluation assets.

G34.14 The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):

(a) acquisition of rights to explore;
(b) topographical, geological, geochemical and geophysical studies;
(c) exploratory drilling;
(d) trenching;
(e) sampling; and
(f) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets.

G34.15 Exploration and evaluation assets shall be measured on initial recognition at cost. After initial recognition, an NPO shall apply Section 17 and Section 18 *Intangible assets other than goodwill* to the exploration and evaluation assets according to the nature of the assets acquired subject to paragraphs G34.17–G34.19. If an NPO has an obligation to dismantle or remove an item, or to restore the site, such obligations and costs are accounted for in accordance with Section 17 and Section 21 *Provisions and contingencies*.

G34.16 Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its **recoverable amount**. An NPO shall measure, present and disclose any resulting impairment loss in accordance with Section 27 *Impairment of assets*, except as provided by paragraph G34.19.

G34.17 For the purposes of exploration and evaluation assets only, paragraph G34.18 shall be applied instead of paragraphs G27.7–G27.10 when identifying an exploration and evaluation asset that may be impaired. Paragraph G34.18 uses the term 'assets' but applies equally to separate exploration and evaluation assets or an **operating unit**.

G34.18 One or more of the following facts and circumstances indicate that an NPO should test exploration and evaluation assets for impairment (the list is not exhaustive):

(a) the period for which the NPO has the right to explore in the specific area has expired during the period, or will expire in the near future, and is not expected to be renewed;
(b) substantive expenditure on further exploration for, and evaluation of, mineral resources in the specific area is neither budgeted nor planned;
(c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the NPO has decided to discontinue such activities in the specific area; or
(d) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The NPO shall perform an impairment test, and recognise any impairment loss, in accordance with Section 27.

G34.19 An NPO shall determine an accounting policy for allocating exploration and evaluation assets to operating units or groups of operating units for the purpose of assessing such assets for impairment.

G34.20 An NPO shall treat exploration and evaluation assets as a separate **class of assets** and make the disclosures required by either Section 17 or Section 18 consistent with how the assets are classified.

Service concession arrangements

G34.21 A service concession arrangement is an arrangement whereby a **government** or other public sector body (the grantor) **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. In those arrangements, the grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.

G34.22 There are two principal categories of service concession arrangements:

(a) in one, the operator receives a **financial asset** – an unconditional contractual right to receive a specified or determinable amount of **cash** or another financial asset from the government in return for constructing or upgrading a public sector asset, and then operating and maintaining the asset for a specified period of time. This category includes guarantees by the government to pay for any shortfall between amounts received from users of the public service and specified or determinable amounts.

(b) in the other, the operator receives an **intangible asset** – a right to charge for use of a public sector asset that it constructs or upgrades and then operates and maintains for a specified period of time. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service.

Sometimes, a single contract may contain both types: to the extent that the government has given an unconditional guarantee of payment for the construction of the public sector asset, the operator has a financial asset; to the extent that the operator has to rely on the public using the service in order to obtain payment, the operator has an intangible asset.

Accounting – financial asset model

G34.23 The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The operator shall measure the financial asset at fair value. Thereafter, it shall follow Section 11 *Financial instruments* in accounting for the financial asset.

Accounting – intangible asset model

G34.24 The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. The operator shall initially measure the intangible asset at fair value. Thereafter, it shall follow Section 18 in accounting for the intangible asset.

Operating revenue

G34.25 The operator of a service concession arrangement shall recognise, measure and disclose **revenue** in accordance with Section 23 *Revenue* for the services it performs.

Comparison of Section 34 with the *IFRS for SMEs* Accounting Standard

Section 34 of INPAG has been drawn from Section 34 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 34 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 34 of INPAG are as follows:

- INPAG Section 34 uses different terminology, referring specifically to NPOs rather than entities more generally, and has been updated to be consistent with other sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.

Specific matter for comment	
Question 10:	**References**
(b) Is any of the guidance in Section 34 needed by NPOs? If yes, which elements of the section are needed and why?	Section 34

Section 35 – Narrative reporting

Section 35 *Narrative reporting* was included in **ED1**, which closed for comment on 31 March 2023.

Section 36 – Fund accounting

Scope of this Section

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

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

Characteristics of a fund

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

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

G36.4 For the purposes of INPAG a separate fund will exist where:

(a) there is a legal or equivalent requirement to separately track resources and the use of those resources; or
(b) there are reasonable expectations by an individual stakeholder or a group of stakeholders that resources used for a specific set of activities will be tracked.

G36.5 Separate accounting records shall be kept for sets of activities identified in paragraph G36.4, comprising each fund's **income**, **expenses**, **assets** and **liabilities**.

G36.6 An NPO shall determine whether it has only one fund or multiple funds. An NPO that does not identify any additional funds after applying paragraph G36.4 will have one fund which will be the general fund.

G36.7 The income, expenses, assets and liabilities recorded against each fund shall only relate to the activities undertaken to further the specific purposes of the fund. These can include direct costs, shared costs and support costs as defined in Section 24 Part II.

G36.8 Where a fund exists in accordance with paragraph G36.4 it shall be presented as either part of **funds with restrictions** or **funds without restrictions**. An assessment shall be carried at each **reporting date** to determine whether each individually identified fund shall be presented as part of funds with restrictions (see paragraphs G36.9–G36.13) or part of funds without restrictions (see paragraphs G36.14–G36.17).

Funds with restrictions

G36.9 A fund shall be presented as a fund with restrictions when one of the following criteria are met:

(a) use of the resources in the fund is limited to a specific purpose or activity as a consequence of externally imposed legal or equivalent arrangements. This includes the acceptance of privately communicated terms by the grantor or donor that limit the use of resources to a specific purpose or activity; or

(b) an NPO has made an externally communicated public commitment at or before the launch of a fundraising campaign that the resources obtained through the campaign will be used for a specific purpose creating a valid expectation on the use of those resources.

G36.10 It is possible that an NPO has many individual funds that have restrictions. The number of funds will be determined by the operational requirements of each NPO. Figure AG36.1 sets out the key decision points.

G36.11 A reasonable allocation of support costs associated with managing the fund shall be charged to a fund, even if inclusion of such costs is not permitted under the terms of any arrangement that has resulted in the creation of a fund.

G36.12 A restricted fund shall show all of the transactions related to its specific purpose. The legitimate expenses attributable to a restricted fund shall be charged to the fund even if there is an insufficient balance on that fund at that time to fund all the expenses. Such expenses shall only be charged to the fund if the specific purpose for which the fund was created is not yet complete. Negative balances shall be reviewed at the reporting date to determine if it is a temporary shortfall that will be addressed in a future **reporting period** or whether it is a permanent shortfall that needs to be addressed by the NPO transferring funds from funds without restrictions.

G36.13 When a fund that was previously presented as with restrictions is no longer required because the reason it was established no longer exists (eg purpose achieved or all funds used), any balance on the fund whether positive or negative shall be transferred to funds without restrictions and the fund closed where this is legally permissible. Where not currently legally permissible the balance on the fund will be reported until it can be closed.

Funds without restrictions

G36.14 Funds without restrictions are those funds that can be used at the discretion of the governing body of an NPO to further its missional purposes. The general fund is a fund without restrictions.

G36.15 An NPO's governing body can designate funds for specific internal purposes. This can include setting aside funds for a future project or commitment, such as investment in new equipment to deliver the NPO's missional objectives. These internally designated funds shall be presented as funds without restrictions as the NPO's governing body has the discretion to alter any such allocations.

G36.16 Funds without restrictions shall include:

(a) any fund that has been created by internal designation by an NPO's governance body; and
(b) any other fund that is not presented as a fund with restrictions.

G36.17 Reserves that result from the application of other sections of INPAG, such as the revaluation of **property, plant and equipment**, form part of an NPO's funds. These reserves shall be treated as unrestricted unless any reserve movement relates to a fund with restrictions. In these circumstances the reserve shall be split to show any element that is restricted. These reserves shall be shown separately to funds with restrictions and funds without restrictions.

Transfers between funds

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

G36.19 A transfer between funds with restrictions and funds without restrictions may be made for several reasons, including:

(a) to make good the shortfall on a fund with restrictions;
(b) to transfer a non-current asset purchased from a fund with restrictions that is now held for a general rather than a restricted purpose;

(c) where the balance on a fund with restrictions has been released by the grantor or donor and can be used for any purpose; or

(d) where the balance on a fund with restrictions can be used for an alternative purpose without legal or regulatory consequences.

G36.20 The total transfers recorded between funds with restrictions and funds without restrictions in the reporting period shall always net to nil.

Disclosures

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

G36.22 The **notes** to the **financial statements** shall disclose:

(a) information on individual fund balances, including the purpose of each fund;

(b) details of the movements on funds during the reporting period, showing as a minimum total income, total expenses, total other changes and movements between funds disaggregated by each fund required in paragraph G36.21(a), and reconciling the opening and closing fund balances;

(c) details of the reasons for any transfers between funds with restrictions and funds without restrictions;

(d) an explanation of balances on any fund with restrictions where the purpose of the fund has ceased and the balance has not or cannot be transferred to funds without restrictions; and

(e) details of the planned use of any designated funds (where disclosed), explaining the purpose of the designation.

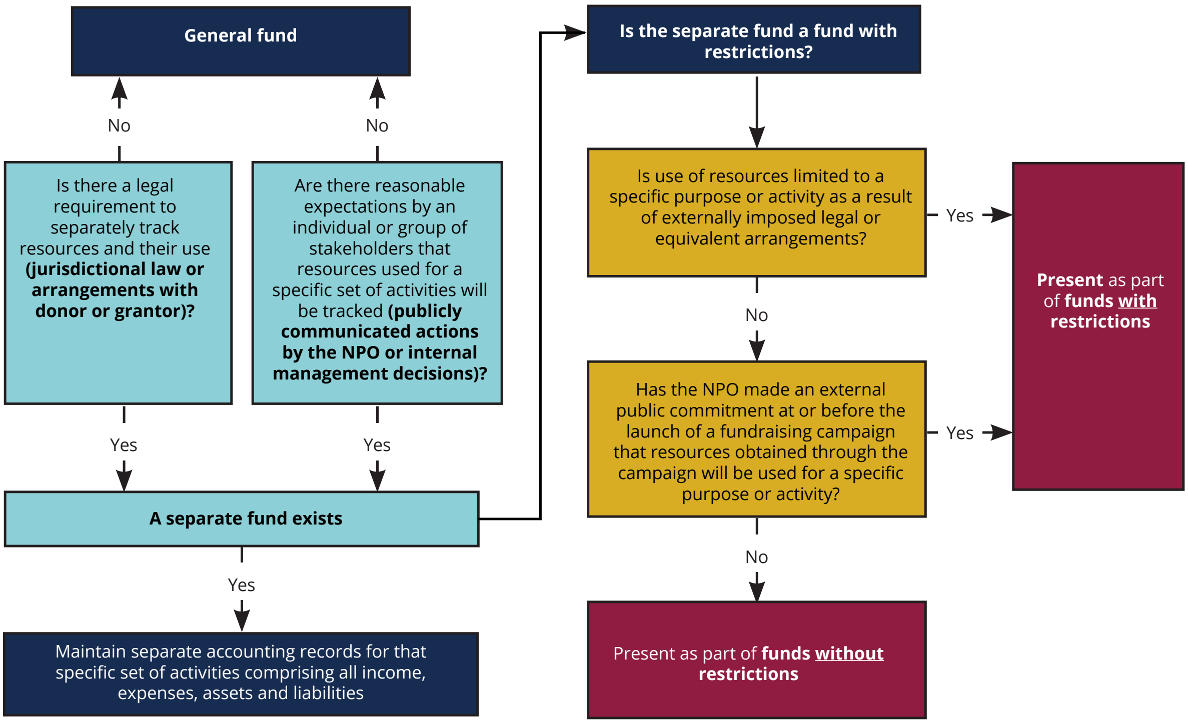
G36.23 Small funds that are individually immaterial may be aggregated where they have a similar purpose. If it is not possible to aggregate small funds they shall be shown individually.

Application Guidance: Section 36 – Fund accounting

Scope of the section

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

Figure AG36.1: Decision tree to identify a separate fund and whether the separate fund has restrictions



Characteristics of a fund

AG36.2 Although each fund is not a separate **reporting entity**, separate accounting records must be kept within an NPO's accounting system. An NPO must be able to present each fund separately, even if it uses the ability to aggregate small funds as set out in paragraph G36.22. An NPO will be able to demonstrate its tracking of the use of resources in a fund through regular management reporting.

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

AG36.4 A fund may exist where stakeholders have a reasonable expectation about how specific resources will be used. An external stakeholder will have a reasonable expectation that the use of resources will be separately accounted for where there is a legal or equivalent requirement or where such an expectation can be derived from a specific public commitment. An internal stakeholder (those with authority within the NPO such as the governing body) will have a reasonable expectation on the use of resources when decisions have been made to designate funds for a specific purpose. This may create a separate **fund** even though it is not a fund with **restrictions** as per paragraph AG36.17.

Funds with restrictions

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

Funds that are required to be expended, invested or retained by the NPO for a specific purpose or activity as a consequence of externally imposed legal or equivalent arrangements placed on the NPO by a resource provider, or arising from an external public commitment in relation to a specific fundraising campaign.

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

AG36.7 OFAs can result in a separate fund that is assessed as being a fund with restrictions. It is the substance of a transaction rather than legal form that will determine whether it is presented as with restrictions. The presentation requirements are independent of the accounting treatment which is dependent on the existence of a present obligation.

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

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

AG36.10 The costs recorded against each fund can include direct, shared and support costs associated with the activities undertaken. The allocation of shared costs and support costs shall follow the principles set out in Section 24 Part II *Classification of expenses.* Such costs shall be allocated even where grant arrangements limit their eligibility to be recovered as part of the grant arrangement. This provides transparency about the total costs of an activity.

AG36.11 A fund may have resources contributed from more than one source. These could include grants that limit the use of resources, and grants that have no limitations on the use of resources and from the NPO's own resources (funds without restrictions). Any fund that meets either of the criteria in paragraph G36.9 shall be treated as a fund with restrictions irrespective of the source of funds.

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

AG36.13 If additional expenses beyond the original resources provided are required to complete the specific purpose for which the fund was established, these shall be charged to the fund, even if it may take several years to complete the activities for which the specific fund is established.

AG36.14 At each reporting date the balance on the fund shall be assessed to determine whether there is a permanent or temporary shortfall. Where future income is not likely to be received to cover the shortfall, the NPO shall make good the shortfall from its own resources and disclose the reasons for this shortfall in line with paragraph G36.22(c).

AG36.15 A non-current asset may be funded through a fundraising campaign, or through a grant or donation. In determining whether the asset is part of a fund with or without restrictions, any terms attached to the acquisition of the asset shall be considered. This includes whether the terms require an asset to be held on an on-going basis for a specific purpose, or whether the restrictions are met once the specified asset is acquired. Where the terms are met once the asset is acquired and it can subsequently be used for any purpose, the asset will be transferred from a fund with restrictions to a fund without restrictions.

Funds without restrictions

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

AG36.17 An NPO may receive a grant or donation where the grantor expresses a form of non-binding preference as to the use of the funds, which falls short of imposing a legal restriction. Where this does not create a reasonable expectation on the use of the resources by the stakeholder, the funds shall be included as part of funds without restrictions.

Transfers between funds

AG36.18 In some jurisdictions, legislation or regulations may prevent the transfer of any surplus or deficit on a fund with restrictions to funds without restrictions. Where this is the case any balance on the fund shall not be transferred until the NPO can legally make such a transfer.

Disclosures relating to EGAs

AG36.19 An EGA that meets the criteria to be a fund is expected to be presented as part of funds with restrictions because of the obligations in the grant arrangement. Transactions associated with **enforceable grant obligations** (EGOs) that are yet to be satisfied will be included within assets and liabilities.

AG36.20 Disclosure of the income and expenses relating to an EGA in the movement on funds note provides transparency over the EGOs met in the reporting period. Information about material EGOs is required to be disclosed in accordance with Section 23 Part I *Revenue from grants and donations.*

AG36.21 The disclosure of funds with restrictions that are not EGAs will enable the explanation of **timing differences** between the recognition of income and expenses. NPOs are encouraged to use these disclosures to explain an NPO's **surplus or deficit** for the period.

Specific matter for comment	
Question 1:	**References**
b) Do you agree that the guidance in Section 36 will ensure that material funds can be identified? If not, what changes would you propose? Is there a risk that funds are not identified?	G36.3–G36.4, Figure AG36.1
c) Do you agree that income, expenses, assets and liabilities are tracked for each fund? What are the costs and benefits? If not, what would you change and why? What are the practical considerations?	G36.5, G36.7, AG36.3
d) Do you agree with the two criteria for a fund to be a fund with restrictions? If not, what would you change and why?	G36.9
e) In order to provide transparency about the finances of an individual fund, do you agree that all the expenses should be charged against a fund that is presented as funds with restrictions even if there are currently insufficient resources to cover these or specific costs are not eligible under a grant arrangement? If not, what alternative would you propose and why?	G36.11–G36.12
f) Do you agree with the disclosures proposed for an NPO's funds? If not, what would you change and why?	G36.21–G36.23
g) Do the Illustrative examples demonstrate the key concepts in fund accounting. If not, what would you change and why?	Implementation Guidance – Section 36

Section 37 – Supplementary information

Scope of this Section

G37.1 Section 37 specifies the supplementary information that shall be disclosed by NPOs that produce one or more Supplementary statements in accordance with INPAG Practice Guide 1– Supplementary statements.

G37.2 Supplementary information is the additional information not presented elsewhere in the **general purpose financial statements** prepared under INPAG that is required to enable the preparation of a whole of NPO Supplementary statement. The information shall conform to the format of INPAG Practice Guide 1 – Supplementary statement.

G37.3 An NPO may adopt the requirements of this Section including the publication a whole of entity Supplementary statement irrespective of whether it has produced one or more Supplementary statements.

Recognition and measurement of supplementary information

G37.4 Supplementary information required by this Section shall be produced using the relevant INPAG **recognition** and **measurement** principles.

G37.5 Exceptionally, if an NPO departs from these recognition and measurement principles, an NPO shall disclose by way of note, the recognition and measurement principles it has used and explain why it has been necessary to depart from the INPAG recognition and measurement principles in order to produce the supplementary information.

Presentation of supplementary information

G37.6 Supplementary information shall be prepared using the same whole of NPO reporting boundary as the general purpose financial statements prepared in accordance with paragraph G9.2.

G37.7 Exceptionally, if an NPO produces supplementary information using a different NPO reporting boundary, an NPO shall disclose by way of note the reporting boundary it has used, provide a reconciliation between the boundary used for the supplementary information and the general purpose financial report and explain why it has been necessary to depart from the **reporting entity** boundary to produce the supplementary information.

G37.8 An NPO shall disclose all of the information required to meet the **classifications** of **income** and **expenses** that are required in INPAG Practice Guide 1 – Supplementary statements. Disclosures shall be made for each category of income and expenses where the amount is **material**.

G37.9 Where an NPO separately presents support costs in a Supplementary statement produced in accordance with INPAG Practice Guide 1 – Supplementary statements, it shall disclose in a note to the **financial statements** its total expenses on support activities.

G37.10 In meeting the requirements of this Section, an NPO shall disclose all the classes of income and expenses that are required by the prescribed format in INPAG Practice Guide 1 – Supplementary statements where they are not otherwise disclosed in the financial statements. Each piece of supplementary information may be disclosed individually or as part of a whole of NPO Supplementary statement.

G37.11 NPOs are not required to repeat disclosures already made elsewhere in the financial statements. Unless a whole of NPO Supplementary statement is produced, NPOs shall identify in the disclosures made in accordance with other Sections of INPAG the relevant Supplementary statement income and/ or expenses category.

G37.12 NPOs are encouraged, but not required, to produce a whole of entity Supplementary statement using the format in INPAG Practice Guide 1 – Supplementary Statements.

Specific matter for comment	
Question 3:	**References**
(a) Do you agree that the requirements of Section 37 do not have to be met unless Supplementary statements are prepared in accordance with INPAG Practice Guide 1 – Supplementary statements? If not, why not?	G37.1–G37.2
(b) Do you agree that a whole of NPO Supplementary statement need not be presented if the additional information is already in the financial statements and/or notes? If not, why not?	G37.3, G37.10–G37.12

Section 38 – Transition to INPAG

Scope of this section

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

G38.2 An entity that has applied INPAG in a previous **reporting period**, but whose most recent previous annual **financial statements** did not contain an explicit and unreserved statement of compliance with INPAG, must either apply this section or apply INPAG retrospectively in accordance with Section 10 *Accounting policies, estimates and errors* as if the NPO had never stopped applying INPAG. When such an NPO does not elect to apply this section, it is still required to apply the disclosure requirements in paragraph G38.15 in addition to the disclosure requirements in Section 10.

First-time adoption

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

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

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

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

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

G38.5 As part of transitional arrangements, for the first two years following the date of first adoption of INPAG an NPO may make an explicit and unreserved statement in its financial report of compliance with the INPAG requirements for the financial statements only rather than a statement of compliance with the full requirements of INPAG. Where an NPO makes an explicit and unreserved statement in its financial report of compliance with INPAG it must meet all of the requirements of paragraphs G38.7–G38.19. Exceptions are not permitted for investments in **associates** or **beneficial interests** in joint ventures held by the NPO.

G38.6 After two years an NPO shall make an explicit and unreserved statement of compliance with all of the requirements of INPAG. If the full requirements are not met within the two years following the date of adoption of INPAG, the NPO shall explain that it has not met the full requirements of INPAG and is unable to make an explicit and unreserved statement of compliance. This shall be the case even if the financial statements comply with INPAG. In these circumstances the NPO shall follow the requirements of paragraph G38.2. It may also make the attestation permitted by paragraph G38.21.

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

G38.8 Paragraph G3.14 requires an NPO to disclose, in a complete set of financial statements, comparative information in respect of the previous comparable period for all monetary amounts presented in the financial statements, as well as specified comparative narrative and descriptive information that form the **notes** to the financial statements. An NPO may present comparative information in respect of more than one comparable prior period. Consequently, an NPO's **date of transition to INPAG** is the beginning of the earliest period for which the NPO presents full comparative information in accordance with the financial statement requirements of this Guidance in its first financial report.

Procedures for preparing financial statements at the date of transition

G38.9 Except as provided in paragraphs G38.11–G38.13, an NPO shall on its date of transition to INPAG (ie the beginning of the earliest period presented):

(a) recognise all **assets** and **liabilities** whose **recognition** is required by INPAG;
(b) not recognise items as assets or liabilities if this Guidance does not permit such recognition;
(c) reclassify items that it recognised under its previous financial reporting framework as one type of asset, liability or component of **equity**, but are a different type of asset, liability or component of **net assets** under this Guidance;
(d) apply this Guidance in measuring all recognised assets and liabilities; and
(e) apply this Guidance in determining the split of accumulated funds, including the general fund, between **funds with restrictions** and **funds without restrictions**. The general fund is a fund without restrictions.

G38.10 The **accounting policies** that an NPO uses on adoption of this Guidance may differ from those that it used for the same date using its previous financial reporting framework. The resulting adjustments arise from transactions, other events or conditions before the date of transition to this Guidance. Consequently, an NPO shall recognise those adjustments directly in the general fund (unless they relate to funds with restrictions or another category of net assets) at the date of transition to this Guidance.

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

(a) **derecognition** of **financial assets** and **financial liabilities**. Financial assets and liabilities derecognised under an NPO's previous accounting framework before the date of transition shall not be recognised upon adoption of INPAG. Conversely, for financial assets and liabilities that would have been derecognised under INPAG in a transaction that took place before the date of transition, but that were not derecognised under an NPO's previous accounting framework, an NPO may choose (a) to derecognise them on adoption of INPAG or (b) to continue to recognise them until disposed of or settled.
(b) hedge accounting. An NPO shall not change its hedge accounting policies before the date of transition to INPAG for hedging relationships that no longer exist at the date of transition. For hedging relationships that exist at the date of transition, the NPO shall follow the hedge accounting requirements of Part II of Section 11 *Other financial instrument issues*, including the requirements for discontinuing hedge accounting for hedging relationships that do not meet the conditions of Part II of Section 11.
(c) **accounting estimates**.
(d) **discontinued operations**.
(e) measuring **non-controlling interests**. The requirements of paragraph G5.8 to allocate **surplus or deficit** between non-controlling interest and **equity claims** shall be applied prospectively from the date of transition to INPAG (or from such earlier date as this Guidance is applied to restate **business combinations**—see paragraph G38.12(a)).
(f) loans at below-market rate of interest. A first-time adopting NPO shall apply the requirements in Section 11 *Financial instruments* prospectively to loans existing at the date of transition to this Guidance. Consequently, if a first-time adopting NPO did not, under its previous GAAP, recognise and **measure** a loan on a basis that is consistent with this Guidance, it shall use its previous GAAP **carrying amount** of the loan at the date of transition to this Guidance as the carrying amount of the loan at that date and shall not recognise the benefit of any loan at a below-market rate of interest as a **grant**.
(g) completed **contracts** with customers. An NPO shall not restate contracts that were completed before the date of transition to INPAG. A completed contract is a contract for which the NPO has transferred all of the goods or services identified in accordance with its previous GAAP.

(h) **enforceable grant arrangements** (EGAs) and other funding arrangements (OFAs). An NPO shall not restate EGAs or OFAs that were completed before the date of transition to INPAG or were due to be completed within 12 months of the transition date. A completed EGA is a grant arrangement where the NPO has satisfied all of the **enforceable grant obligations** (EGOs) (ie met the requirements in relation to the specified outcomes, activities or use of resources). A completed OFA is a grant arrangement where all of the resources provided have been used.

G38.12 An NPO may use one or more of the following exemptions in preparing its first financial statements that conform to this Guidance:

(a) business combinations. A first-time adopting NPO may elect not to apply Section 19 *Business combinations and goodwill* to business combinations that were effected before the date of transition to this Guidance. However, if a first-time adopter restates any business combination to comply with Section 19, it shall restate all later business combinations.

(b) **fair value** as deemed cost. A first-time adopter may elect to measure an item of **property, plant and equipment** (including heritage assets), an **investment property,** an **intangible asset, financial asset** (including endowments) or **inventory** on the date of transition to this Guidance at its fair value and use that fair value basis as its deemed cost at that date.

(c) revaluation as deemed cost. A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment (including heritage assets), an investment property, an intangible asset or inventory at, or before, the date of transition to this Guidance as its deemed cost at the revaluation date.

(d) event-driven fair value **measurement** as deemed cost. A first-time adopter may have established a deemed cost in accordance with its previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event, for example, a valuation of the **business**, or parts of the business, for the purposes of a planned sale. If the measurement date:

(i) is at or before the date of transition to this Guidance, the NPO may use such event-driven fair value measurements as deemed cost at the date of that measurement.

(ii) is after the date of transition to this Guidance, but during the periods covered by the first financial statements that conform to this Guidance, the event-driven fair value measurements may be used as deemed cost when the event occurs. An NPO shall recognise the resulting adjustments directly in funds without restrictions (or, if appropriate, another category of net assets) at the measurement date. At the date of transition to this Guidance, the NPO shall either establish the deemed cost by applying the criteria in paragraph G38.12(b)–(c) or measure those assets and liabilities in accordance with the other requirements in this section.

(e) cumulative translation differences. Section 30 *Foreign currency translation* requires an NPO to classify some translation differences as a separate component of net assets. A first-time adopter may elect to deem the cumulative translation differences for all **foreign operations** to be zero at the date of transition to INPAG (ie a ‘fresh start’).

(f) **separate financial statements**. When an NPO prepares separate financial statements, paragraph G9.26 requires it to account for its beneficial interests in **controlled entities,** associates and **jointly controlled entities** either:

(i) at cost less **impairment**;

(ii) at fair value with changes in fair value recognised in surplus or deficit; or

(iii) using the equity method following the procedures in paragraph G14.8.

If a first-time adopter measures such a beneficial interest at cost, it shall measure that beneficial interest at one of the following amounts at the date of transition:

(i) cost determined in accordance with Section 9 *Consolidated and separate financial statements*; or

(ii) deemed cost, which shall be either fair value at the date of transition to INPAG or previous GAAP carrying amount on that date.

(g) **compound financial instruments**. Paragraph G22.13 requires an NPO to split a compound financial instrument into its liability and components due to equity claims at the date of issue. A first-time adopter need not separate those two components if the liability component is not outstanding at the date of transition to this Guidance.

(h) deferred income tax. A first-time adopter may apply Section 29 *Income tax* prospectively from the date of transition to INPAG.

(i) **service concession arrangements**. A first-time adopter is not required to apply paragraphs G34.21–G34.25 to service concession arrangements entered into before the date of transition to this Guidance.

(j) extractive activities. A first-time adopter using full cost accounting under previous GAAP may elect to measure oil and gas assets (those used in the exploration, evaluation, development or production of oil and gas) on the date of transition to INPAG at the amount determined under the NPO's previous GAAP. The NPO shall test those assets for **impairment** at the date of transition to this Guidance in accordance with Section 27 *Impairment of assets*.

(k) arrangements containing a **lease**. A first-time adopter may elect to determine whether an arrangement existing at the date of transition to INPAG contains a lease (see paragraph G20.3) on the basis of facts and circumstances existing at that date, instead of when the arrangement was entered into.

(l) decommissioning liabilities included in the cost of property, plant and equipment. Paragraph G17.11(c) states that the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an NPO incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce **inventories** during that period. A first-time adopter may elect to measure this component of the cost of an item of property, plant and equipment at the date of transition to INPAG, instead of on the date(s) when the obligation initially arose.

(m) operations subject to rate regulation. If a first-time adopter holds items of property, plant and equipment or intangible assets that are used, or were previously used, in operations subject to rate regulation (ie to provide goods or services to customers at prices/rates established by an authorised body) it may elect to use the previous GAAP carrying amount of those items at the date of transition to this Guidance as their deemed cost. If an NPO applies this exemption to an item, it need not apply it to all items. The NPO shall test those assets for impairment at the date of transition to this Guidance in accordance with Section 27.

(n) **severe hyperinflation**. If a first-time adopter has a **functional currency** that was subject to severe hyperinflation:

(i) if its date of transition to this Guidance is on, or after, the **functional currency normalisation date**, the NPO may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to this Guidance and use that fair value as the deemed cost of those assets and liabilities at that date; and

(ii) if the functional currency normalisation date falls within a 12 month comparative period, an entity may use a comparative period of less than 12 months, provided that a complete set of financial statements (as required by paragraph G3.18) is provided for that shorter period.

G38.13 If it is **impracticable** for an NPO to make one or more of the adjustments required by paragraph G38.9 at the date of transition, the entity shall apply paragraphs G38.9–G38.12 for such adjustments in the earliest period for which it is practicable to do so, and shall identify which amounts in the financial statements have not been restated. If it is impracticable for an NPO to provide any of the disclosures required by this Guidance, including those for comparative periods, the omission shall be disclosed.

Disclosures

Explanation of transition to INPAG

G38.14 An NPO shall explain how the transition from its previous financial reporting framework to this Guidance affected its reported **financial position**, financial performance and **cash flows**.

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

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

Reconciliation

G38.16 To comply with paragraph G38.14, an NPO's first financial report prepared using this Guidance shall include:

(a) a description of the nature of each change in accounting policy;
(b) reconciliations of its net assets determined in accordance with its previous financial reporting framework to its net assets determined in accordance with this Guidance for both of the following dates:
   (i) the date of transition to this Guidance; and
   (ii) the end of the latest period presented in the NPO's most recent annual financial statements determined in accordance with its previous financial reporting framework.
(c) a reconciliation of the surplus or deficit determined in accordance with its previous financial reporting framework for the latest period in the NPO's most recent annual financial statements to its surplus or deficit determined in accordance with this Guidance for the same period.

G38.17 If an NPO becomes aware of **errors** made under its previous financial reporting framework, the reconciliations required by paragraph G38.16(b) and (c) shall, to the extent practicable, distinguish the correction of those errors from changes in accounting policies.

G38.18 If an NPO did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to this Guidance.

G38.19 An NPO must meet the minimum narrative reporting requirements set out in Section 35 *Narrative reporting* to make an explicit and unreserved statement of compliance with INPAG narrative reporting. Information in respect of the previous comparable period for amounts and descriptive information that forms the narrative report shall be provided.

G38.20 An NPO may present comparative information in respect of more than one comparable prior period. If it is impracticable for an NPO to provide comparative information due to undue cost or effort, the omission shall be disclosed.

G38.21 An NPO that is not able to express compliance with the full requirements of INPAG shall include an attestation that is it working towards compliance with INPAG. The attestation shall include the Sections of INPAG yet to be fully implemented.

Comparison of Section 38 with the *IFRS for SMEs* Accounting Standard

Section 38 of INPAG has been drawn from Section 35 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 35 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 38 of INPAG are as follows:

- The requirement for narrative reporting as part of the first-time adoption requirements has been added. To provide clarity, the text differentiates between narrative information that can form part of the notes to the financial statements from the narrative report.
- INPAG requires minimum narrative reporting information as well as the financial statements. Compliance with INPAG therefore requires compliance with the narrative reporting requirements in addition to the financial statements. To aid the transition INPAG allows NPOs to produce a compliance statement for the financial statements only for the first two years. After this period an NPO will not be eligible to express compliance with INPAG until it produces the narrative reporting information.
- The ability to use the fair value basis as deemed cost on first-time adoption has been expanded to include financial assets such as endowments as well as inventories. The text clarifies that heritage assets can also be measured at fair value on first-time adoption.
- INPAG requires that accumulated funds are split between funds with restrictions and funds without restrictions. This requirement has been added to the information that is required on first-time adoption.
- Amendments have been made to the list of transactions that do not require the retrospective application of INPAG. A change has been made to the text regarding government loans to expand it to include all loans below-market rate of interest. A new set of transactions have been added for **enforceable grant arrangements** (EGAs) and other funding arrangements (OFAs). Where an EGA or OFA has been completed or it is due to be completed within no more than 12 months of the transition date, a retrospective change is not required.
- The exemption related to shared-based payments has been deleted. Share-based payments are not proposed to be included in INPAG and references elsewhere have also been deleted.
- INPAG Section 38 uses different terminology, referring specifically to NPOs rather than entities more generally, and has been updated to be consistent with other sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.

Specific matter for comment	
Question 6:	**References**
(a) Do you agree with the pragmatic approaches proposed for the first-time adoption of INPAG? If not, what are the practical challenges that are likely to be experienced?	G38.5–G38.6
(b) Do you agree that compliance with INPAG can be expressed in relation to the financial statements only for a two-year transition period? If not, why not?	G38.11–G38.12

Glossary of terms

This glossary is an integral part of INPAG.

Not all of the terms included in this glossary are used in ED3. 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.
acquiring NPO	The NPO 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: (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: (a) providing goods or services to customers; or service recipients; (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: (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: (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	(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 (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability.
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: (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.
direct costs	Costs attributable to a single activity that are allocated directly to that activity.
discontinued operation	A component of an entity that either has been disposed of or is held for sale and: (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 financial interest in the net assets of an NPO that is due to holders of those claims.
equity-settled share-based payment transaction	A share-based payment transaction in which the entity: (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: (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: (a) cash; (b) an equity instrument of another entity; (c) a contractual right: (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: (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: (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: (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: (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	For the purpose of special hedge accounting by NPOs under Part II of Section 11 of this Standard, a hedged item is: (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	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: (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: (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)	The amount by which the carrying amount of an asset exceeds: (a) in the case of inventories, its selling price less costs to complete and sell add in ' or the cost adjusted for any loss of service potential (adjusted cost)'; 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	The more clearly determinable of either: (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	An identifiable non-monetary asset without physical substance. Such an asset is identifiable when it: (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: (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: (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 as prizes for fundraising events (or similar circumstances) where the items will be transferred to another party in the course of the NPO's fundraising activities; (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: (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	Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics: (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	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: (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. 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.
material	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.
measure	The result of applying a measurement basis to an asset or liability and related income and expenses.
measurement basis	An identified feature – for example, historical cost, fair value or fulfilment value – of an item being measured.
measurement uncertainty	Uncertainty that arises when monetary amounts in financial reports cannot be observed directly and must instead be estimated.
minimum lease payments	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: (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: (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. 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.
monetary items	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.
most advantageous market	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.

multi-employer (benefit) plans	Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that: (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.
operating unit	The smallest identifiable group of assets that are operated largely independently from other assets or groups of assets.
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	A vesting condition that requires: (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). The period of achieving the performance target(s): (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. A performance target is defined by reference to: (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). 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.

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: (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: (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 the 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	A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity): (a) a person or a close member of that person's family is related to a reporting entity if that person: (i) is a member of the key management personnel of the reporting entity or (ii) of a parent of the reporting entity; (ii) has control or joint control over the reporting entity; or has significant influence over the reporting entity. (iv) is a member of the reporting NPO's governing body (paid or not) which provides oversight of the NPO's activities; (b) an entity is related to a reporting entity if any of the following conditions apply: (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 G14.8.
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:

(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:

(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:

(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.

shared costs Costs that contribute directly to more than one activity that are apportioned between those activities.

small and medium-sized entities Entities that:

(a) do not have public accountability; and
(b) publish general purpose financial statements for external users.

An entity has public accountability if:

(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.

social use assets Assets that are held for delivering benefits to society or a section of society rather than to maximise cash inflows.

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	The difference between items of income and expenses in the reporting period that does not include those items to be shown in the Statement of Changes in Net Assets.
subsidiary	An entity that is controlled by another entity.
support costs	Costs that are not specific to an activity and are likely to be organisation wide, which are apportioned between the activities being supported.
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: (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: (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.
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 3

Basis for Conclusions

Comments to be received by 16 September 2024
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INPAG ED/2024/3

Contents

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

Section 2 – Concepts and pervasive principles

As part of the development of the content of Exposure Draft 3, consequential amendments are proposed to equity and the definition of funds with restrictions. These amendments reflect respondent feedback on Exposure Draft 1 in relation to equity and the presentation of funds with restrictions.

Equity

BC2.35 Although most respondents were supportive of the proposals for equity included in Exposure Draft 1 (ED1), there were several who disagreed for a number of reasons. Some argued that equity as defined could not exist for an NPO at all as this would mean the entity was for-profit. Others noted that equity should be used in the same way in INPAG as it was in the *IFRS for SMEs* Accounting Standard (ie the residual interest in the assets of the entity after deducting all its liabilities), with no need to introduce a separate concept of net assets.

BC2.36 While not agreeing with all these responses, on reflection the Secretariat accepted that there were issues with the ED1 proposals. These became particularly apparent as initial work was undertaken on modifying Section 22 Liabilities and equity for the NPO context. At the heart of this issue was the need for clarity on the characteristics of equity instruments for NPOs, and the extent to which these provide ownership and/or entitlement to the net assets of an NPO. Questions then arise about what kinds of financial instrument might be classified as a liability or equity, and how equity as defined in Section 22 of the *IFRS for SMEs* Accounting Standard interacts with the proposed INPAG definition.

BC2.37 In order to gain a better understanding of what kinds of equity instruments NPOs might have and what entitlements this gives to holders of equity claims, a survey was conducted. This provided a range of responses. While some respondents indicated that there was the possibility of share capital or a similar form of equity, these did not appear to provide an entitlement to anything other than a return of funds. As such they appeared more similar conceptually to liabilities.

BC2.38 The Secretariat further examined the interplay between ownership and equity and the position of net assets. This included focusing on the extent to which control is obtained over the NPO by external parties when they provide funding to the NPO in addition to the establishment of a financial interest in the net assets of the NPO.

BC2.39 Initial thoughts were taken to the Technical Advisory Group (TAG) at its September 2023 meeting. TAG Members agreed that the guidance related to equity included in Exposure Draft 1 needed to be revisited. They also agreed that net assets be defined as a financial statements element and that the definition of equity should be examined.

BC2.40 The Secretariat subsequently updated the definition of net assets as a financial statement element, so that it is 'the residual available to the NPO to achieve its objectives after deducting all its liabilities from its assets'. They proposed that equity could be recognised as part of net assets where the holders of equity claims have established a financial interest in some of the net assets of the NPO as a result of equity arrangements.

BC2.41 TAG members were supportive of the changes but felt that rather than redefine equity it would be preferable to refer to equity claims instead in the NPO context. This was agreed by the Secretariat, with equity claims being defined as the financial interest in the net assets of an NPO that is due to holders of those claims. Application guidance was also updated to reflect these changes.

Fund accounting

BC2.42 The definition of funds with restrictions is now held in Section 36 *Fund accounting* and so have been removed from Section 2. The Basis for Conclusions for Section 36 explains the rationale for the development of a section on fund accounting. Text in Section 2 is now titled Fund accounting and has been amended to focus on the need to identify funds and their subsequent classification for presentation purposes.

Section 5 – Statement of Income and Expenses

BC5.6 In ED1 the separate presentation of funds with restrictions and funds without restrictions on the Statement of Income and Expenses was required. In view of the feedback from the ED1 consultation process and considerations in the development of Section 36, it is proposed to remove this requirement as the disclosures required by Section 36 supersede the original proposals. This is expected to simplify the information presented in the Statement of Income and Expenses.

Section 7 – Statement of Cash Flows

BC7.7 The International Accounting Standards Board issued an Addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard on 28 March 2024. This provides new guidance on supplier finance arrangements.

BC7.8 Views were sought on the new content from the Practitioner Advisory Group (PAG) and the Technical Advisory Group (TAG). The PAG were of the view that the use of supplier finance arrangements was not common by NPOs.

BC7.9 TAG members considered the documented approach used by the project in deciding whether to make amendments to the *IFRS for SMEs* Accounting Standard. They were of the view that had the new text been in the original document, no significant amendments would have been proposed.

BC7.10 The additional text has therefore been retained in full, with amendments made to reflect the terminology used in INPAG and ensure alignment with other Sections. A specific matter for comment has been included relating to this additional text.

Section 12 – Fair value measurement

BC12.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Fair value measurement was not included as a prioritised topic.

BC12.2 However, as a result of the high level review of this Section a limited number of amendments have been made. When assessing benefits generated by an asset, the term economic benefit has been widened to include service potential as this will be a factor in determining highest and best use, particularly when there is a limitation on the use of an asset.

BC12.3 The *IFRS for SMEs* Accounting Standard on fair value does not specifically consider when fair value is the deemed cost of a donated asset on initial recognition. The existing guidance can, however, be applied to the subsequent measurement of such assets. The Technical Advisory Group (TAG) discussed the importance of the concept of service potential for NPOs. It was acknowledged that given the scope of the topics included in this phase of INPAG that there should be limitations on the guidance available to assist in applying this concept. Topics related to measurement could be considered in a future phase of INPAG development.

BC12.4 To assist NPOs, a small amount of application guidance has been added that sets out how the fair value hierarchy is likely to apply to NPO assets and liabilities. This includes the use of a level 3 fair value when related to the 'deemed cost' of donated inventory and other donations in-kind. It mirrors the application guidance to Section 13 *Inventories*, and was considered preferable to adding text to the core guidance. The Secretariat views this additional guidance as a consequential change also arising from Section 23 Part I *Revenue from grants and donations*.

BC12.5 TAG members suggested that in the application guidance a distinction be made between the fair value measurement basis of donated assets that can only be used by the NPO for a specific purpose and those that have no restrictions and could be sold. They were of the view that if a donated asset can be sold, its fair value should be its open market value, but that if it cannot be sold its fair value should be determined with reference to its service potential. The Secretariat agreed with this view and these distinctions are made in the Application Guidance.

BC12.6 The Secretariat considered whether further application guidance would be useful, particularly in applying the concept of highest and best use to NPO assets. The Secretariat's view is providing such application guidance might infer a level of review of this section that has not been carried out. Therefore fuller application guidance is not proposed.

BC12.7 The implementation guidance included as part of the *IFRS for SMEs* Accounting Standard has been moved to the INPAG Implementation Guidance. All examples could be relevant to NPOs, except perhaps example 2 and additional examples have been added to cover volunteer time and a donation that exceeds the operating requirements of an NPO. The terminology in the examples reflects that in INPAG.

BC12.8 No other significant editorial changes are proposed from the *IFRS for SMEs* Accounting Standard. Changes have been made to align with other sections including the removal of references to share-based payments. Minor changes to terminology are proposed to align with other sections.

Section 14 – Investments in associates

BC14.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for associates was not included as a prioritised topic.

BC14.2 No major editorial changes are proposed for accounting for associates from the *IFRS for SMEs* Accounting Standard. A Technical Advisory Group (TAG) member queried whether Section 14 should be retitled to 'Beneficial interest in associates' as beneficial interest is used rather than investment in Section 9 *Consolidated and separate financial statements*. Noting that references are made to investing in associates in Section 9 and that some respondents to Exposure Draft 1 (ED1) did not agree with the change in terminology, pending the completion of the analysis of the ED1 and discussion by the TAG, it is proposed to retain the existing section name.

BC14.3 The TAG agreed with the proposed changes to terminology to align with other sections, including the replacement of the term "subsidiary" with "controlled entity, "Investor" with "investing NPO" and "ownership interest" with "beneficial interest".

BC14.4 It was noted that significant influence is described in G14.3 in terms of power to participate in the financial and operating policy, with the description of the presumption of control related to voting power and ownership. As noted in Section 9, power may exist in other forms, particularly in relation to other NPOs. However, as this section is not being fully reviewed no amendments are proposed. No application guidance is proposed, although the guidance in Section 9 is expected to be useful.

Section 15 – Joint arrangements

BC15.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for joint arrangements was not included as a prioritised topic.

BC15.2 In the application of the guidance, when referring to transactions between a party to the joint arrangement and the joint arrangement, edits have been made to make clear where this is only referring to the NPO. No other significant editorial changes are proposed for accounting for joint arrangements from the *IFRS for SMEs* Accounting Standard, other than minor changes to terminology to align with other sections.

Section 16 – Investment property

BC16.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for investment property was not included as a prioritised topic.

BC16.2 The text in this Section is drawn from the equivalent section of the *IFRS for SMEs* Accounting Standard where investment property that has been acquired is required to be measured at cost on initial recognition. It is, however, possible that an NPO receives donated property that would be considered investment property, where the donated asset would not be used directly for the NPO's missional purposes. As a consequence, an additional paragraph has been added to distinguish between purchased and donated investment property. The new paragraph addresses the initial measurement of the investment property on receipt. It requires a donated investment property to be measured at fair value in line with Section 12 *Fair value measurement* on initial recognition, which becomes its deemed cost. The Secretariat consider this to be a consequential amendment from Section 23 Part I *Revenue from grants and donations*.

BC16.3 Technical Advisory Group (TAG) members discussed the importance of the concept of service potential for NPOs in measuring investment property. It was acknowledged that given the scope of the topics included in this phase of INPAG that there should be limitations on the additional guidance provided to assist in applying this concept.

BC16.4 TAG members also considered the situation where NPOs hold a property to deliver activities to meet its missional objectives that might fall within the definition of investment property. Given the nature of such assets, INPAG clarifies that such assets (eg social housing) shall not be classed as investment property but instead as property, plant and equipment. Such assets should follow the requirements of Section 17 *Property, plant and equipment*.

BC16.5 Some property assets could comprise both an investment property and property, plant and equipment. Section 16 requires that mixed use property shall be separated between investment property and property, plant and equipment. It was noted that where an asset has mixed used (part commercial and part for service delivery) that judgement may be required in determining which section to apply. The Secretariat expect that the judgement will be based on the principle purpose to which the asset is used.

BC16.6 Other than for these points, only minor editorial changes are proposed from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have also been included to align with other sections.

Section 17 – Property, plant and equipment

BC17.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first edition of INPAG. Measurement issues associated with property, plant and equipment was proposed in the Consultation Paper, but this did not attract sufficient support and foreign currency translation was prioritised instead.

BC17.2 Consideration was given to whether the scope of Section 17 needed to be amended to make clear that assets sharing characteristics with an investment property but primarily used for service delivery are to be treated in accordance with Section 17. This was considered a helpful clarification and as a consequence additional text has been added.

BC17.3 Consistent with investment property, an additional paragraph has been added to the guidance for property, plant and equipment for assets that have been donated. Similarly, property, plant and equipment that has been donated shall be measured on initial recognition at its fair value in line with the guidance in Section 12 *Fair value measurement*. This measurement value is then used as the deemed cost of the donated asset. This is also considered a consequential amendment from Section 23 Part I *Revenue from grants and donations*. Technical Advisory Group (TAG) members discussed the importance of the concept of service potential for non-profits in measuring property, plant and equipment. It was acknowledged that given the scope of the topics included in this phase of INPAG that there should be limitations to the additional guidance provided to assist in applying this concept.

BC17.4 No additional application guidance is proposed for Section 17 as the Secretariat is of the view that the additional guidance in Section 12 is sufficient to address the needs of those NPOs that have donated property, plant and equipment.

BC17.5 TAG members were of the view that additional guidance on heritage assets would be useful. It was agreed that a reference would be made in Section 38 *Transition to INPAG,* noting that heritage assets have not been prioritised for inclusion in this version of INPAG.

BC17.6 Other than for these points, only minor editorial changes are proposed from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have been included to align with other sections.

Section 18 – Intangible assets other than goodwill

BC18.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for intangible assets other than goodwill was not included as a prioritised topic.

BC18.2 Consistent with investment property and property, plant and equipment, an additional paragraph has been added to the section for donated assets. The Secretariat did not initially propose this adaptation, but Technical Advisory Group (TAG) members were of the view that intangible assets can be acquired by way of a donation, for example the donation of the copyright of a book.

BC18.3 On initial recognition an asset is measured at fair value in line with the guidance in Section 12 *Fair value measurement*, which becomes its deemed cost. TAG members were of the view that service potential was important in considering the measurement of intangible assets by an NPO and that this measurement basis could be used as the deemed cost of the donated asset. It was acknowledged that given the scope of the topics included in this phase of INPAG that there should be limitations on the guidance provided to assist in applying this concept. This is also considered a consequential amendment from Section 23 Part I *Revenue from grants and donations*.

BC18.4 Other than for this point, only minor editorial changes are proposed from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have been included to align with other sections.

Section 19 – Business combinations and goodwill

BC19.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for business combinations including goodwill was not included as a prioritised topic.

BC19.2 One of the key issues considered by the Secretariat was the application of the term 'business' to NPOs. Although it is possible that NPOs may acquire other businesses it is perhaps more likely that they merge operations with another NPO. It is acknowledged that NPOs may not see themselves as carrying out a business, but the principles arising from the accounting set out in this Section remain relevant.

BC19.3 To address NPO specific circumstances the Secretariat has included two additional examples of control being exercised through the power to appoint or remove the majority of an NPO's governing body and by entering into a formal transfer agreement. The latter is particularly important given the expectation that business combinations may involve the merging of two or more NPOs. The Secretariat view these changes as consequential amendments arising from the proposals in Section 1 *Non-profit organisations* about the nature of NPOs and Section 9 *Consolidated and separate financial statements* that describes the application of power in an NPO context.

BC19.4 Building on this concern, the Technical Advisory Group (TAG) was keen to make clear that an organisation that is a business in the context of this Section can be an organisation that provides services to beneficiaries, not just sales to customers. This has been addressed through the description of businesses in the application guidance and a new paragraph has been inserted to make clear that the requirements of this section will apply to businesses of all sizes, including small organisations.

BC19.5 Some TAG members were concerned that the term business combination might be misunderstood, particularly when two NPOs merge. In this Section the term 'business' is pervasive and to make amendments as part of a high-level review might result in unintended consequences. As a result, the

Secretariat proposed, and the TAG agreed, to maintain the terminology of 'business', subject to the amendments outlined. Feedback on the use of this terminology will be sought as part of this Exposure Draft.

BC19.6 The *IFRS for SMEs* Accounting Standard includes guidance on the definition of a business, particularly in differentiating between an asset or group of assets and a business. Illustrative examples are also provided. The Secretariat is of the view that this application guidance and illustrative examples are useful and relevant to NPOs. As noted in BC19.3 the description of businesses in the application guidance has been amended and additional text has been added to cover NPO combinations motivated by considerations related to their mission as well as financial considerations.

BC19.7 The TAG raised a question about whether complexities relating to goodwill should be avoided where two NPOs combine and where one has net liabilities. The Secretariat does not have sufficient evidence to determine whether this is a significant issue for NPOs and evidence will be sought through this Exposure Draft.

BC19.8 The TAG questioned whether there should be a simplification in the requirements where two NPOs both with positive net assets combine and this would otherwise result in the application of the requirements for a bargain purchase. There were concerns that the cost of applying such requirements would be disproportionate to the benefit from applying the procedures for NPOs. The Secretariat agreed with this concern and has removed the requirements for the additional tests set out in G19.25.

BC19.9 Other than these changes, there have also been minor changes to terminology to align with other sections. References to share price and equity have been removed where this is considered to not be relevant to NPOs.

Section 20 – Leases

BC20.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for leases was not included as a prioritised topic.

BC20.2 A high level review did not identify any significant editorial changes, and no major changes have been made to Section 20 *Leases* from the *IFRS for SMEs* Accounting Standard other than minor changes to terminology to align with other sections.

BC20.3 However, a Technical Advisory Group (TAG) member raised the question of the accounting for peppercorn/concessionary leases, where the lease payments are below fair value of the property being leased or the lease is below market value. This is a significant issue, and as this section is not subject to full review, it is outside the scope of the current work. Peppercorn and concessionary leases could be considered in a future phase of INPAG development as part of a full review of accounting for leases.

Section 22 – Liabilities and equity claims

BC22.1 Amendments to Section 2 *Concepts and Pervasive Principles* for the NPO context have introduced net assets as a financial statement element. Net assets are defined as 'the residual available to the NPO to achieve its objectives after deducting all its liabilities from its assets'.

BC22.2 It is recognised that for some NPOs, holders of equity claims may have established a financial interest in some of the net assets of the NPO as a result of equity arrangements. To distinguish between this and the situation generally prevalent in private sector entities where equity is the residual interest in the assets of the entity after deducting all its liabilities, the Secretariat agreed with the Technical Advisory Group that Section 2 and subsequently this Section would refer to equity claims rather than equity in the NPO context. Equity claims being the financial interest in the net assets of an NPO that is due to holders of those claims. This Section was amended to reflect this distinction.

BC22.3 Given the nature of NPOs and the circumstances in which they are likely to have share capital, the paragraphs related to the sale of options, rights and warrants, extinguishing financial liabilities with equity instruments and treasury shares have been removed. The paragraphs on convertible debt or similar compound financial instruments and capitalisation or bonus issues and share splits have been retained as it is possible that an NPO has control of, acquires or merges with another entity that has share capital. The guidance may be useful in these circumstances.

BC22.4 In addition to this change, an example of a puttable instrument that is not relevant in the NPO context has been removed from this Section, and an example of an instrument that can only be redeemed at par or an index-linked amount has been included. This later example is intended to reflect member share type arrangements that are common for some NPOs.

BC22.5 Consistent with the proposal that share-based payments do not form part of INPAG given the nature of NPOs, references to Section 26 Share-based payments have been removed from this Section.

BC22.6 Other than these amendments, changes are editorial in nature to reflect the terminology being used in INPAG.

Section 24 Part II – Classification of expenses

Consultation paper – issues identified and approaches

BC24.49 The Consultation Paper identified that information about an NPO's expenses was important to support stewardship, transparency and accountability. It was recognised, however, that not all stakeholders would be interested in the same information but also that providing multiple analyses of expenses would create a burden for NPOs and might not support comparability.

BC24.50 A number of financial reporting challenges were highlighted, including:

- determining the most appropriate disclosures for inclusion in a single set of guidance for NPOs;
- analysis of expenses by function may not aid comparability – due to differing business models, programmes and activities;
- allocating costs to functions may involve considerable judgement;
- analysis of expenses by nature might be more useful to support reporting for regulatory purposes; and
- analysis by both nature and function may not be readily produced from an NPO's accounting system and result in additional costs.

BC24.51 The Consultation Paper noted that international frameworks are consistent in requiring that an entity presents, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is more relevant and reliable. At a jurisdiction level it was noted that while many have standards or guidance that are consistent with international accounting standards, others have taken alternative approaches. This included different requirements depending on the type of NPO to reflect their specific reporting needs, requirements to provide functional expenses grouped by program or support as well as a nature of expense categorisation, and hybrid approaches that mix the nature of expenses and the function of expenses analyses.

BC24.52 This diversity of approaches saw four alternatives put forward for consideration in the Consultation Paper. These were:

- use of existing international standards;
- removing choice and requiring one method of presentation;
- requiring both natural and functional expense analysis; or
- combining natural and functional analysis in a mixed approach.

BC24.53 Respondents supported the description of the issue, and the advantages and disadvantages noted for the alternatives but were split as to which alternative provided the best solution for NPOs. Some respondents highlighted the need for choice and flexibility, while others focused on the benefits of consistency and comparability that limiting choice would provide. There was no clear view on the most suitable alternative.

Approach to guidance development

BC24.54 Following the publication of the Consultation Paper there were also two significant developments. The first was the advancement of proposals for optional Supplementary statements covering both natural and functional spend. The second was the continued evolution of the IASB's Primary Financial Statement project, which at that time was expected to allow an analysis by nature of expense, functional analysis or a mix of the two. It was expected to set out which natural expenses must be presented when a functional analysis is chosen.

BC24.55 Taking account of these developments the Secretariat proposed draft guidance for discussion with the project's advisory groups. The proposals permitted an NPO to provide an analysis of expenses using a classification based on either the nature of expenses, the function of expenses within the NPO, or a mixed presentation (that is partly natural expenses and partly functional expenses), whichever provided information that is more relevant and reliable to the users of the financial statements. Where an NPO presented functional line items it was proposed that they shall also disclose a narrative description of the material expense types based on their nature, that were included in each functional line item.

BC24.56 As analysis by function of expense and analysis by mixed presentation would involve allocating and aggregating some or all expenses to the activity to which the consumed resource relates, the proposed guidance provided principles on attributing costs to activities for this purpose.

BC24.57 In recognition that allowing a choice of method may lead to significant inconsistencies in the information provided by NPOs, even where the NPOs are similar in nature, the Secretariat also proposed that a number of expense disclosures would also need to be included in the financial statements.

Rebuttable presumption that a natural classification would provide the more relevant and reliable information

BC24.58 While supportive of the overall approach, advisory group members and a focus group that was held to discuss the proposals expressed concern that the freedom to provide an analysis of expenses using a classification based on either the nature of expenses, the function of expenses within the NPO, or a mixed presentation would not support comparability. It was felt that a single method of expense classification should be promoted, even if the presentation under that method was not prescribed.

BC24.59 A 'by nature' analysis was considered to be the most simple to prepare, which was expected to make it easier to adopt the INPAG requirements. It was noted that most NPOs would be expected to use accounting software that would permit the production of general purpose financial statements using a natural classification. There would also be expected to be significantly less diversity between by nature classification categories as compared to functional categories.

BC24.60 The Secretariat agreed that the proposed guidance be amended. The proposed guidance permits a classification based on the nature, the function, or a mixed presentation, but there is a rebuttable presumption that the more relevant and reliable information to users will be provided by a natural analysis of expenses. If the presumption were rebutted, and a classification based on the function of expenses or a mixed presentation is used, it was agreed that an explanation by way of a note would be required as to why an alternative analysis provides information that is more relevant and reliable to users.

Disclosures

BC24.61 Additional disclosures were proposed in an initial draft of the guidance that would have required all NPOs to provide information on programme and support expenses, key management personnel, employee remuneration, expenses on grants and donations, expenses related to fundraising, ex gratia payments and volunteer benefits.

BC24.62 Advisory groups expressed concern that some of these disclosures could create a significant additional burden if applied to all NPOs. The Secretariat agreed to amend the proposals to reduce the requirement and to provide better targeting of where additional information is needed.

BC24.63 Upon further reflection it became clear that some proposed disclosures repeated existing disclosure requirements in other Sections of INPAG or were incremental changes to them. Where this was the case, the Secretariat proposed to remove them from Section 24 Part II and instead amend (where needed) the relevant Section. This was agreed as a general approach to the expenses disclosures.

BC24.64 Following discussion with Technical Advisory Group (TAG) members, the disclosure related to ex-gratia payments was broadened to include losses (including fraud), write-offs and special payments. These types of expenses include transactions that are deemed to be outside what would be expected to be the normal activities of an NPO. While not possible to provide an exhaustive list of expenses that could be included in this disclosure, the Secretariat considered it appropriate to include examples to assist NPOs in applying judgement. The proposed disclosure for volunteer benefits was also retained.

BC24.65 Not all NPOs receive grants that require additional reports and the production of additional information such as support costs. To avoid unintentionally increasing the burden for such NPOs it was decided that only where an NPO produces one or more Supplementary statements using INPAG Practice Guide 1 – Supplementary statements would programme and support expenses be required to be disclosed. These requirements are set out in Section 37 *Supplementary Information*.

Section 24 Part III – Fundraising costs

Consultation paper – issues identified and approaches

BC24.66 Information about fundraising costs was identified as a key issue in the IFR4NPO Consultation Paper. It was highlighted that users often seek to compare fundraising costs to income generated and/or programme delivery costs to assess the efficiency of an NPO. It was also explained that this can sometimes be misleading. For example, fundraising costs are generally incurred before the corresponding income is raised. It was noted that fundraising activities and costs are also not always easy to define, with activities serving multiple purposes and expense allocation subjective.

BC24.67 From a financial reporting perspective, it was noted that there may be benefits to standardising the definition of fundraising costs, addressing general recognition principles and cost allocation, and introducing common presentation and disclosure requirements.

BC24.68 Respondents were supportive of the description of the issue, although noted difficulties in assessing fundraising costs and the potential for their misuse as an efficiency metric.

BC24.69 The Consultation Paper noted that existing international frameworks did not specifically address fundraising costs, and that jurisdictional-level requirements did not provide a single view of the costs of fundraising or recognition and measurement principles. Three main alternatives for inclusion in financial reporting guidance were presented. The first would allow NPOs to use any international framework with NPOs developing their own treatments of fundraising costs. The second would require just one international framework to be followed with disclosure of accounting policy. The third would see new NPO-specific guidance developed requiring fundraising costs to be disclosed based on a standard definition and a list of activities along with the NPO’s accounting policy and cost allocation methodologies.

BC24.70 Respondents were supportive of the list of alternatives, with a significant majority in favour of the development of new NPO-specific guidance. It was noted, however, that an NPO may not be able to report the costs of fundraising in a way that is most relevant to the entity if there is a standard definition of fundraising costs, including a narrow list of the type of expenditure to be classified as fundraising costs. NPOs can have different strategies for raising funds, with the types of fundraising expenditure varying significantly. As such, respondents were of the view that the definition of fundraising costs and activities would have to be sufficiently flexible to accommodate different circumstances.

Scope of fundraising costs

BC24.71 The Secretariat's approach to developing the guidance for fundraising costs took into consideration the broader approach to the classification of expenses, as well as the alternatives in the Consultation Paper and the feedback received from respondents.

BC24.72 Initial proposals discussed with TAG members stated that fundraising costs would be a specified activity that needs to be presented for all NPOs. Guidance would be provided on the principles for identifying and allocating costs to fundraising, including where such costs are shared between fundraising and other activities of the NPO. Guidance would also be provided, where relevant, on how such costs are allocated between funds with restrictions and funds without restrictions.

BC24.73 The scope of fundraising costs was developed by the Secretariat. It proposed that the core category of fundraising costs would relate primarily to event and grant activities. This would include such costs as grant application expenses for both successful and unsuccessful bids, marketing and other direct activities to seek donations, and those associated with the staging of fundraising events.

BC24.74 In addition to these core activities, other potential categories of fundraising activities were considered. Trading and commercial activities undertaken with the single purpose of raising funds for use by an NPO in meetings its objectives were also considered. This reflected the Secretariat's view that while the commercial or trading activity may not in itself be a missional activity, it could be considered a type of fundraising activity. The fundraising costs included would be those of the NPO's trading and commercial operations including costs to sell.

BC24.75 This raised a question surrounding charges that are made for services or goods being provided to service recipients as part of an NPO's mission. The Secretariat's view was that where these charges are part of the NPO's operating model to deliver its mission and not a commercial activity, the costs associated with providing the relevant services or goods would not be included as fundraising costs.

BC24.76 The final area considered for inclusion was investment management fees, such as the costs of administration and portfolio management. These could be relevant where an NPO has large funds such as endowments that need to be effectively managed to generate income for an NPO to apply to its missional purposes. Such costs were seen by the Secretariat as different in nature to other fundraising costs as they could be seen to relate more to the good financial management of existing resources rather than seeking to generate additional resources.

BC24.77 TAG members had mixed views. There was support expressed for a position that the minimum disclosure of information of fundraising costs should be more tightly defined. This position would see fundraising activities and disclosure of costs limited only to activities involving requesting or obtaining present or future donations, gifts, grants and similar transfers of cash or non-cash assets from entities or individuals external to the NPO.

BC24.78 Other members, however, noted that information on costs related to commercial and trading activities such as the selling of merchandise that had the purpose of raising funds for the NPOs mission would be useful for users of general purpose financial reports, particularly if this was the single or main source of funds. Likewise, it was noted that the disclosure of investment management costs as a category of fundraising costs could in some circumstances also provide useful information. A focus group held on the scope of fundraising costs also supported this broader scope and the inclusion of trading and commercial and investment management activities.

BC24.79 TAG members discussed the difference between fundraising and income generation and recognised that there is a fine line in distinguishing between the two.

BC24.80 To reflect the range of views, and in order to elicit stakeholder views, ED3 includes three distinct categories of fundraising activities that NPOs are required to be calculated and disclosed: (i) Donations, gifts, grants and similar transfers, (ii) Commercial and trading and (iii) Investment management. The types of costs that each category of fundraising includes were also updated to reflect focus group and TAG member comments. It was agreed that this approach be tested with a specific matter for comment in ED3.

Multipurpose activities

BC24.81 Principles for calculating fundraising costs were developed using the approach proposed for the classification of expenses, with specific guidance for each category. For expenses that are incurred for more than one purpose, such as raising funds while also raising awareness of the activities of the NPO, it was agreed that where these are material they should be split between those related to fundraising and other activities using INPAG's cost allocation methods.

BC24.82 As some amounts are not likely to be material, a pragmatic exemption has been included. This was initially framed in terms of materiality but this was amended to reference to undue costs or effort instead.

Disclosures

BC24.83 The costs related to each category of fundraising activities are required to be disclosed separately unless an individual category is immaterial. To reflect TAG member comments on what information could be useful to users, guidance was also developed that noted that an NPO may present an analysis of revenue raised alongside the costs associated with the specific activity, provided that the costs are still presented gross.

BC24.84 As multipurpose activities are expected to be relatively common, a requirement to provide a narrative description where activities have more than one purpose and costs have been allocated between these purposes was discussed. A disclosure where allocation has not been made due to materiality was also supported.

Section 27 – Impairment of assets

BC27.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for impairment was not included as a prioritised topic.

BC27.2 Impairment was discussed in developing the Consultation Paper as a potential issue for NPOs as private sector guidance is focused on cash generating assets and many NPO assets are not held to maximise cash generation. However, impairment was not considered to be one of the highest priority topics for inclusion in the first phase of INPAG development.

BC27.3 A change has been made to the impairment of inventories. This change arises from the proposals in Section 13 *Inventories* relating to donated inventory held for distribution at no or nominal consideration. Section 13 includes a proposed new measurement base so that such inventory is measured at its cost adjusted for any loss of service potential. This reflects the primary focus of NPOs on service potential rather than profit generation. This measurement base is used when considering the impairment of those inventories.

BC27.4 In recognition that many NPOs carry out activities that do not maximise cash generation, Technical Advisory Group (TAG) members considered whether specific references to service potential in measuring the value of an asset were required. The Secretariat proposed that the full description of value in use from Section 2 *Concepts and pervasive principles* be included in paragraph G27.15 to make the link to service potential clear. It was acknowledged that given the scope of the topics included in this phase of INPAG that there should be limitations to the guidance provided to assist in applying this concept.

BC27.5 The Secretariat reviewed the indicators of impairment in the *IFRS for SMEs* Accounting Standard and concluded that the existing indicators were potentially relevant to NPOs. The Secretariat further considered whether the non-cash indicators of impairment used in IPSAS 21 *Impairment of non-cash generating assets* would be useful in providing indicators that are more NPO-specific. However, making such changes at this point in time may mislead users about the level of review that has taken place on this section. Also, the Secretariat is aware that IPSAS 21 is currently being updated for consequential amendments arising from IPSAS 47 *Measurement* and may soon be out of date. As a consequence, no changes were made.

BC27.6 The equivalent section of the *IFRS for SMEs* Accounting Standard refers extensively to a cash-generating unit when considering assessments for impairment. While it is not possible to address the NPO-specific issues relating to impairment because a full review of the Section has not been carried out, the term 'cash generating unit' has been amended to 'operating unit'. This has been made to broaden its application away from just consideration of cash generating assets.

BC27.7 TAG members agreed that it was appropriate to amend the guidance for this term, but were concerned that replacing the term 'cash-generating' unit with 'operating unit' might have unintended consequences. This included potential misunderstanding about the organisational level to which impairment testing is applied. The Secretariat proposed to add additional text to clarify that the term 'operating unit' applies to either a cash-generating unit or a group of assets that are non-cash generating. Following further discussion with TAG members, it was agreed that 'operating unit' was the most appropriate term given the level of review and to add 'operating unit' to the glossary. The definition clarifies that it relates to the smallest grouping of an NPO's assets for operational purposes. References to cash-generating assets have been removed.

BC27.8 Other than these changes, no major editorial changes are proposed for accounting for impairment from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have been proposed to align with other sections.

Section 28 – Employee benefits

As part of the development of the content of Exposure Draft 3 consequential amendments are proposed to the disclosure of short term employee benefits. These amendments reflect proposals in relation to Section 24 Part II Classification of expenses.

BC28.10 In developing Section 24 Part II *Classification of expenses,* it was decided to extend the disclosures in other sections of INPAG where possible, to eliminate the potential for overlaps in requirements. Consistent with this approach, the disclosures in Section 28 are being extended to include short-term employee benefits (employee costs). No disclosures were required in the draft of Section 28 in Exposure Draft 2.

BC28.11 The cost of employees is often significant for NPOs. It is a cost that attracts interest from users of the financial statements. The inclusion of employee costs was discussed with advisory groups and there was consensus that these should be disclosed.

BC28.12 The proposed additional disclosures in Section 28 will require all NPOs to disclose this information irrespective of the expense classification approach chosen and defines the expenses to be included as employee costs. Where an NPO produces an analysis by nature of expense, employee related costs are likely to be a category of expenses that are disclosed. If the aggregation of costs chosen by an NPO for employee related costs is different to that required by Section 28, then the disclosure in Section 28 will still be required.

Section 30 – Foreign currency translation

BC30.17 Subsequent to the exposure of the draft text on Section 30 *Foreign currency translation,* the International Accounting Standards Board published an Addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard. This Addendum included new content on lack of exchangeability.

BC30.18 Views were sought on the new content from the Practitioner Advisory Group (PAG) and the Technical Advisory Group (TAG). The PAG were of the view that NPOs frequently encounter situations where there is lack of exchangeability between currencies. Equally, they were of the view that this was not a significant issues for NPOs.

BC30.19 TAG members considered the documented approach used by the project in deciding whether to make amendments to the *IFRS for SMEs* Accounting Standard. They were of the view that had the new text been in the original document, no significant amendments would have been proposed.

BC30.20 The additional text has therefore been retained in full, with amendments made to reflect the terminology used in INPAG and ensure alignment with other Sections. A specific matter for comment has been included relating to this additional text.

Section 33 – Related party disclosures

BC33.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Related party disclosures was not included as a prioritised topic.

BC33.2 It was recognised that NPOs may have governance structures that differ from other organisations and it can be the case that individuals are the trustees or equivalent of more than one NPO. As a consequence, this Section makes clear that a member of an NPO governing body, whether or not they are remunerated is a related party. It also requires that the characteristics of an NPO's governing body's governance arrangements are considered in determining related parties.

BC33.3 In developing the disclosures for the classification of expenses, consideration was given to information about key management personnel and governing body members. Paragraph G33.7 requires the disclosure of key management personnel compensation in total. There were no specific disclosures for governing body members. To provide clarity, additional disclosures to cover their personnel compensation arrangements and expenses have been added. Such disclosures provide transparency for accountability purposes.

BC33.4 Details of the personnel compensation paid to governing board members (if any) and the legal basis of those payments are to be disclosed. The legal basis is important as it is not legal to compensate governing body members in some jurisdictions. There is also a requirement to disclose the nature and amount of all out-of-pocket expenses reimbursed.

BC33.5 The Secretariat has included two new exemptions for the disclosure of related party transactions. Donations made by a governing body member need not be disclosed provided there are no special obligations to amend its normal activities eg use of certain suppliers or sources of inputs. Similarly, services received by a governing body member need not be disclosed where they are received on the same terms as any other eligible individual. Technical Advisory Group (TAG) members supported these amendments where amounts paid or received are on the same terms as other donors or beneficiaries. Application guidance clarifies that that this exemption would not apply to grants that have terms that place obligations on the NPO.

BC33.6 Section 33 is based on a typical private sector group structure and in particular where there are parent to entity type relationships. These kinds of structures may also be relevant to NPOs, particularly if separate legal entities have been created to carry out commercial activities, but less relevant for others. However, without a full review of this section it is proposed to leave the existing language about group relationships largely unchanged.

BC33.7 Section 33 provides an additional exemption from disclosures where a government or another entity under the same control, joint control or significant influence of government controls, jointly controls or has significant influence over an NPO. This exemption in the *IFRS for SMEs* Accounting Standard was introduced to reduce the burden on preparers. This exemption has been maintained to similarly reduce the burden on the preparers.

BC33.8 In reviewing this Section, consideration was given to whether service potential needed to be included within the scope of related party transactions to align with other sections. TAG members were of the view that service potential doesn't exist without another asset or service and therefore was not itself a separate related party transaction. As a consequence this concept has not been included.

BC33.9 Finally, G33.14 broadens one of the disclosure categories from entities with control, joint control or significant influence to entities and individuals, reflecting the broader nature of those who might hold equity claims.

BC33.10 Other than these changes, no major editorial changes are proposed for accounting for related party disclosures from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have been proposed to align with other sections.

Section 34 – Specialised activities

BC34.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for Specialised Activities was not included as a prioritised topic.

BC34.2 Although the guidance on agriculture and service concession arrangements may be relevant, the Secretariat proposes to seek views on the extent to which NPOs are involved in specialised activities, particularly those related to exploration for, and evaluation of, mineral resources. The need for this guidance is being addressed through a specific matter for comment in this Exposure Draft.

BC34.3 For now, no editorial changes are proposed for accounting for Specialised Activities from the IFRS for SMEs Accounting Standard, other than minor changes to terminology to align with other sections.

Section 36 – Fund accounting

Consultation Paper – issues identified and approaches

BC36.1 The presentation of information in the financial statements is particularly important when resources can only be used for specific purposes. This was included as Issue 7: Financial Statement Presentation in Part 2 of the IFR4NPO Consultation Paper. Views were sought on how unrestricted and restricted funds should be presented in the main financial statements and notes (including reserves), the role of fund accounting and how any requirements might align with donor reporting requirements.

BC36.2 The Consultation Paper proposed three alternatives as set out in the Basis for Conclusions to Section 3. Although there was no consensus as to the preferred alternative, accountability and meeting users' needs were highlighted as important issues. Responses suggested that fund accounting is essential to ensure the stewardship of funds with restrictions and provide clarity regarding funds that can be used at an NPO's discretion. However, some respondents suggested that fund accounting often results in more complex financial statements that readers find difficult to understand, and that it may not be suitable for all NPOs. In developing the material for ED1, specifically Section 2 *Concepts and pervasive principles* and Section 3 *Financial statement presentation,* fund accounting and the need to separate funds with and without restrictions was included with a supporting rationale. Following the responses received, the thinking in this area has been taken forward, and revised proposals developed.

Identification of funds

BC36.3 The key focus of Section 36 is to enable an NPO to identify the types of funds that it has and whether the funds that it has are available for it to use at its discretion or whether there are limitations that mean that funds can only be applied to specific purposes. The guidance acknowledges that not all NPOs will have more than one fund and NPOs may not have any funds with restrictions.

BC36.4 In developing this Section, consideration was first given to whether presentation could be determined from the type of arrangements defined in Section 23 *Revenue* for the purposes of recognition, measurement and disclosure. Section 23 distinguishes between Enforceable Grant Arrangements (EGAs), where the grant recipient has a present obligation to perform and Other Funding Arrangements (OFAs), where the grant recipient does not have a present obligation to perform.

BC36.5 Initial proposals also looked at whether regulatory requirements should be another factor in determining whether transactions should be presented as funds with or without restrictions. This was discussed by a focus group established for this purpose and by the Practitioner Advisory Group. Both groups had concerns about such an approach. This was because requirements differ significantly globally and could lead to different treatments of similar activities across jurisdictions.

BC36.6 Both groups were concerned about whether the initial proposals would meet stakeholder expectations about which transactions appeared as part of funds with restrictions. Their feedback was that for stakeholders the substance of a transaction is more important that its form.

BC36.7 Technical Advisory Group (TAG) members also had concerns about whether the type of arrangements in Section 23 were a suitable basis to determine presentation. TAG members' concerns centred on obligations that don't create a present obligation, but nevertheless limit how an NPO can use the resources provided.

BC36.8 There were also questions about whether EGAs should be part of funds with restrictions as the rights and obligations arising from the arrangement are dealt with as part of assets and liabilities and do not create a fund balance. Given the substance of these arrangements, the Secretariat's view is that EGA's are expected to be part of the funds with restrictions in the balance sheet, and that disclosure can be used to provide transparency over EGA income and expense recognition. In addition, it is recognised that from time to time there may be a balance on an EGA because there has been insufficient resources to fund the required activities or excess resources, which can then be applied to other purposes (where permitted to do so in accordance with the terms of the grant). Transparency of the impact of these types of arrangements is useful to users of the financial statements.

BC36.9 TAG members discussed the moral and/or ethical requirements to use resources in a particular way. Some TAG members were concerned about the presentation of funds with or without restrictions being based on moral and/or ethical requirements. This is because NPOs have a moral and ethical requirement to use all of its resources for the NPO's missional objectives and practically it might be difficult to distinguish between different types of moral and/or ethical requirements. The Secretariat agreed with these concerns. TAG members subsequently agreed that the reasonable expectations of stakeholders would be a better way of distinguishing when resources should be separately identified and presented.

BC36.10 A principles-based approach was developed to address these concerns. It both considered what constitutes a fund, and whether the funds identified should be presented as part of funds with restrictions, or funds without restrictions.

BC36.11 Criteria were developed for a fund to exist. The first drafts of these criteria were focused on the ability of an NPO to separately track resources and be able to separately record transactions for a specific set of an NPO's activities, whether for an internal or external purpose. TAG members were concerned whether NPOs could effectively opt out of fund accounting, particularly where an NPO encountered difficulties in maintaining separate records. As a consequence, the principles have been reframed so that it is the legal or equivalent requirements and the reasonable expectations of stakeholders which are the key determinants of whether a separate fund exists or not.

BC36.12 TAG members agreed that where there is a legal or equivalent requirement over the use of resources in a fund that limits the purposes or activities for which these can be used, that it should be presented as part of funds with restrictions. This can include grants and donations where there is either a formal agreement or a private arrangement.

BC36.13 There was significant discussion about the treatment of resources received from public fundraising campaigns for a specific purpose, particularly online campaigns and the nature of the obligation that arises. TAG members all agreed that there would be an expectation of separate treatment where a public commitment has been made that resources are to be used for the purpose for which the campaign was launched. As a consequence, these should be included as part of funds with restrictions. The definition of eligible campaigns has been articulated so that it only applies where an externally communicated public commitment has been made and that commitment is made at or before the launch of the fundraising campaign.

BC36.14 For all funds identified, there is a requirement that assets and liabilities must be capable of being shown separately as well as income and expenses. The Secretariat acknowledge that an NPO might be unable to track assets and liabilities for each separate fund. There is a balance to be struck between the transparency that arises from separately reporting resources and any additional cost that this might create. This requirement has been developed to mitigate against the need for less material transactions to be separately tracked and to avoid creating too large a burden for NPO's. A specific matter for comment will be raised on this point.

BC36.15 The internal designation of reserves can typically be changed, subject to the approval of the governing body, and as such they do not create a permanent limitation on the use of resources by the NPO. INPAG allows for internally designated reserves to be identified as a fund but requires that such funds be presented as part of funds without restrictions.

BC36.16 A TAG member was concerned about the potential for confusion about the relationship between fund accounting and reserves. Fund accounting is the requirement in INPAG to identify those funds that should be presented as part of funds with restrictions or funds without restrictions. Each fund includes the income and expenses related to the fund and any assets and liabilities. As a consequence, it may have a brought forward and/or carried forward balance(s). The aggregated balances on these funds will be presented funds with restrictions or funds without restrictions in the accumulated funds (sometimes called reserves) of an NPO. INPAG therefore uses the term only in connection with the specific sections of INPAG that require a reserve to be created. For example, a revaluation reserve will exist where an NPO uses the revaluation model for measuring its assets and it has valuation gains and losses. Similarly, a pension reserve will exist where an NPO has a defined benefit pension scheme to record changes in its values. These reserves are not able to be used for other purposes and are separate to the other funds held by an NPO.

Disclosures

BC36.17 The information needs of users is a critical consideration. Feedback is that it is important to understand the extent to which an NPO can use its funds for any of its missional purposes (free reserves) and the extent to which resources can only be used for a specified purpose.

BC36.18 As a consequence, disclosure requirements are proposed that show for each fund the income and expenses in the year as well as any brought forward and/or carried forward balances. These disclosures are intended to provide transparency about resources received and how they have been used. They will also show any shortfalls or excesses on a fund with restrictions and how such balances have been addressed together with an appropriate explanation. NPOs have consistently provided feedback on the importance of such information, particularly when shortfalls are funded from funds without restrictions.

BC36.19 These disclosures will be important for NPOs that receive resources in one financial reporting period and use them in another financial reporting period or periods. With these disclosures, NPOs will be able to demonstrate the impact of such transactions on their surplus or deficit for the financial reporting period.

BC36.20 The disclosure requirements also apply to internally designated funds. It can be useful for an NPO to show that it has set aside funds for a particular purpose and how it subsequently uses those funds. TAG members had mixed views about whether such funds should be required to be separately identified on the face of the financial statements or in the notes. Given the potential usefulness of this information, internally designated funds have been included within the scope of the proposed disclosure requirements.

Consequential amendments

BC36.21 A definition of funds with restrictions and funds without restrictions was provided in Section 2 *Concepts and pervasive principles* as part of ED1. With the development of the content in Section 36 the definition has been removed from Section 2. Fund accounting is confirmed as a concept in Section 2, with the detail now held in Section 36.

BC36.22 In ED1 the proposals required the separate presentation of funds with restrictions and funds without restrictions in the Statement of Income and Expenses and the Statement of Changes in Net Assets and the aggregates of funds with restrictions and funds without restrictions only in the Statement of Financial Position.

BC36.23 Taking account of feedback in the ED1 consultation process and considerations in the development of this Section, it is now proposed to remove the original requirement that funds with and without restrictions be presented on the face of the Statement of Income and Expenses. The note disclosures required by Section 36 will replace this requirement. The requirements for the Statement of Changes in Net Assets and the Statement of Financial position remain unchanged.

Section 37 – Supplementary information

Supplementary statements

BC37.1 Providers of grant funding to NPOs frequently require special purpose financial and other reports specific to the activities that they are funding. Feedback during stakeholder outreach throughout the course of the IFR4NPO project has highlighted that the lack of harmonisation of donor reporting formats results in a significant burden to NPOs. Funders and auditors have also highlighted that the frequent inability of these special-purpose financial reports to be reconciled or cross-referenced to entity level audited financial statements is also a significant assurance challenge.

BC37.2 In September 2022 it was proposed that the IFR4NPO project should develop a standard format for an optional Supplementary Statement that can meet the financial accountability needs of providers of grant funding. Its objective was to present key auditable financial information about a specific project or grant (or projects/grants) in a way that could be useful to the grantor for accountability purposes, as well as meaningful to primary users.

BC37.3 A Supplementary Statement Working Group (SSWG), was set up to develop proposals. It comprised six members drawn from the Donor Reference Group, Practitioner Advisory Group, Technical Advisory Group (TAG) and a Country Champion.

BC37.4 The output of the SSWG has been taken by the INPAG Secretariat to produce INPAG Practice Guide 1 – Supplementary statements (Practice Guide). The Practice Guide provides guidance for NPOs who wish to prepare one or more Supplementary statements in relation to one or more sets of its activities. It presents financial information on income, expenses, inventory and capital costs for those activities that are based on the audited financial statements.

The relationship between Supplementary statements and Section 37 *Supplementary information*

BC37.5 Following discussion with stakeholders, the Secretariat determined that guidance for the creation of Supplementary statements should sit outside of INPAG as a practice guide. This view was reached because the numerous permutations of Supplementary statements that could be produced is inconsistent with the principles of general purpose financial reporting, which requires that information should be capable of being useful to all users and not just to a particular subset.

BC37.6 The Secretariat did, however, consider that a whole of NPO set of supplementary information could be valuable as part of INPAG. This would provide an audited base from which additional statements (outside of the general purpose financial reporting) could be produced as well as additional information for primary users.

BC37.7 TAG members noted that this could be a burden if all NPOs were required to produce this information, regardless of whether or not they were also preparing one or more Supplementary statements. The Secretariat agreed and amended the proposals such that the provision of such information would only be required for those NPOs that are preparing one or more Supplementary statements using the Practice Guide.

BC37.8 The relationship between the Practice Guide and the requirement to produce supplementary information in the financial statements and/or accompanying notes are covered in this new Section of INPAG, Section 37 *Supplementary Information*.

Disclosure of additional information

BC37.9 Section 37 requires an NPO that has prepared one or more Supplementary statements to disclose additional information where it is not already presented elsewhere in the financial statements. This is to enable the disclosure of all of the information that would allow a whole of NPO analysis using the Supplementary statement classifications to be prepared.

BC37.10 Mindful of reducing reporting burdens, the proposals that the Secretariat presented to the TAG did not mandate the presentation of a whole of NPO Supplementary statement where information is already presented elsewhere in the financial statements. A whole of NPO Supplementary statement using the prescribed format included in the Guide was instead proposed to be encouraged as it is likely to benefit users.

BC37.11 This approach was supported by TAG members. It was also recognised that taken with the proposed reporting requirements of Section 24 Part II *Classification of expenses*, for those NPOs that produce Supplementary statements over time there should be a convergence of information requirements. NPOs would therefore be likely to find it beneficial to produce expense information in accordance with the prescribed format included in the Practice Guide.

Section 38 – Transition to INPAG

Scope

BC38.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for the transition to INPAG was not included as a prioritised topic. However, the development of INPAG and its proposals mean that there are additional considerations for an NPO adopting INPAG for the first time, and so this Section has been further developed.

BC38.2 Section 35 of the *IFRS for SMEs* Accounting Standard is based on an entity moving from another framework such as full IFRS, national GAAP or local income tax basis and also provides for those entities that did not previously present financial statements. This Section requires that at the date of transition all entities need to create opening balances to recognise all assets and liabilities. INPAG defines new assets and liabilities, which will also need to be included.

BC38.3 Technical Advisory Group (TAG) members were asked to consider whether the pragmatic exceptions and approaches in Section 35 of the *IFRS for SMEs* Accounting Standard were also appropriate for NPOs or whether they needed to be amended. The issues considered included presentation of comparatives, the measurement of assets and liabilities on initial recognition, the amount of time permitted to adopt all of the INPAG requirements and the potential to exclude narrative reporting from the statement of compliance for a transitional two year period.

Statements of compliance

BC38.4 INPAG is broader than the *IFRS for SMEs* Accounting Standard as it requires a narrative report in addition to the financial statements. In Exposure Draft 1, which sought feedback on the proposals for narrative reporting, there was a specific matter for comment about the amount of time needed to adopt these requirements and whether a transition period was needed. The need for such a transition period was raised as for some NPOs there would be a significant challenge in adopting the requirements for financial statements, and concerns that the requirements for narrative reporting could be a barrier to adoption.

BC38.5 Respondents to ED1 provided a range of views on a transition period. Some felt the scope of the minimum requirement could be easily achieved and that no transition period was necessary. Others felt that it should be a little longer but no more than 5 years. Reflecting on this feedback the Secretariat proposed a two-step approach where an NPO could express compliance with the requirements for the financial statements as an initial step. The second step would be compliance with the full INPAG requirements once narrative reporting requirements have also been met. The Secretariat raised concerns that without setting time limits for achieving full INPAG compliance, less than full compliance could occur in perpetuity. TAG members agreed that NPOs should not be able to avoid full compliance indefinitely. A two year period for all requirements to be met was agreed. TAG members also agreed that after the two year transition period, if an NPO has failed to meet the full requirements for general purpose financial reports, it would be unable to express compliance with any aspect of INPAG.

BC38.6 TAG members were also of the view that it may be useful for an NPO to explain which parts of INPAG it has adopted and its plans for achieving full compliance with INPAG, where it is not fully compliant. This statement could explain which aspects of INPAG an NPO plans to adopt and the associated timeframe. The scope for such a statement has been included in the guidance.

Comparative information

BC38.7 Section 35 of the *IFRS for SMEs* Accounting Standard requires comparative information before being able to state compliance with the Standard. Consideration was given to whether comparative information would be needed on the first time adoption of INPAG. For those NPOs that have not previously prepared financial statements, there would be no loss of information in allowing comparatives not to be required. A pragmatic exception in these circumstances would not diminish the information available and reduce barriers to adoption. For those entities that already produce financial statements using an international or national GAAP comparatives would be available and such an exception should not apply.

BC38.8 TAG members were all of the view that comparative information was necessary. They recognised that brought forward amounts would be needed to reflect funds with restrictions and funds without restrictions. Comparative information would be needed to enable the opening balances to be determined. TAG members were therefore of the view that in practice this information could be available if planned as part of implementation arrangements.

Measurement and recognition of assets and liabilities

BC38.9 Section 35 of the *IFRS for SMEs* Accounting Standard provides for deemed costs to be used where assets and liabilities were not previously recognised. For clarity, guidance on assets that are more common to NPOs has been added to INPAG to confirm that a deemed cost may be used.

BC38.10 INPAG has introduced enforceable grant arrangements (EGAs) that may have assets and/or liabilities associated with them on first time adoption and also other funding arrangements (OFAs) where there are considerations about what should be included as part of funds with restriction or funds without restrictions. Consideration was given as to how these should be recognised on first time adoption. Given the need to split accumulated funds between funds with restrictions and funds without restriction, it was acknowledged that a prospective approach would not be possible and there would be a need for retrospective application of INPAG to at least some transactions. To reduce the implementation work required, TAG members supported a proposal that agreements that have been completed or are due to complete within 12 months of the date of transition need not be included.

BC38.11 Minor changes have been proposed to align with other sections including the removal of references to share-based payments and in respect of terminology.

INPAG

International Non-Profit Accounting Guidance Part 3

Implementation Guidance

Comments to be received by 16 September 2024
Issued on 28 May 2024

INPAG ED/2024/3

Contents

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

Section 12 – Fair value measurement

Illustrative examples

These examples portray hypothetical situations illustrating the judgements that might apply when an NPO measures assets and liabilities at fair value in different valuation situations. Although some aspects of the examples may be present in actual fact patterns, all the relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying Section 12.

Example 1 – Highest and best use (land)

An NPO receives land from a donor. The land is currently developed for industrial use as a site for a factory. The current use of the land is presumed to be its highest and best use unless market or other factors suggest a different use. Nearby sites have recently been developed for residential use as sites for high-rise apartment buildings. On the basis of that development and recent zoning and other changes to facilitate that development, the NPO determines that the land currently used as a site for a factory could be developed as a site for high-rise apartment buildings because market participants would take into account the potential to develop the site for residential use when pricing the land.

The highest and best use of the land would be determined by comparing both of the following:

(a) the value of the land as currently developed for industrial use (that is, the land would be used in combination with other assets, such as the factory, or with other assets and liabilities).

(b) the value of the land as a vacant site for residential use, taking into account the costs of demolishing the factory and other costs (including the uncertainty about whether the NPO would be able to convert the asset to the alternative use) necessary to convert the land to a vacant site (that is, the land is to be used by market participants on a stand-alone basis).

The highest and best use of the land would be determined on the basis of the higher of those values. In situations involving real estate appraisal, the determination of highest and best use might take into account factors relating to the factory's operations, including its assets and decommissioning or other liabilities.

Example 2 – Level 1 principal (or most advantageous) market

An asset is sold in two different active markets at different prices. An NPO enters into transactions in both markets and can access the price in those markets for the asset at the measurement date. In Market A, the price that would be received is CU26, transaction costs in that market are CU3 and the costs to transport the asset to that market are CU2 (that is, the net amount that would be received is CU21). In Market B, the price that would be received is CU25, transaction costs in that market are CU1 and the costs to transport the asset to that market are CU2 (that is, the net amount that would be received in Market B is CU22).

If Market A is the principal market for the asset (that is, the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after taking into account transport costs (CU24).

If neither market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximises the amount that would be received to sell the asset, after taking into account transaction costs and transport costs (that is, the net amount that would be received in the respective markets).

Because the NPO would maximise the net amount that would be received for the asset in Market B (CU22), the fair value of the asset would be measured using the price in that market (CU25), less transport costs (CU2), resulting in a fair value measurement of CU23. Although transaction costs are taken into account when determining which market is the most advantageous market, the price used to measure the fair value of the asset is not adjusted for those costs (although it is adjusted for transport costs).

Example 3 – Restriction on the sale of an equity instrument

An NPO holds an equity instrument (a financial asset) for which sale is legally or contractually restricted for a specified period (for example, such a restriction could limit sale to qualifying investors). The restriction is a characteristic of the instrument and, therefore, would be transferred to market participants. In that case the fair value of the instrument would be measured on the basis of the quoted price for an otherwise identical unrestricted equity instrument of the same issuer that trades in a public market, adjusted to reflect the effect of the restriction. The adjustment would reflect the amount market participants would demand because of the risk relating to the inability to access a public market for the instrument for the specified period. The adjustment will vary depending on all the following:

(a) the nature and duration of the restriction;

(b) the extent to which buyers are limited by the restriction (for example, there might be a large number of qualifying investors); and

(c) qualitative and quantitative factors specific to both the instrument and the issuer.

Example 4 – Restrictions on the use of an asset

A donor contributes land in an otherwise developed residential area to an NPO (neighbourhood association). The land is currently used as a playground. The donor specifies that the land must continue to be used by the association as a playground in perpetuity. Upon review of relevant documentation (for example, legal and other), the NPO determines that the fiduciary responsibility to meet the donor's restriction would not be transferred to market participants if the NPO sold the asset; that is, the donor restriction on the use of the land is specific to the NPO. Furthermore, the NPO is not restricted from selling the land. Without the restriction on the use of the land, the land could be used as a site for residential development. In addition, the land is subject to an easement (that is, a legal right that enables a utility to run power lines across the land). Following is an analysis of the effect on the fair value measurement of the land arising from the restriction and the easement:

(a) donor restriction on use of land: because in this situation the donor restriction on the use of the land is specific to the NPO, the restriction would not be transferred to market participants. Therefore, the fair value of the land would be the higher of its fair value used as a playground (that is, the fair value of the asset would be maximised through its use by market participants in combination with other assets or with other assets and liabilities) and its fair value as a site for residential development (that is, the fair value of the asset would be maximised through its use by market participants on a stand-alone basis), regardless of the restriction on the use of the land.

(b) easement for utility lines: because the easement for utility lines is specific to (that is, a characteristic of) the land, it would be transferred to market participants with the land. Therefore, the fair value measurement of the land would take into account the effect of the easement, regardless of whether the highest and best use is as a playground or as a site for residential development.

Example 5 – Donation of an asset that has a specification greater than required for operations

A donor provides the use of office space in a building that it owns, where the office space can only be used by the NPO. The building is in the centre of the town in a highly desirable location, which is not necessary for the NPO's operations. In other words, the specification of this office space is greater than is needed for the NPO's operations. The cost of this office space can be readily obtained as there is an active market for this type of office space.

As this office space cannot be sold or used by anyone else (sublet), the NPO cannot obtain revenue that approximates to the market value of the office space. The market value of the office space is therefore not relevant to the NPO and it is the service capacity that is relevant and needs to be measured. The fair value of the office space will therefore be determined with reference to office space that would meet operational needs of the NPO. The NPO is able to operate effectively with office space in an area of the town that is cheaper to lease. In this example, the NPO should use the market value of the office space that it would otherwise have used for operational purposes. The market value of the donated office space in this example is not relevant for the NPO in measuring the value of the donated office space.

Example 6 – Donation of services

A doctor based in country A uses some of their annual vacation to train a country B-based NPO on surgery techniques. The doctor based in country A donates this time and does not receive any remuneration from the NPO for this service.

The NPO determines the fair value of the service provided by the doctor with reference to the type of service provided (surgical training), location of the delivery (country B) and the timing (ie the year when it happened). The fair value should therefore reflect the salary/cost of a doctor with equivalent experience in country B. The actual salary of the doctor in Country A is not a factor in determining the fair value.

Section 19 – Business combinations and goodwill

Illustrative examples

The examples illustrate application of the guidance in paragraphs AG19.1–AG19.10.

Definition of a business (application of paragraph G19.3)

Example A – acquisition of real estate

Scenario 1 – Background

IG19.1 An NPO (Purchaser) acquires a portfolio of ten single-family homes that each have an in-place lease. The fair value of the consideration paid is equal to the aggregate fair value of the ten single-family homes acquired. Each single-family home includes the land, building and property improvements. Each home has a different floor area and interior design. The ten single-family homes are located in the same area and the classes of service users (for example, tenants) are similar. The risks associated with operating in the real estate market of the homes acquired are not significantly different. No employees, other assets, processes or other activities are transferred.

Scenario 1 – Application of requirements

IG19.2 Purchaser elects to apply the optional concentration test set out in paragraph AG19.3 and concludes that:

(a) each single-family home is considered a single identifiable asset in accordance with paragraph AG19.3 for the following reasons:

  (i) the building and property improvements are attached to the land and cannot be removed without incurring significant cost; and

  (ii) the building and the in-place lease are considered a single identifiable asset, because they would be recognised and measured as a single identifiable asset in a business combination.

(b) the group of ten single-family homes is a group of similar identifiable assets because the assets (all single-family homes) are similar in nature and the risks associated with managing and creating outputs are not significantly different. This is because the types of homes and classes of customers are not significantly different.

(c) consequently, substantially all of the fair value of the gross assets acquired is concentrated in a group of similar identifiable assets.

IG19.3 Therefore, Purchaser concludes that the acquired set of activities and assets (set) is not a business.

Scenario 2 – Background

IG19.4 Assume the same facts as in Scenario 1 except that Purchaser also acquires a multi-tenant corporate office park with six 10-storey office buildings that are fully leased. The additional set of activities and assets acquired includes the land, buildings, leases and contracts for outsourced cleaning, security and maintenance. No employees, other assets, other processes or other activities are transferred. The aggregate fair value associated with the office park is similar to the aggregate fair value associated with the ten single-family homes. The processes performed through the contracts for outsourced cleaning and security are ancillary or minor within the context of all the processes required to create outputs.

Scenario 2 – Application of requirements

IG19.5 Purchaser elects to apply the optional concentration test set out in paragraph AG19.3 and concludes that the single-family homes and the office park are not similar identifiable assets, because the single-family homes and the office park differ significantly in the risks associated with operating the assets, obtaining tenants and managing tenants. In particular, the scale of operations and risks associated with the two classes of customers are significantly different. Consequently, the fair value of the gross assets acquired is not substantially all concentrated in a group of similar identifiable assets, because the fair value of the office park is similar to the aggregate fair value of the ten single-family homes. Thus Purchaser assesses whether the set of activities and assets meets the minimum requirements to be considered a business in accordance with paragraphs AG19.4–AG19.10.

IG19.6 The set of activities and assets has outputs because it generates revenue through the in-place leases. Consequently, Purchaser applies the criteria in paragraph AG19.10 to determine whether any processes acquired are substantive.

IG19.7 Purchaser concludes that the criterion in paragraph AG19.10(a) is not met because:

(a) the set does not include an organised workforce; and
(b) Purchaser considers that the processes performed by the outsourced cleaning, security and maintenance personnel (the only processes acquired) are ancillary or minor within the context of all the processes required to create outputs and, therefore, are not critical to the ability to continue producing outputs.

IG19.8 After considering the only processes acquired, those performed by the outsourced cleaning, security and maintenance personnel, Purchaser also concludes that the criteria in paragraph AG19.10(b) are not met. Either of the following reasons justifies that conclusion:

(a) the processes do not significantly contribute to the ability to continue producing outputs.
(b) the processes are readily accessible in the marketplace. Thus, they are not unique or scarce. In addition, they could be replaced without significant cost, effort or delay in the ability to continue producing outputs.

IG19.9 Because none of the criteria in paragraph AG19.10 is met, Purchaser concludes that the acquired set of activities and assets is not a business.

Scenario 3 – Background

IG19.10 Assume the same facts as in Scenario 2, except that the acquired set of activities and assets also includes the employees responsible for leasing, tenant management, and managing and supervising all operational processes.

Scenario 3 – Application of requirements

IG19.11 Purchaser elects not to apply the optional concentration test set out in paragraph AG19.3 and therefore assesses whether the set meets the minimum requirements to be considered a business in accordance with paragraphs AG19.4–AG19.10.

IG19.12 The acquired set of activities and assets has outputs because it generates revenue through the in-place leases. Consequently, Purchaser applies the criteria in paragraph AG19.10.

IG19.13 Purchaser concludes that the criterion in paragraph AG19.10(a) is met because the set includes an organised workforce with the necessary skills, knowledge or experience to perform processes (ie leasing, tenant management, and managing and supervising the operational processes) that are substantive because they are critical to the ability to continue producing outputs when applied to the acquired inputs (ie the land, buildings and in-place leases). Furthermore, Purchaser concludes that the criterion in paragraph AG19.4 is met because those substantive processes and inputs together significantly contribute to the ability to create output. Consequently, Purchaser concludes that the acquired set of activities and assets is a business.

Example B – acquisition of a drug candidate

Scenario 1 – Background

IG19.14 An entity (Purchaser) purchases a legal entity that contains:

(a) the rights to an in-process research and development project that is developing a compound to treat diabetes and is in its final testing phase (Project 1). Project 1 includes the historical know-how, formula protocols, designs and procedures expected to be needed to complete the final testing phase.

(b) a contract that provides outsourced clinical trials. The contract is priced at current market rates and a number of vendors in the marketplace could provide the same services. Therefore, the fair value associated with this contract is nil. Purchaser has no option to renew the contract.

No employees, other assets, other processes or other activities are transferred.

Scenario 1 – Application of requirements

IG19.15 Purchaser elects to apply the optional concentration test set out in paragraph AG19.3 and concludes that:

(a) Project 1 is a single identifiable asset because it would be recognised and measured as a single identifiable intangible asset in a business combination.

(b) because the acquired contract has a fair value of nil, substantially all of the fair value of the gross assets acquired is concentrated in Project 1.

IG19.16 Consequently, Purchaser concludes that the acquired set of activities and assets is not a business.

Scenario 2 – Background

IG19.17 Assume the same facts as in Scenario 1 except that the acquired set of activities and assets also includes another in-process research and development project that is developing a compound to treat Alzheimer’s disease and is in its final testing phase (Project 2). Project 2 includes the historical know-how, formula protocols, designs and procedures expected to be needed to complete the final phase of testing. The fair value associated with Project 2 is similar to the fair value associated with Project 1. No employees, other assets, processes or other activities are transferred.

Scenario 2 – Application of requirements

IG19.18 Purchaser elects to apply the optional concentration test set out in paragraph AG19.3 and concludes that:

(a) Project 1 and Project 2 are identifiable intangible assets that would each be recognised and measured as a separate identifiable asset in a business combination.

(b) Project 1 and Project 2 are not similar identifiable assets because significantly different risks are associated with managing and creating outputs from each asset. Each project has significantly different risks associated with developing, completing and marketing the compound to customers. The compounds are intended to treat significantly different medical conditions, and each project has a significantly different potential customer base.

(c) consequently, the fair value of the gross assets acquired is not substantially all concentrated in a single identifiable asset or group of similar identifiable assets. Therefore, Purchaser assesses whether the set meets the minimum requirements to be considered a business in accordance with paragraphs AG19.4–AG19.10.

IG19.19 The acquired set of activities and assets does not have outputs because it has not started generating revenue. Thus, Purchaser applies the criteria in paragraph AG19.9. Purchaser concludes that those criteria are not met for the following reasons:

(a) the set does not include an organised workforce; and

(b) although the contract that provides outsourced clinical trials might give access to an organised workforce that has the necessary skills, knowledge or experience to perform processes needed to carry out the clinical trials, that organised workforce cannot develop or convert the inputs acquired by Purchaser into outputs. Successful clinical trials are a pre-condition for producing output, but carrying out those trials will not develop or convert the acquired inputs into outputs.

Consequently, Purchaser concludes that the acquired set of activities and assets is not a business.

Section 20 – Leases

Illustrative example

Example of applying paragraph G20.15(b):

NPO X operates in a jurisdiction in which the consensus forecast by local banks is that the general price level index, as published by the government, will increase by an average of 10% annually over the next five years. NPO X leases some office space from entity Y for five years under an operating lease. The lease payments are structured to reflect the expected 10% annual general inflation over the five-year term of the lease as follows

Year 1	CU100,000
Year 2	CU110,000
Year 3	CU121,000
Year 4	CU133,000
Year 5	CU146,000

NPO X recognises annual rent expense equal to the amounts owed to the lessor. If the escalating payments are not clearly structured to compensate the lessor for expected inflationary cost increases based on published indexes or statistics, then NPO X recognises annual rent expense on a straight-line basis: CU122,000 each year (sum of the amounts payable under the lease divided by five years).

Section 24 Part II – Classification of expenses

How should cost allocation be approached?

IG24.1 NPOs need to balance the benefits of greater accuracy with the costs involved when selecting methods of apportioning costs. A method should be reflective of the likely use of resources and made with reference to a quantifiable base.

IG24.2 Examples of bases for apportionment include:

- use of a resource or activity in terms of time taken, capacity used, or requests made;
- per capita, based on the number of people employed within an activity;
- floor area occupied by an activity; or
- time, where staff duties span more than one activity.

IG24.3 A measurement basis that takes account of floor area might be suitable for the apportionment of utilities, whereas a measurement basis that takes account of the number of people employed within an activity might be more useful for certain IT costs.

Illustrative examples

Example 1 – cost allocation

NPO A occupies an office building on a long-term lease. The lease provides for a payment of CU1,000 per month. Monthly lease costs are allocated, based on square metres occupied, to the NPOs activities as follows:

Direct costs – The costs of space occupied by staff whose salaries are charged directly to an activity are charged directly to that activity.

Support costs – The costs of space occupied by staff whose salaries are not directly charged to activities are apportioned to those activities based on the percentage of the NPO's operational budget those activities comprise.

Twenty-five percent of the floor space is occupied by staff whose salaries are charged to Activity A, 25% of the floor space is occupied by staff whose salaries are charged to Activity B and the remaining 50% of the floor space is occupied by support staff. Activity A is 20% of the NPO's operational budget and Activity B is 80%.

Activity A is allocated CU350 of the monthly lease expense.

Source	Amount	Workings
	CU	
Direct costs	250	25% of the floor space at CU1,000 per month.
Support costs	100	50% floor space at CU1,000 month (CU500), allocated based on the operational budget (20% of CU500).
Total cost	350	

Activity B is allocated CU650 of the monthly lease expense.

Source	Amount	Workings
	CU	
Direct costs	250	25% of the floor space at CU1,000 per month.
Support costs	400	50% floor space at CU1,000 month (CU500), allocated based on the operational budget (80% of CU500).
Total cost	650	

Example 2 – ex gratia payment

NPO B receives a CU50,000 bequest from the estate of a supporter who has passed away. It is aware, however, from written records that the supporter was amending their will at the time of their death, to reduce the payment to CU10,000 so that they could direct the other funds to a family member who requires the money for medical treatment. Although the will had not been amended at the time of death, the board of NPO B have determined that they have a moral obligation to uphold the supporter's wishes and transfers CU40,000 of the bequest to the supporter's family member.

Section 33 – Related party disclosures

Are members of a governing body such as trustees or board members related parties?

IG33.1 Yes. It is a common feature of NPOs in many jurisdictions that oversight and control of the NPO is ultimately exercised not by executive officers who are members of staff of the NPO, but by a separate governing body that is formed of individuals, often volunteers, who are not employed by the NPO. These can be known as trustees, board members, or similar.

IG33.2 Whether an individual is employed by the NPO or not is irrelevant for the purpose of deciding whether they are a related party under Section 33 *Related party disclosures*. If those individuals are providing oversight and have the ability to control or exert significant influence over the NPO, then they are related parties and the disclosure requirements of Section 33 apply to them.

Is a director of an NPO a related party?

IG33.3 Yes. Related parties include all governing body members and key management personnel. These individuals have authority and responsibility for planning, directing and controlling the activities of the NPO, directly or indirectly, and given the positions they hold this will include trustees or any director (whether executive or otherwise) of the NPO.

Section 36 – Fund accounting

When might a stakeholder have 'reasonable expectations'?

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

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

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

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

Why should internally designated funds be disclosed if they aren't a fund with restrictions?

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

Illustrative examples

Example 1 – grantor funds the purchase of a truck

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

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

Accounting

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

Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Funds with restrictions – Truck						
Year 0		10,000				10,000
Year 1	10,000		(1,000)			9,000
Year 2	9,000		(1,000)			8,000
Year 3	8,000		(1,000)			7,000
Year 4	7,000		(1,000)			6,000
Year 5	6,000		(1,000)		(5,000)	0
Funds without restrictions – General fund						
Year 5	1,000,000				5,000	1,005,000

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

The NPO may be able to group this truck with other non-current assets that have restrictions as part of a single fund for non-current assets. A decision to group assets needs to take account of external requirements.

Example 2 – grantor part funds the purchase of a truck

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

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

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

Accounting

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

Presentation

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

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

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

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

Accounting

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

Presentation

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

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

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

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

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

Accounting

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

Presentation

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

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

Example 5 – Operating grant for outreach programme

NPO A enters into an other funding arrangement for an outreach programme. The NPO receives an operating grant of CU100,000 in each year to fund the programme. Expenses have a profile of CU50,000, CU80,000, CU125,000, CU135,000 and CU110,000 across the financial years.

Accounting

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

Presentation

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

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

The scenario is a combination of example 1 and example 5, where as part of the same other funding arrangement there is a truck and a grant, which the NPO decides to present as one fund with restrictions.

Accounting for the truck and operational grant

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

Presentation

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

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

Section 37 – Supplementary information

Why should I prepare a whole of NPO Supplementary statement?

IG37.1 Presentation of a whole of NPO information using the statement format included in INPAG Practice Guide 1 – Supplementary statements could be of benefit to many users. This presentation would include all supplementary information prepared under Section 37 and any other information already presented elsewhere in the general purpose financial statements.

Where does the information for a whole of NPO Supplementary statement come from?

IG37.2 The source of information to produce a whole of entity Supplementary statement will depend on how an NPO adopts the INPAG Guidance. Figure IG37.1 provides an illustration of the sources of information to meet the disclosure requirements.

Figure IG37.1

	Source
Income	
Grants and donations	Section 23 Part I
Other income *(by type)*	Section 5, Section 11, Section 23 Part II, Section 37
Total income	
Expenses	
Direct expenses	
Employment	Section 28
Travel and subsistence	Section 37 – if not separately disclosed in accordance with Section 24 Part II
Supplies and materials	Section 37 – if not separately disclosed in accordance with Section 24 Part II
Running costs, external services and other	Section 37 – if not separately disclosed in accordance with Section 24 Part II
Services in-kind and gifts in-kind	Section 23 Part I
Grants payable	Section 24 Part I
Support costs	Section 37 – if not separately disclosed in accordance with Section 24 Part II
Total expenses	
Foreign currency translation gains/losses	Section 5 and Section 30
Transfers	Section 36 and Section 37
Other financial movements	All sections
Change in grant [fund] balance	
Opening balance	Section 36
Closing balance	Section 36
Inventory and capital costs	
Total expenses	Section 24 Part I
Less: inventory expenses	Section 37 – if not separately disclosed in accordance with Section 24 Part II
Less: depreciation and/or amortisation charged	Section 17 and 18
Add: inventory costs incurred	Section 37
Add: capital costs incurred	Section 37
Expenses, inventory and capital costs	Section 37
Opening balance including inventory and capital costs	Section 37
Closing balance including inventory and capital costs	Section 37

Annex A – Illustrative financial statements

NPO A

Year ended 31 December 20X2

These financial statements have been prepared to illustrate common INPAG requirements for the primary financial statements and accompanying notes.

They do not illustrate all of the requirements of INPAG and do not cover all transactions or all types of NPO.

They should not be used as a checklist but as reference material to understand how the requirements of INPAG might be presented.

Specific matter for comment	
Question 4:	**References**
(a) Do you agree that the illustrative financial statements cover the transactions that are prevalent for NPOs? If not, which prevalent transactions are missing and why do these need to be covered?	Illustrative financial statements

Statement of Income and Expenses

	Note	Year ended 31 December 20X2	Year ended 31 December 20X1
		CU000s	CU000s
Income			
Revenue from grants and donations			
Enforceable grant arrangements	4,5	124	0
Other funding arrangements with restrictions	4,6	380	300
Other grants and donations	6	990	1,385
Donations in-kind	7	142	225
		1,636	1,910
Revenue from goods and services			
Respite care	8	392	500
Educational activities	8	150	80
		542	580
Other income			
Interest income		10	15
Total income		**2,188**	**2,505**
Expenses			
Operating expenses			
Staff costs	9	1,216	1,103
Value of services provided by volunteers	7	80	75
Rent, rates and utilities		165	131
Medical supplies	13	315	335
Research and development		96	25
Depreciation and amortisation	12	77	40
Impairment of inventories	13	–	5
Other expenses		179	178
		2,128	1,892
Expenses on grants and donations			
Grants expenses	10	100	200
Other expenses			
Interest expense	16,17,18	13	16
Total expenses	11	**2,241**	**2,108**
Operating surplus/(deficit)		**(53)**	**397**
Gain/(loss) on disposal of property, plant and equipment	12	(4)	2
Foreign exchange gain/(loss)	5	5	–
Total surplus/(deficit)		**(52)**	**399**

Statement of Financial Position

	Note	As at 31 December 20X2	As at 31 December 20X1
		CU000s	CU000s
Non-current assets			
Property, plant and equipment	12	1,028	1,080
Intangible assets	12	55	50
		1,083	1,130
Current assets			
Inventory	13	57	50
Work in progress – enforceable grant arrangement (EGA)	5	150	–
Prepayment – EGA	10	50	–
Other receivables	14	64	32
Cash	15	357	729
		678	811
Current liabilities			
Liabilities – EGA	5	18	70
Receipts in advance	8	48	–
Other liabilities	16,17	86	223
		152	293
Non-current liabilities			
Members' shares	18	45	40
Long-term loan	18	250	250
		295	290
Net assets		**1,314**	**1,358**
Funds			
Unrestricted funds	4	692	973
Restricted funds	4	614	385
Revaluation reserve		8	–
Net assets		**1,314**	**1,358**

Statement of Changes in Net Assets

	Note	Unrestricted funds	Restricted funds	Total restricted and unrestricted funds	Revaluation reserve	Total net assets
		CU000s	CU000s	CU000s	CU000s	CU000s
Opening balance at 1 January 20X1	4	**874**	**85**	**959**	**–**	**959**
Total surplus/(deficit) in the year	4	99	300	399	–	399
Closing balance at 31 December 20X1	4	973	385	1,358	–	1,358
Opening balance at 1 January 20X2	4	**973**	**385**	**1,358**	**–**	**1,358**
Total surplus/(deficit) in the year	4	(286)	234	(52)	–	(52)
Revaluation gains and (losses)	12	–	–	–	8	8
Movements from all income and expenses		(286)	234	(52)	8	(44)
Movement between funds	4	5	(5)	–	–	–
Closing balance at 31 December 20X2	4	**692**	**614**	**1,306**	**8**	**1,314**

There were no transfers between funds in 20X1.

Statement of Cash Flows

Direct method (option)	Note	Year ended 31 December 20X2	Year ended 31 December 20X1
		CU000s	CU000s
Operating activities			
Receipts from grants and donations	5,6	1,442	1,605
Receipts from goods and services	8	558	560
Interest receipts		10	15
Staff costs	9	(1,323)	(1,055)
Rent, rates and utilities		(170)	(101)
Medical supplies		(272)	(230)
Research and development		(96)	(25)
Grants made	10	(150)	(200)
Interest payments	16	(16)	(16)
Other payments		(236)	(171)
Net cash inflow/(outflow) from operating activities		**(253)**	**382**
Investing activities			
Payments for property, plant and equipment (PPE)	12	(65)	(235)
Payments for intangible assets	12	(10)	–
Receipt of grants for PPE	6	–	150
Receipts from disposals	12	46	52
Net cash outflow from investing activities		**(29)**	**(33)**
Financing activities			
Repayment of borrowings	16,17	(100)	–
Member shares redeemed	18	–	(5)
Member shares issued	18	5	15
Net cash inflow/(outflow) from financing activities		**(95)**	**10**
Movement in cash		**(377)**	**359**
Opening cash and cash equivalents		729	370
Movement if cash and cash equivalents		(377)	359
Foreign exchange differences		5	–
Closing cash and cash equivalents	15	**357**	**729**

Statement of Cash Flows

Indirect method option	Note	Year ended 31 December 20X2	Year ended 31 December 20X1
		CU000s	CU000s
Operating activities			
Total surplus/(deficit)		(52)	399
Non-cash income and expenses			
Depreciation and amortisation		77	40
(Gain)/loss on foreign exchange		(5)	–
Donations of property, plant and equipment (PPE)		(12)	(80)
Cash flows included in investing activities			
Gain/(loss) on disposal of PPE		4	(2)
Capital grant		–	(150)
Changes in operating assets and liabilities			
(Increase)/decrease in inventories		(7)	40
(Increase)/decrease in WIP		(150)	32
(Increase)/decrease in other current assets		(82)	(32)
Increase/(decrease) in other current liabilities		(4)	50
Increase/(decrease) in operational creditors		(12)	37
Increase/(decrease) in accruals		(10)	48
Net cash inflow/(outflow) from operating activities		**(253)**	**382**
Investing activities			
Acquisition of PPE	12	(65)	(235)
Acquisition of intangible assets	12	(10)	–
Receipt of grants for PPE	6	–	150
Disposals	12	46	52
Net cash outflow from investing activities		**(29)**	**(33)**
Financing activities			
Repayment of borrowings	16,17	(100)	–
Member shares redeemed	18	–	(5)
Member shares issued	18	5	15
Net cash inflow/(outflow) from financing activities		**(95)**	**10**
Movement in cash		**(377)**	**359**
Opening cash and cash equivalents		729	370
Movement if cash and cash equivalents		(377)	359
Foreign exchange differences		5	–
Closing cash and cash equivalents	**15**	**357**	**729**

Notes to the financial statements

Note 1: General Information

NPO A is established to carry out research into respiratory diseases and to support individuals and families who suffer from these diseases. Most of its activities are carried out in Country Z but it also has operations in Country Y and Country X. Its registered office is at 100 Main Street, Capital City, Country Z. It has been established in accordance with the legal requirements in Country Z.

The financial reporting year is from 1 January to 31 December.

Note 2: Material accounting policy information

Basis of preparation and accounting policies

These financial statements have been prepared in accordance with the International Non-Profit Accounting Guidance (INPAG) as directed by Country Z's regulator. They are presented in the currency units (CU) of Country Z.

All amounts are rounded to the nearest one hundred thousand CU. Use of a '0' represents amounts rounded down to zero. Use of '–' represents nil amounts. Tables may not add in all instances due to rounding.

Revenue recognition

Revenue from grants and donations is recognised in accordance with the nature of the grant or donation. Where revenue can only be recognised after satisfying the obligations imposed by the grant agreement, revenue is recognised as each obligation is satisfied, which may be over time or at a point in time. Amounts received prior to the obligations being satisfied are reported as a liability until each obligation is satisfied. Costs incurred in satisfying each obligation prior to amounts being received are reported as work in progress, and recognised as an expense when the revenue is recognised.

Revenue from grants that do not have such obligations is recognised when the amounts are received.

Revenue from the sale of goods is recognised when the goods are passed to the purchaser. Revenue from the sale of services is recognised when the services are delivered. Revenue is measured at the fair value of the consideration received or receivable.

Services received from volunteers

Services are received from volunteers to run the telephone counselling service. These services are critical to our mission. Mission critical services are recognised as revenue and an expense at the point they are received. The volunteer's time is valued at its fair value by reference to the market salary of a junior counsellor.

Where voluntary services are received that are not critical to our mission, these are not recognised as revenue and an expense, but are disclosed in the notes to financial statements.

Grant expense recognition

Grant expenses are recognised in accordance with the nature of the grant provided. Grants made where the recipient has to satisfy obligations imposed in the grant agreement are recognised as each obligation is satisfied, which may be over time or at a point in time. Amounts paid prior to the obligation being satisfied are reported as a prepayment until each obligation is satisfied. A liability is recognised for obligations that have been satisfied, in whole or in part, prior to payment being made.

Grants made where the grantee does not have to satisfy specific obligations before being entitled to the grant are recognised when the amounts are paid.

Taxation

NPOs registered with the regulator in Country Z are not subject to income tax.

Borrowing costs

All borrowing costs are recognised in surplus or deficit in the period in which they are incurred.

Property, plant and equipment

All items of property, plant and equipment except vacant land are measured at cost less accumulated depreciation and any accumulated impairment losses. Vacant land is revalued every annually by a professional property valuer.

Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. Assets are depreciated over the following periods:

Buildings: 40–60 years

Vehicles: 1–10 years

Equipment: 3–6 years.

If there is an indication that there has been a significant change in useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

Intangible assets

Intangible assets are comprised of specialised software and are recognised at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over their useful life where they have a finite life using the straight-line method, or assessed for impairment where they have an indefinite life. The useful life of intangible assets is 3–10 years.

Impairment of long-life assets

At each reporting date, property, plant and equipment and intangible assets are reviewed for indications that those assets have suffered an impairment loss. If any such indication exists, the value in use of any affected asset is estimated and compared with its carrying amount. This takes account of the service potential of the asset. If the estimated value in use is lower than the current carrying amount, it is reduced to its estimated value in use amount and an impairment loss is recognised immediately in surplus or deficit.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its value in use. However, the carrying amount is not increased in excess of the amount had no impairment loss been recognised for the asset (or group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in surplus or deficit.

Inventories

Inventories are measured at the lower of cost and selling price less costs to complete and sell (or cost, adjusted for any loss of service potential (adjusted cost) where they are held for distribution to service recipients at no or nominal consideration). Cost is calculated using the first-in, first-out (FIFO) method.

Inventories of medical supplies can be received through donations. These donations often have a short shelf life and may not be used before expiry. Consequently, these items are only recognised as revenue and an expense when they are distributed to service recipients, or otherwise used.

Inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and/or sell or adjusted costs for inventory held for distribution at no or nominal consideration. If an item of inventory is impaired, its carrying amount is reduced, and an impairment loss is recognised immediately in surplus or deficit.

Receivables

Receivables are measured at cost (ie the amount invoiced or due to be invoiced), except when the amounts are not expected to be received within one year. In such instances, receivables are measured at amortised cost using the effective interest method.

Bank loans

Interest expense is recognised on the basis of the effective interest method.

Internally designated funds

The governing body may limit the use of otherwise unrestricted funds, by designating them for a specific purpose. While these funds are allocated, the governing body may reverse its decisions at any point and transfer funds back to the general fund. They are therefore included within funds without restrictions.

Note 3: Key sources of estimation uncertainty and critical judgements

In applying our accounting policies, the governing body is required to make judgements other than those regarding estimates that have a significant impact on the amounts recognised in the financial statements. The governing body is also required to make estimates concerning future events, impacting the NPO's accounting policies and the reported amounts of assets, liabilities, income and expenses that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may deviate from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revisions to estimates are recognised prospectively.

Information about judgements and estimates made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

Notes 5 and 10: Revenue from enforceable grant arrangements – grants (both received and paid) may impose obligations on the recipient, with revenue or expenses only being recognised when or as the obligations are satisfied. The governing body has made a detailed assessment and an examination of the obligations and made judgements for grant recognition including when grants are recognised over time or at a point of time. For grants that are recognised over time, estimates have been made for the percentage of the obligation that has been satisfied. This has required careful estimation based on output measures such as achieving an objective.

Note 12: Non-current assets – as the governing body has yet to determine how the vacant land which has been donated to the NPO will be used, it has decided to present the economic benefits in the asset and to measure it at fair value. In measuring the fair value of the asset as discussed in note 12 the valuer uses inputs other than quoted prices that are observable either directly or indirectly ie using level 2 inputs.

Note 4: Movement in funds

	Opening balance at 1 January 20X0	Income	Expenses	Other changes	Transfers	Closing balance at 31 December 20X2
	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s
Funds with restrictions						
Enforceable grant arrangements						
Longitudinal study – Pandemic	–	54	(80)	–	–	(26)
Research database	–	70	(75)	5	–	–
Other funding arrangements						
Asthma research	–	100	(50)	–	–	50
COPD campaign	–	230	(30)	–	–	200
IT development	–	50	–	–	–	50
Bronchitis research	100	–	(10)	–	–	90
Emphysema research	50	–	(10)	–	–	40
Equipment	150	–	(30)	–	–	120
Other	85	12	(2)	–	(5)	90
Total funds with restrictions	**385**	**516**	**(287)**	**5**	**(5)**	**614**
Funds without restrictions						
Designated funds						
Capital improvement works	250	–	–	–	–	250
IT development	–	–	–	–	100	100
General fund	723	1,672	(1,954)	(4)	(95)	342
Total funds without restrictions	**973**	**1,672**	**(1,954)**	**(4)**	**5**	**692**
Total funds with and without restrictions	**1,358**	**2,188**	**(2,241)**	**1**	**–**	**1,306**

The balance on the enforceable grant arrangement for the longitudinal study is expected to be recovered. Any irrecoverable amount will be funded from funds without restrictions.

The transfer between restricted and unrestricted funds relates to a vehicle where the use restriction has expired.

	Opening balance at 1 January 20X1	Income	Expenses	Other changes	Transfers	Closing balance at 31 December 20X1
	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s
Funds with restrictions						
Other funding arrangements						
Bronchitis research	–	100	–	–	–	100
Emphysema research	–	50	–	–	–	50
Equipment	–	150	–	–	–	150
Other	85	–	–	–	–	85
Total funds with restrictions	**85**	**300**	**–**	**–**	**–**	**385**
Funds without restrictions						
Designated funds						
Capital improvement works	250	–	–	–	–	250
General fund	624	2,205	(2,108)	2	–	723
Total funds without restrictions	**874**	**2,205**	**(2,108)**	**2**	**–**	**973**
Total funds with and without restrictions	**959**	**2,505**	**(2,108)**	**2**	**–**	**1,358**

Note 5: Revenue from enforceable grant arrangements

Revenue recognised in the year

	20X2 CU000s	20X1 CU000s
Longitudinal study – Pandemic	54	–
Research database	70	–
Total EGA revenue	**124**	**–**

On 1 April 20X2 a grant of CU1,000,000 was awarded by the government for a ten-year longitudinal study to examine the longer-term outcomes of the global pandemic. CU72,000 is payable on 1 April of each year to cover staff costs. The balance will be paid when the final report is accepted by the government. Revenue of CU54,000 (9/12 of the year) is recognised over time as it relates to staff employment.

A grant of CX50,000 was received on 1 December 20X1 from County X (CX being Country X's currency) for the development of a research database. The database was completed on 30 June 20X2. A change in the exchange rate between receipt and the date of completing the enforceable grant obligation (EGO) resulted in a foreign exchange gain of CU5,000.

Enforceable grant arrangement liabilities

	Research database CU000s	Longitudinal study CU000s
Balance 1 January 20X1	–	–
Amounts received in advance of EGOs being met	70	–
Balance 31 December 20X1	**70**	**–**
Amounts received in advance of EGOs being met	–	72
Revenue recognised when EGOs have been met	(70)	(54)
Balance 31 December 20X2	**–**	**18**

Work in progress

	CU000s
Balance 1 January 20X2	–
Expenses incurred on EGOs not yet complete	150
Balance 31 December 20X2	**150**

A government grant of CU300,000 was awarded in 20X2 to research the short-term impact of high pollution levels. This grant is payable once the report has been accepted by the government. At the end of 20X2 researchers estimated that the work was 75% complete. The report is expected to be accepted by December 20X3. Costs of CU150,000 have been incurred and these have been included as an EGA asset (work in progress). Work in progress is reviewed each year for impairment.

Note 6: Revenue from other funding arrangements (grants and donations)

Grants and donations with restrictions

	20X2	20X1
	CU000s	CU000s
Asthma research	100	–
Bronchitis research	–	100
Emphysema research	–	50
Equipment	–	150
COPD campaign	230	–
IT development	50	–
Total grants and donations with restrictions	**380**	**300**

Funding for asthma research, bronchitis research and website development has been provided through restricted grants. The grant funding, and associated expenses, are reported in separate funds.

The fundraising campaign for research associated with chronic obstructive pulmonary disease (COPD) was launched in September 20X2. As part of the campaign, we committed to only using the funding raised for research on COPD. As a consequence the funds raised and the associated expenses are shown in a separate fund.

In 20X1, a donor provided funding to be used to purchase equipment to be used in medical research. The grant was used to fund the purchase of equipment in 20X1 (note 12).

Grants and donations without restrictions

	20X2	20X1
	CU000s	CU000s
Government grants	315	1,135
Public donations	675	250
Total grants and donations without restrictions	**990**	**1,385**

Government grants have been provided to support our recurring expenditure. Government grants also include the effects of the interest free loan (see note 18). An additional grant of CU900,000 was provided in 20X1 as a consequence of the pandemic.

Public donations have been received through various means outside of campaigns for specific purposes. These donations may be used for any part of our mission.

Note 7: Donations in-kind

	20X2	20X2	20X1	20X1
	Income	Expenses	Income	Expenses
	CU000s	CU000s	CU000s	CU000s
Vacant land	–	–	80	–
Asthma medication	50	50	70	70
Counsellors	80	80	75	75
Minibus	12	2	0	0
Total donations in-kind	**142**	**132**	**225**	**145**

- **Vacant land –** A piece of land was donated in 20X1 to be used on any missional objective. There are no restrictions over how this land may be used and no decision has yet been made on whether the land will be used or sold.
- **Asthma medication –** 10,000 units of asthma medication were donated in 20X2 (20X1: 20,000 units). 8,000 units of medication were used and valued with reference to the market price, which reduces as the expiry date gets closer. Expenses are reported as part of medical supplies.
- **Counsellors –** Fifteen (20X1: 15) volunteers provide the counselling service. These volunteers operate on a rota overseen by a member of staff. Their services are critical to the provision of counselling to those suffering with respiratory diseases. As a consequence, the time donated by volunteers is recognised in the financial statements.
- **Minibus –** A minibus with a value of CU12,000 was donated to transport members to and from respite care. It is included in a fund with other grant funded assets that have restrictions in funds with restrictions. Depreciation of CU2,000 has been recognised as an expense in 20X2.

Amounts not recognised in the financial statements:

An overseas researcher provided voluntary services for three months during 20X2. We estimate that if this time had been provided by a local researcher the cost would have been approximately CU7,000.

Note 8: Revenue from goods and services

Revenue recognised in year	20X2	20X1
	CU000s	CU000s
Respite care	392	500
Education services	150	80
Total revenue from goods and services	**542**	**580**

Respite care is provided at a subsidised rate to members. Respite care is charged at a day rate. Some contracts for long-established clients are invoiced in arrears. Where contracts are invoiced in arrears, a contract asset (work in progress) is recognised for a proportion of the costs (based on the level of subsidy), with the remaining costs expensed as they are incurred. Once a period of respite care is complete, work in progress is recognised as a receivable.

Education courses and other education services related to our mission are also provided. While contracts are negotiated individually, all are charged at an agreed day rate, which are paid in advance of the services being provided.

Contract liabilities

	Respite care	Education services
	CU000s	CU000s
Balance 1 January 20X1	20	–
Amounts received	280	80
Amounts recognised as revenue	(300)	(80)
Balance 31 December 20X1	**–**	**–**
Amounts received	220	150
Amounts recognised as revenue	(172)	(150)
Balance 31 December 20X2	**48**	**–**

Note 9: Staff costs

	20X2	20X1
	CU000s	CU000s
Salaries and wages	875	750
Taxes	263	265
Pension costs	70	60
Other employee benefits	8	28
Total staff costs	**1,216**	**1,103**

Other employee benefits are for one-off bonuses made to members of staff for excellence. Bonuses in 20X1 were higher reflecting the exceptional performance during the global pandemic.

Note 10: Grant expenses

Grants made

	20X2	20X1
	CU000s	CU000s
Residential adjustment grants	50	200
Pollution research	50	–
Total grants made	**100**	**200**

Grants of CU50,000 (20X1: CU200,000) were made to qualifying individuals to purchase equipment to assist with residential adjustments for their ongoing wellbeing.

Enforceable grant arrangement assets

	Pollution research: Country Y	Pollution research: Country X
	CU000s	CU000s
Balance 1 January 20X2	–	–
Entitlements – payments made	50	50
Amounts recognised as expense (purpose met)	(50)	–
Balance 31 December 20X2	**–**	**50**

We entered into a grant arrangement in 20X2 with NPO B in Country X and NPO C in Country Y to carry out research into the short-term impacts of pollution in individuals with pre-existing respiratory diseases in Country X each for CU50,000. Payment of the grants was made when the agreements were signed. NPO B’s grant requirements have not yet been satisfied and no expense has been recognised. The report by NPO C had been accepted and the expense has been recognised in full.

Note 11: Operating expenses

The Statement of Income and Expenses provides an analysis of expenses by nature.

Fundraising costs

Fundraising costs include CU30,000 (20X1: CU40,000) for the costs of the public campaign to raise funds for research associated with chronic obstructive pulmonary disease (COPD). These costs covered a social media campaign and a limited print media campaign with an advertorial in local newspapers and a limited TV advertising campaign in off-peak times. These costs have been funded from the donations received from the campaign. The costs comprise CU20,000 (20X1: CU37,000) of direct costs and CU10,000 (20X1: CU3,000) of shared staff costs based on time sheet recording.

Fundraising costs also include CU5,000 (20X1: CU22,000) for the cost of preparing applications for grants. During the year, six (20X1: ten) applications for grants were made, four (20X1: three) of which were successful. In none of these cases could the application costs be charged against the grant awarded. The costs were all shared staff costs based on time sheet recording.

All fundraising costs related to activities to raise donations, gifts, grants and similar transfers. There were no fundraising activities related to commercial trading or investment management and hence no costs. All fundraising costs were for the purpose of raising funds, but there were incidental benefits in terms of awareness raising. These cannot be quantified without undue cost or effort.

Losses, write offs and special payments

During 20X2 a non-contractual payment was made to a former employee. The employee has raised a grievance, which was subject to mediation processes. This was not successful. The governing body decided to settle the grievance without going through the full legal process based on the likely costs and the uncertainty of the outcome. No legal liability was accepted and a payment of CU10,000 was made.

Additional expense analysis[1]

	20X2	20X1
	CU000s	CU000s
Missional activities	2,052	1,912
Fundraising costs	35	62
Support costs	154	134
Total expenses	**2,241**	**2,108**

Missional activities are those activities that directly benefit those that use the services provided or activities that develop the understanding of respiratory diseases and their impact on individuals and their families. The main activities in 20X2 were as follows:

	20X2	20X1
	CU000s	CU000s
Respite care programme	413	575
Education and counselling services	150	80
Research into respiratory diseases	1,202	1,057
Research related to pandemic	205	–
Other	82	200
Total missional activities	**2,052**	**1,912**

Support costs include the costs of the finance, HR, facilities and IT teams as well as senior management. Support costs only include those costs that cannot be allocated to a missional activity or fundraising costs and are costs that support the entire operation of the NPO.

[1] This additional expense analysis is optional. It is an example of additional expense information that can be provided. This type of information is helpful to understand the cost of services on respite care and education services that have been subject to external charges.

Note 12: Non-current assets

	Land	Land (vacant)	Buildings	Vehicles	Plant and equipment	Total property, plant and equipment	Intangible assets
	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s
Cost or value							
As at 1 January 20X2	250	80	600	100	500	1,530	60
Additions	–	–	–	12	50	62	10
Revaluation gains/(losses)	–	8	–	–	–	8	–
Disposals	–	–	–	–	(100)	(100)	–
As at 31 December 20X2	250	88	600	112	450	1,500	70
Accumulated depreciation/amortisation							
As at 1 January 20X2	–	–	(100)	(50)	(300)	(450)	(10)
Charge for the year	–	–	(10)	(10)	(52)	(72)	(5)
Disposals	–	–	–	–	50	50	–
Closing balance 31 December 20X2	–	–	(110)	(60)	(302)	(472)	(15)
Net book values							
Brought forward at 1 January 20X2	250	80	500	50	200	1,080	50
Carried forward at 31 December 20X2	**250**	**88**	**490**	**52**	**148**	**1,028**	**55**

	Land	Land (vacant)	Buildings	Vehicles	Plant and equipment	Total property, plant and equipment	Intangible assets
	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s
Cost or value							
As at 1 January 20X1	250	–	510	90	450	1,300	60
Additions	–	80	90	10	150	330	–
Disposals	–	–	–	–	(100)	(100)	–
As at 31 December 20X1	250	80	600	100	500	1,530	60
Accumulated depreciation/amortisation							
As at 1 January 20X1	–	–	(90)	(42)	(328)	(460)	(10)
Charge for the year	–	–	(10)	(8)	(22)	(40)	0
Disposals	–	–	–	–	50	50	–
Closing balance 31 December 20X1	–	–	(100)	(50)	(300)	(450)	(10)
Net book values							
Brought forward at 1 January 20X1	250	–	420	48	122	840	50
Carried forward at 31 December 20X1	**250**	**80**	**500**	**50**	**200**	**1,080**	**50**

Vacant land was measured at fair value on recognition (1 September 20X1) and on 1 December 20X2 using professional property valuers ABC Valuers, Capital City, Country Z. There has been no significant change in land values between 1 December 20X2 and 31 December 20X2.

The fair value of land (vacant) uses inputs other than quoted prices that are observable either directly or indirectly and have therefore been categorised as using level 2 inputs.

	Level 1	Level 2	Level 3	Total
	CU000s	CU000s	CU000s	CU000s
Land (vacant)				
As at 31 December 20X2	–	88	–	88
As at 31 December 20X1	–	80	–	80

Vehicles include a minibus donated in 20X2 for the transport of members to and from respite care. This vehicle is limited to those purposes until it cannot economically function. The estimated value of the minibus when it was donated was CU12,000 and it has a net book value of CU10,000 at 31 December 20X2. The use restriction on another vehicle expired in 20X2. The net book value (CU5,000) of the vehicle has been moved from a fund with restrictions to a fund without restrictions.

Additions to intangible assets in 20X2 were funded by a donation by a corporate donor for the purposes of developing a new IT application as part of systems development. This is shown as a separate fund in Note 4 to the financial statements. Additions to equipment in 20X2 CU50,000 (20X1: CU50,000) for specialised medical equipment was funded by a specific grant. These are shown as a separate fund in Note 4. Cumulative depreciation/amortisation of these assets is CU11,000 (20X1: CU5,000).

In 20X2, assets with a net book value of CU50,000 were disposed of. Sales proceeds were CU46,000. In 20X1 the equivalent amounts were CU50,000 (net book value) and CU52,000 (proceeds).

In 20X1 the remaining useful lives of intangible assets was reviewed, with an extension of the lives previously used. The amortisation charge for 20X1 was less than CU1,000 and has been rounded to 0.

Note 13: Inventories

	Medical supplies	Consumables	Total
	CU000s	CU000s	CU000s
As at 1 January 20X2	40	10	50
Purchases	257	25	282
Donations	50	–	50
Utilised	(300)	(25)	(325)
As at 31 December 20X2	**47**	**10**	**57**
As at 1 January 20X1	75	15	90
Purchases	215	30	245
Donations	70	–	70
Utilised	(320)	(30)	(350)
Impairment	–	(5)	(5)
As at 31 December 20X1	**40**	**10**	**50**

Inventories are held solely for consumption in the provision of services.

2,000 units (20X1: 1,000 units) of donated inventory were approaching their expiry date and it is not certain they can be used. Consistent with the accounting policy they are not recognised until and unless they are used and are therefore not included within donated inventory in the year.

Note 14: Other receivables

	31-Dec-X2	31-Dec-X1
	CU000s	CU000s
Receivables from customers	64	32
Total other receivables	**64**	**32**

Note 15: Cash

	31-Dec-X2	31-Dec-X1
	CU000s	CU000s
Cash in foreign bank accounts	–	70
Cash at bank	357	659
Total cash	**357**	**729**

Note 16: Reconciliation of liabilities arising from financing activities

	Short-term loan	Long-term loan	**Total borrowing**
	CU000s	CU000s	**CU000s**
Balance at 1 January 20X1	103	250	**353**
Cash payments	(6)	(10)	**(16)**
Interest	6	10	**16**
Balance at 31 December 20X1	**103**	**250**	**353**
Cash payments	(106)	(10)	**(116)**
Interest	3	10	**13**
Balance at 31 December 20X2	**–**	**250**	**250**

Note 17: Other current liabilities

	31-Dec-X2	31-Dec-X1
	CU000s	CU000s
Borrowings	-	103
Operational payables	45	72
Accruals	41	48
Total other current liabilities	**86**	**223**

Note 18: Non-current liabilities

	31-Dec-X2	31-Dec-X1
	CU000s	CU000s
Balance 1 January	250	250
Interest expense	10	10
Interest paid	(10)	(10)
Balance 31 December	**250**	**250**

A ten-year bank loan of CU250,000 was taken out in 20X0 at a fixed rate of 4%. The loan is repayable in 20Y0.

Members shares

	31-Dec-X2	31-Dec-X1
	CU000s	CU000s
Members shares at 1 January	40	30
New shares	5	15
Refunds	–	(5)
Members shares at 31 December	**45**	**40**

Members shares provide the holder of those shares with the ability to access respite care and educational services and the right to appoint members to the governance board. Members shares do not give holders any rights to the net assets of the organisation. The value of the share is refunded when the holder leaves the respite scheme.

Note 19: Supplementary information

The whole of the entity supplementary information is set out below:

	Note	20X2	20X1
		CU000s	CU000s
Income			
Grants and donations	4,5,6	1,636	1,910
Other income – sales of goods and services	8	542	580
Other income – interest income		10	15
Total income		**2,188**	**2,505**
Expenses			
Direct expenses			
Employment		1,216	1,103
Travel and subsistence		25	22
Supplies and materials		340	360
Running costs, external services and other		274	144
Services in-kind and gifts in-kind	7	132	145
Grants payable	10	100	200
Support costs	11	154	134
Total expenses		**2,241**	**2,108**
Foreign currency translation gains/losses	5	5	–
Other financial movements		4	2
Change in fund balances		**(44)**	**399**
Opening balance		**1,358**	**959**
Closing balance		**1,314**	**1,358**
Inventory and capital costs (optional)			
Total expenses		**2,241**	**2,108**
Less: inventory expenses		–	–
Less: depreciation or amortisation charged	12	(11)	(5)
Add: inventory costs incurred		–	–
Add: capital costs incurred		60	50
Expenses, inventory and capital costs		**2,290**	**2,153**
Opening balance including inventory and capital costs		**1,313**	**959**
Closing balance including inventory and capital costs		**1,220**	**1,313**

Supplementary statements that have been produced in accordance with INPAG Practice Guide 1 – Supplementary statements are published separately.

Note 20: Contingent liabilities

During 20X2, a service recipient initiated proceedings following an adverse reaction to medication provided during respite care. The claim is for CU20,000.

Legal advice is that the claim has no merit and it is being contested. No provision has been recognised in these financial statements as management has not deemed it probable that a loss will arise.

Note 21: Events after the reporting date

On 25 January 20X3 there was a flood in the respite care building storage area. The cost of refurbishment is expected to be CU36,000. The reimbursements from insurance are estimated to be CU16,000.

Note 22: Related party transactions

The total remuneration of key management personnel in 20X2 (including salaries and benefits) was CU105,000 (20X1: CU98,000).

Governing body members were not remunerated and had no out of pocket expenses in 20X2 or 20X1.

Note 23: Approval of financial statements

These financial statements were approved by the Board and authorised for issue on 10 March 20X3.

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