Comments On Exposure Draft

International Non - Profit Accounting Guidance Part 2 (INPAG)

Question 1— Financial instruments.

A) Do you agree that there are no significant alignment changes required to Section 11, other than those that have already been made? If not, set out the alignment changes you believe are required.

Opinion–This Section provides guidance on the treatment of financial assets and financial liabilities. It has two parts, Part I that addresses simpler financial instruments and Part II that addresses more complex financial instruments.

Question 2—Inventories

A) Do you agree with the expansion of Section 13 *Inventories* to specifically include inventory held for use internally, for fundraising or distribution? If not, why not?

Opinion–This section sets out the principles for recognizing and measuring inventories. Inventories are assets:
(a) held for sale in the ordinary course of operations;
(b) held for distribution to **service recipients** in the ordinary course of operations;
(c) held for use in fundraising (or similar circumstances where the items will be transferred to another party in the course of the NPO's fundraising activities eg prizes);
(d) in the process of production for such sale or distribution; or
(e) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

B) Do you agree with the permitted exceptions that allow for certain donated inventories and work in-progress that comprises services to be provided for no or nominal consideration to not be recognised as inventory? If not, what would you propose instead?

Opinion–**Recognition of inventories :-**An NPO shall not recognise inventories where it has elected to apply one of the following permitted exceptions in respect of those inventories:
(a) low-value items donated to the NPO for resale or to be transferred to another party in the course of the NPO's fundraising activities, recognised as revenue when the items are sold or fundraising activity takes place, in accordance with paragraph

C) Do you agree that fair value should be used to value donated inventory? If not, what would you propose instead?

Opinion– Where inventories are acquired through a donation, their initial cost shall be measured at fair value

D) Do you agree that inventories that are held for distribution at no or nominal consideration or for use by the NPO in meeting its objectives shall be measured at the lower of cost adjusted for any loss of service potential, and replacement cost? If not, what would you propose instead?

Opinion– Inventories held for distribution at no or nominal consideration or for use by the NPO in meeting its objectives shall be measured at the lower of cost (or deemed cost for donated inventories in accordance with paragraph G13.7), adjusted for any loss of **service potential** and replacement cost.

E) Do you agree with the proposed disclosure requirements, particularly regarding the use of permitted exceptions and where donated inventories are not recognized because they cannot be reliably measured? If not, what would you propose instead?

Opinion– Disclosures:- An NPO shall disclose the following:
(a) the **accounting policies** adopted in measuring inventories, including the cost formula used;

Question 3—Provisions and contingencies

A) Do you agree that an illustrative example on warranties is removed from the Implementation Guidance, and a new example on onerous contracts is added? If not, why not?

Opinion– This Section provides guidance on the recognition, measurement and disclosure of provisions (being liabilities of uncertain timing or amount), contingent assets and contingent liabilities. The examples are now located in the Implementation Guidance and updated to be more relevant to NPOs, including an example relating to onerous grant agreements.

Question 4: Revenue.

A) Section 23 Part I and Section 24 Part 1 introduce new terminology relating to grant arrangements1. Do you agree with the terms enforceable grant arrangement and enforceable grant obligations and their definitions? If not, what alternative terms would you propose to achieve the same meaning? What are the practical or other considerations arising from these definitions, if any?

Opinion– An arrangement with a grant provider that is not enforceable through legal or equivalent means and does not give both parties both rights and obligations is categorised as an **other funding arrangement (OFA)**. The type of grant revenue will determine its recognition and measurement.
Enforceable grant arrangements

B) Do you agree with the structure of Section 23, with Part I focused on grants and donations, Part II focused on contracts with customers and a preface that brings together the key principles and information about how to navigate the guidance? If not, what changes would you make and why?

Opinion–Part I is new material that has been written specifically for NPOs. It draws on IPSAS 47 Revenue as its basis. It sets out the requirements for the recognition, measurement and disclosure of revenue from grants and donations. The timing of revenue recognition is dependent on the existence of an enforceable grant arrangement (EGA),which must have at least one enforceable grant obligation (EGO). It follows the concepts in the 5 step model for revenue recognition used in international standards. It describes revenue recognition, measurement and disclosure where there is no EGA. Part I also describes permitted exceptions for the recognition of gifts in-kind and services in-kind. Part II is based on the IFRS for SMEs Accounting Standard and uses NPO specific terminology. It provides simplified guidance for less complex contracts. Some material has been included in the preface where it is relevant to Part I and Part II. There are no known NPO-specific issues for revenue from contracts with customers .

C) Do you agree that revenue is only deferred where the grant recipient has a present obligation in relation to the revenue received? If not, in what other circumstances could revenue be deferred and what is the conceptual basis for this proposal?

Opinion–Yes

D) The revenue recognition model for enforceable grant arrangements requires that revenue is allocated where there is more than one enforceable grant obligation. Do you agree with the allocation methods identified? If not, what methods would you propose? What are the practical considerations?

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

E) Do you agree with the permitted exceptions that allow the recognition of some gifts in-kind, either when sold, used or distributed, and that these permitted exceptions cannot be used where donations are received as part of an enforceable grant arrangement? If not, what would you propose instead and what is the rationale?

Opinion– Not recognising revenue in respect of any services in-kind, except those that are critical to the NPO's mission.

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

Opinion–Agree

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

Opinion– Yes

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

Opinion– Generally, EGOs do not include administrative tasks such as monthly monitoring reports.

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

Opinion– An NPO shall provide a quantitative or qualitative explanation of the significant unsatisfied EGOs and when they are expected to be satisfied. However, an NPO need not disclose such information if the EGO is part of an EGA that has an original expected duration of one year or less.

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

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

K) Do you have any other comments on the proposals in Section 23, including whether the full content of the IFRS for SMEs section on revenue from contracts with customers in Part II is necessary for NPOs? If so, provide the rationale for the comment and cross reference to the relevant paragraphs.?

Opinion– NO

Question 5: Expenses on grants and donations

A) Section 24 Part I and Section 23 Part 1 introduce new terminology relating to grant arrangements2. Do you agree with the terms enforceable grant arrangement and enforceable grant obligations and their definitions? If not, what alternative terms would you propose to achieve the same meaning? What are the practical or other considerations arising from these definitions, if any?

Opinion– An arrangement with a grant provider that is not enforceable through legal or equivalent means and does not give both parties both rights and obligations is categorised as an **other funding arrangement (OFA)**. The type of grant revenue will determine its recognition and measurement.

B) Do you agree that all expenses on grants and donations can be classified as an enforceable grant arrangement or as an other funding arrangement? If not, provide examples of which expenses on grants or donations would not fit in either of these classes, and why not?

Opinion– An **enforceable grant arrangement (EGA)** is a grant arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on both the parties to the grant arrangement. This could be through a written grant agreement but could also be through an oral agreement or implied by a grant-providing NPO's or a sector's customary practices. In determining whether a grant arrangement is enforceable, a grant-providing NPO must consider the substance rather than the legal form of the grant arrangement

C) Enforceable grant arrangements are required to be enforceable through legal or equivalent means. Do you agree that regulatory oversight and customary practices can be sufficient to create an enforceable grant arrangement? If not, why not? What weight should be applied to these mechanisms?

Opinion– An **enforceable grant arrangement (EGA)** is a grant arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on both the parties to the grant arrangement. This could be through a written grant agreement but could also be through an oral agreement or implied by a grant-providing NPO's or a sector's customary practices.

D) Do you agree that the full amount of the grant (including where it covers multiple years) should be recognised as an expense if the grant-provider has no realistic means to avoid the expense? If not, under what circumstances should a grantprovider not recognise the full expense and what is the rationale?

Opinion–If there are no requirements in the EGA that enable the grant-providing NPO to realistically avoid the transfer of resources, a grant payment liability and grant expense must be recognised for the **present value** of the full grant payment amount, even if payment will occur over a number of financial years. The time adjusted value of the full grant payment is only required where the amount is material.

E) Do you agree that grants for capital purposes are expensed by the grantor using the same principles as other grants? If not, why not? What would you propose instead? An EGA that requires the grant recipient to acquire or construct a non-current asset that the grant recipient will then control is a **capital grant**.

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

F) Do the proposals for disclosure of grant expenses, which include a sensitive information exemption, provide an appropriate level of transparency? If not, what would you propose and what is the rationale for your proposal?

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

G) Do you agree that a grant-providing NPO with an OFA can only recognise an asset at the point that a grant recipient has not complied with a constraint on the use of funds provided? If not, what would you propose instead?

Opinion– Any requirements that constrain the use of the resources provided to the grant recipient may give rise to an asset for the grant-providing NPO if at a future date the grant recipient does not satisfy those Requirements.

H) Do you have any other comments on the proposals in Section 24, including that administrative tasks in an enforceable grant arrangement are generally not an enforceable grant obligation but a means to identify or report on resources? If so, provide the rationale for any comments and cross reference to the relevant paragraph.

Opinion– No

Question 6: Borrowing costs

A) Do you agree that there are no significant alignment changes required to Section 25, other than the terminology changes that have been made? If not, set out the alignment changes you believe are required.

Opinion– This Section specifies the accounting for borrowing costs. Minor editorial changes related to terminology have been made.

Question 7: Share-based payments

A) Given the characteristics of NPOs, do you agree that guidance on share-based payments is not required? If not, provide examples of share-based payments and explain how they are used.

Opinion– yes

Question 8: Employee benefits

A) Do you agree that profit sharing and share-based payments are removed from Section 28 *Employee benefits* to reflect that employees of NPOs are very unlikely to be incentivised by sharing in the surpluses made by an NPO? If not, provide examples of such arrangements used by NPOs.

Opinion– Yes

B) Do you agree that in-year changes to the value of post-employment benefits can be shown on either the Statement of Income and Expenses or Statement of Changes in Net Assets? If not, why not?

Opinion–That cost is recognised either entirely in surplus or deficit as an expense or partly in surplus or deficit and partly as an item of income and expense recognised directly in changes in net assets 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.

Question 9: Income tax

A) Are there any elements of Section 29 *Income taxes* that are not required by NPOs? If so, explain which elements are not needed and why.

Opinion– This Section addresses the accounting for income tax including current and deferred tax. Minor editorial amendments have been made to align with other Sections. This includes the removal of the exclusion relating to government grants as this is now replaced, as well as a requirement for tax expenses to be recognised in the same component as the transaction or other event that resulted in the tax expense. This is to allow the tax expense to be shown in the Statement of Income and Expenses or Statement of Changes in Net Assets as appropriate.

Question 10: Foreign currency translation

A) Do you agree that grants and donations should be considered when setting the functional currency? If not, why not?

Opinion–The currency that mainly influences the value of grants, donations and similar income and the cost of providing grants, donations and similar expenses (this will often be the currency in which such incomes or costs are denominated and settled). whether transactions with the reporting NPO are a high or a low proportion of the foreign operation's activities, including funding provided by the NPO to the foreign operation in the form of grants, donations and similar income. whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations or operating expenses without funds being made available by the reporting NPO, either in the form of loans or grants, donations and similar income.

B) Do you agree with the principle that exchange gains and losses are shown as part of funds without restrictions unless they relate to a transaction that is to be shown as restricted? If not, why not?

Opinion– Exchange rate exchange gains or losses on monetary items such as grant receivables, cash received and held in a foreign currency and grant payables shall be presented consistent with the transaction to which the gain or loss relates

C) Do you agree with the proposal to require exchange gains and losses that contribute to a surplus or deficit on grant arrangements presented as funds with restrictions to be disclosed? If not, why not? What would you propose instead?

Opinion– The exchange rate gains and losses that contribute to a deficit or surplus on an individual grant arrangement that is required by Section 36 to be presented within funds with restrictions shall be disclosed. The disclosure should provide details of the gain or loss in the period, and where the grant arrangement covers more than one financial reporting period, the cumulative amount of exchange rate gains and losses brought forward from previous reporting periods and carried forward to the next reporting period.

D) Do you have any other comments on Section 30, including whether there are any NPO-specific recognition and measurement issues associated with foreign currency translation? If so, explain your comments and the NPO-specific recognition and measurement issues.

Opinion– Section 30 describes how to include foreign currency transactions and foreign operations in the financial statements. This Section has been amended to require that the exchange rate gains or losses on monetary items are presented consistently with the transaction to which they relate. This Section also requires that deficits or surpluses arising as a consequence of changes in exchange rates for grant arrangements that are included as part of funds with restrictions are disclosed. This is to provide transparency of exchange rate exposures relating to grant arrangements.

Question 11: Hyperinflation

A) Do you agree that there are no significant alignment changes required to Section 31, other than the terminology changes that have already been made? If not, describe any further alignment changes required.

Opinion– Section 31 describes the requirements where an NPO is operating in a hyperinflationary economy. Minor editorial changes, including those relating to the structure and names of the financial statements have been made.

Question 12: Events after the end of the reporting period

A) Do you agree that there are no significant changes required to Section 32, other than those that have already been made for alignment purposes? If not, describe any further alignment changes required.

Opinion– Section 32 sets out the principles for recognising, measuring and disclosing events that happen after the end of the reporting period. Minor amendments have been made to include grant providers as a source of bankruptcy, to remove reference to profit sharing, and to remove references specifically to dividend. Those with the power to amend the financial statements after they have been issued has also been widened given the nature of NPOs.

CA Rajeev Bansal
Membership number – 500184
Mobile - 9814360397