Comments OnExposure Draft

International Non-Profit Accounting Guidance

Question 1: Fund accounting

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?

Opinion-a) Aggregated income and expenses with restrictions may be presented in a separate column to aggregated income and expenses without restrictions on the face of the Statement of Income and Expenses.

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?

Opinion-b)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.

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?**

Opinion– c) Separate accounting records shall be kept for sets of activities comprising each fund's income, expenses, assets and liabilitiesThe 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.

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?

Opinion– d) Funds with restrictions : A fund shall be presented as a fund with restrictions when one of the following criteria are met:

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 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.

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?

Opinion–e) 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.

f)Do you agree with the NPO funds disclosures requirements? If not, what would youchange and why?

Opinion– f) 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.

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.

g)Do the Illustrative examples demonstrate the key concepts in fund accounting? If not, what would you change and why?

Opinion-g) Section 36 – Fund accounting

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.

Question 2:Presentation of expenses, fundraising costs and related disclosures (Section 24 Part I, Section 24 Part II and Section 33)

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?

Opinion-a)Classification methods

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.

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.

b) Do you agree that the rationale for using a classification of expenses other than by nature

should be disclosed? If not, why not?

Opinion-b) Classification methods

Analysis by nature of expense

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.

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?

Opinion-C) Analysis by function of expense

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

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.

d) Do you agree with the expense disclosure requirements? If not, what would you change and why?

Opinion-d) Disclosures

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.

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?

Opinion-e) Allocation and aggregation of expenses

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.

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?

Opinion-f) Commercial and trading

This category includes those activities where an NPO aims to generate profits from transactions that are on acommercial and trading basis for use in achieving the NPO's mission. Fundraising costs in this category includebut 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.

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.

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?

Opinion-g) Activities that have more than one purpose

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

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?

Opinion- h) Costs related to each category of fundraising activities shall be disclosed separately

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?

Opinion- i) 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.

Question 3:Supplementary information (Section 37) and INPAG Practice Guide 1 – Supplementary statements

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?

Opinion—a) Scope of this Section

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.

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.

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

Opinion—b) 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.

Supplementary information required by this Section shall be produced using the relevant INPAG recognition andmeasurementprinciples.

c) Do you agree with the format of the Supplementary statement? If not, what would you change and why?

Opinion—c) yes

d) Do you agree with the options for the disclosure of capital and inventory related costs? If not, what would you change and why?

Opinion—d) yes

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?

Opinion—e)yes

Question 4: Illustrative financial statements (Implementation Guidance)

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?

Opinion—a) yes

Question 5: Equity (Section 22 and Section 2)

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?

Opinion— a) Net assets are the residual of recognized assets minus recognized liabilities available to the NPO to achieve its objectives. Net assets will include specific categories of items whose use may be either with restrictions or without restrictions

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?

Opinion— b) 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 the equity claims shall be recognized as a subset of net assets.

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.

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 capitalization or bonus issues of shares and share splits and convertible debt or similar compound financial instruments are retained? If not, why not?

Opinion— c)Capitalisation or bonus issues of shares and share splits

A capitalization 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. Capitalization 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.

ot meet the conditions in paragraph G11.8.

Question 6: Transition to INPAG (Section 38)

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?

Opinion—a) On first-time adoption of this Guidance, an NPO shall not retrospectively change the accountingthat it followed under its previous financial reporting framework for any of the following transactions:

(a) derecognitionof financial assets and financial liabilities. Financial assets and liabilities derecognized under an NPO's previous accounting framework before the date of transition shall not be recognized upon adoption of INPAG

(b)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.

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?

Opinion— b) 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. 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.

Question 7: Application of fair value (Sections 12, 16, 17 and 18)

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?

Opinion– a) 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.

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.

b)Do you agree with the additional guidance provided for donated:

i)investment property (Section 16)?

Opinion-i) 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.

ii) Property, plant and equipment (Section 17)?

Opinion- ii) 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.

iii) Intangible assets (Section 18)?If not, why not?

Opinion-iii) 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.

Question 8: Impairments (Section 27)

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?

Opinion–a) 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)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.

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?

Opinion– b) 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

c)Do you agree that impairments to assets that form an operating unit can take account of other economic benefits

Opinion– c) Value in use is the present value of the future cash flows, other economic benefits or service potentialexpected 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.

Question 9: Combinations of entities (Section 19)

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?

Opinion–a)A business combination is a transaction or other event in which an acquiring NPO, obtains control of one or more businesses. A business combination may be structured in a variety of ways for legal, taxation or other reasons, which includebut 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).

a) **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?**

Opinion– b) 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 recognize 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

Question 10: Other topics (Sections 14, 15, 20 and 34)

a) Do you agree that no further alignment changes are needed to:

i) Section 14 Investment in associates?

Opinion(i) Section 14-Investment in associates

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.

ii) Section 15 Joint arrangements?

Opinion-ii) Section 15 – Joint arrangements

The IFR4NPO Consultation Paper proposed that only prioritized topics would be fully reviewed for the first issue of INPAG. Accounting for joint arrangements was not included as a prioritized topic.

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.

iii) **Section 20 Leases?If not, why not?**

Opinion-iii) Section 20 – Leases

The IFR4NPO Consultation Paper proposed that only prioritized topics would be fully reviewed for the first issue of INPAG. Accounting for leases was not included as a prioritized topic.

b)Is any of the guidance in Section 34 needed by NPOs? If yes, which elements of the section are needed and why?

Opinion-b) Section 34 – Specializedactivities

The IFR4NPO Consultation Paper proposed that only prioritized topics would be fully reviewed for the first issue of INPAG. Accounting for Specialized Activities was not included as a prioritized topic.

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 specialized 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.

Question 11: Addendum

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?

Opinion–(a) Supplier finance arrangements

Supplier finance arrangements are characterized 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.

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?

Opinion-b) If, at a measurement date, a currency is not exchangeable into another currency, 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.

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