



Practitioner Advisory Group Issue Paper

AGENDA ITEM: PAGFG04-03
14 November 2024 – Virtual

Presentation of funds with and without restrictions

Summary	This paper provides high level analysis of the consultation responses to the Specific Matters for Comment (SMC) relating to the proposal to remove the mandatory requirement to present funds with and without restrictions on the face of the Statement of Income and Expenses.
Purpose/objective of the paper	The purpose of this paper is to set out the range of responses received to this SMC and to seek the views of PAG members on potential steps to take account of respondents' views and feedback on the proposal.
Other supporting items	N/A
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Actions for this meeting	Advise on: <ul style="list-style-type: none">i. The utility of a summary table for inclusion on the face of the Statement of Income and Expenses; andii. Any other points raised through the feedback.

Practitioner Advisory Group

Presentation of funds with and without restrictions

1. Introduction

- 1.1 This paper:
- provides a summary and high level analysis of the consultation responses to the Specific Matters for Comment (SMC) 1a) that proposed that the mandatory requirement to present funds with and without restrictions on the face of the Statement of Income and Expenses is removed – see also Appendix A.
 - sets out options and proposals to address the feedback.
 - seeks PAG members' advice on the issues raised in the feedback.

2. Background

- 2.1 The Section on Fund Accounting was developed as part of Exposure Draft 3. This new section (Section 36 *Fund Accounting*) proposed the inclusion of a new mandatory note to the financial statements that requires the movement of material funds in the period to be disclosed. The Movement in Funds note provides a breakdown of the income, expenses and other changes in material funds over the period. With the provision of this information, ED3 proposed that the mandatory requirement to show funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses be removed.
- 2.2 The proposals allow for the presentation of funds with and without restrictions to be presented on the face of the Statement of Income and Expenses where this provides information that preparers view would be useful to the users of its financial statements. It does not, however, require it.
- 2.3 Specific matter for comment (SMC) 1a) asked for feedback on this proposal. Thirty-six respondents to SMC1a) (65%) supported the proposal that the mandatory requirement is removed. Eighteen respondents (33%) disagreed with the proposal with one further respondent (2%) neither agreeing nor disagreeing. For the significant number of respondents that disagreed with the proposal, the key concern was around having sufficient disclosures (see section 4 below) and about which presentation best supports transparency (see Section 5 below). The main points arising from the analysis of the respondents and the proposed way forward are set out below.

3. Simplification

- 3.1 Four respondents that agreed with the proposal were of the view that the removal of the mandatory requirements is a welcome simplification. In supporting the proposal respondents noted that INPAG does not prevent restricted and unrestricted funds to

be presented on the face of the financial statement. They also noted that the split of funds between funds with restrictions and funds without restrictions should be disclosed if it provides information that is useful to the users for financial statements.

4. Disclosures

- 4.1 Five respondents that agreed and 3 that disagreed commented on matters relating to disclosures. While agreeing, four respondents that agreed including one donor respondent requested additional information.
- 4.2 One respondent requested that a summary of the composition of the funds is presented on the Statement of Income and Expenses. This is further considered in paragraphs 5.5 to 5.6 below.
- 4.3 One donor respondent that agreed expressed a preference for seeing the split of restricted and unrestricted funds on the face of the Income and Expenditure Statement but were content that the mandatory note in Section 36 mitigates this concern. This respondent requested more information on unrestricted donations. The Secretariat will review the disclosures as part of the development of Section 23 *Revenue* in conjunction with Section 36.
- 4.4 Another donor respondent that supported the proposals particularly as they see their forward focus as a grant-maker being on an NPO's expenditure rather than on individual grants. This respondent expressed interest in additional non-financial information such as headcount information to support the expense information. They are proposing to raise this with the DRG. The Secretariat is of the view that this can be considered in the development of narrative reporting.
- 4.5 Two of the three respondents that disagreed were auditor firms. They both expressed concerns about the consequences of removing the requirement from the face of the Statement of Income and Expenses.
- 4.6 These respondents and another respondent that agreed requested more detailed information about the nature and purpose of restrictions and conditions. The Secretariat is of the view that this is addressed in the Section 23 disclosure requirements as exemplified in the Illustrative Financial Statements. As proposed in paragraph 4.3 above, the Secretariat will, however, review the disclosures in Section 23 alongside this Section.
- 4.7 The respondent that agreed also requested that unrestricted funds are split to identify unrestricted funds that have been designated by the board. The Secretariat is also of the view that the second request is addressed by the mandatory requirements for the Movement in Funds note.
- 4.8 One respondent that agreed requested additional clarity in INPAG that information must be disclosed in the notes where the split of restricted and unrestricted is not made on the face of the Statement of Income and Expenses. The Secretariat will review the wording to make sure that this is clear.

- 4.9 Another respondent that disagreed and another that agreed had concerns about the cost of introducing fund accounting. The respondent that disagreed was concerned about costs generally and the potential for disputes with auditors about when a fund is restricted or when funds are combined. The respondent that agreed requested additional training to mitigate the concerns. The Secretariat proposes to develop education materials post the publication of INPAG.

5. Transparency

- 5.1 Seven respondents that agreed, 13 respondents that disagreed and 1 respondent that neither agreed nor disagreed commented on matters relating to transparency. Those that agreed were of the view that removing the mandatory requirement to present separate columns for funds with and without restrictions would declutter the Statement of Income and Expense and together with the Movement of Funds note would aid transparency.
- 5.2 The respondent that neither agreed nor disagreed noted that the revised proposal provides flexibility that enables an NPO to tailor their reporting to better meet the needs of the users of their financial statements. They also noted that this could impact the consistency and comparability of NPO financial information.
- 5.3 The respondents that disagreed cited reasons around the fundamental importance of restricted and unrestricted funds, that their presentation on the face of the Statement of Income and Expenses would aid transparency and the impacts on the fair and faithful presentation of the results of an NPO. Comments included concerns about the ability to show the source and use of funds, the ability to understand the resources available to an NPO, having the information 'at a glance', compliance with donor and regulatory requirements, and the ability to explain the surplus or deficit in a period.
- 5.4 There is clearly a balance to be struck. Some respondents are of the view that transparency is improved by removing the mandatory requirement because it declutters the Statement of Income and Expenses and makes it easier for users to understand. Other respondents have the view that transparency is impacted by the removal of the mandatory requirement because not presenting information on fund performance for the period on the face of the primary statement removes information that users may find useful to understand the result for the period.
- 5.5 A respondent that agreed cautioned that a single surplus or deficit result for a reporting period could be misrepresented. They suggested that if the Statement of Changes in Net Assets was presented first this might mitigate the risk as it would provide early sight of the position on funds with and without restrictions.
- 5.6 The Secretariat has considered the feedback related to transparency. It is of the view that the Statement of Income and Expenses when taken together with the Movement of Funds note and disclosures related to individual funds (subject to the review of

disclosures proposed by the Secretariat) provide sufficient transparency over funds with and without restriction.

- 5.7 Given the feedback about possible misunderstanding and getting an early high level view of funds with and without restrictions there may be a benefit to having a summary of funds with and without restrictions on the face of the Statement of Income and Expenses.
- 5.8 The Secretariat is considering the addition of information that shows total income, total expenses and other changes for restricted and unrestricted funds as set out below to the Statement of Income and Expenses as illustrated in Appendix B to this paper. This information provides an analysis of key headings and the result for the period between funds with restrictions and funds without restrictions.

Analysis of the result for the period

	Note	Unrestricted 20X2 CU000s	Restricted 20X2 CU000s	Total 20X2 CU000s	Unrestricted 20X1 CU000s	Restricted 20X1 CU000s	Total 20X1 CU000s
Total income	4	1,672	516	2,188	2,205	300	2,505
Total expenses	4	(1,954)	(287)	(2,241)	(2,108)	-	(2,108)
Total other changes	4	1	-	1	2	-	2
Total surplus/deficit	4	(281)	229	(52)	99	300	399

- 5.9 Including such information would have the benefit of making information on the performance of funds with and without restrictions more accessible to users. On the other hand it may reintroduce clutter to Statement of Income and Expenses and make it more congested.

Question 1: What are PAG members views on the possibility of including additional summary statement on the face of the Statement of Income and Expenses? If PAG members support the inclusion of such information, what are PAG members views on the proposed analysis and whether it should be optional or mandatory?

Question 2: What are PAG members views on the location of disclosures, recognising that as currently drafted information about funds could be in more than one place?

6. Next steps

- 6.1 The TAG will be reviewing the responses to Section 36 at its next meeting on 3 December. A redraft of the Section will be considered by the TAG at its meeting on 25 February 2025. Other matters relating to this Section will be brought to the PAG ahead of this meeting.

November 2024



Appendix A Summary of Feedback Responses to SMCs for Fund accounting

ED3 SMC 1 a) Do you agree that the ED1 requirement to present funds with restrictions and funds without restrictions on the face of the Income and Expenses Statement should be removed? If not, why not?.	Response	Number	% of those who responded
	Agree	36	65%
	Disagree	18	33%
	Neither agree nor disagree	1	2%
	No Response	8	
		63	100%



Appendix B – Statement of Income and Expenses (revised)

	Note	Year ended 31 December 20X2 CU000s	Year ended 31 December 20X1 CU000s
Income			
<i>Revenue from grants and donations</i>			
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
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		1,636	1,910
<i>Revenue from goods and services</i>			
Respite care	8	392	500
Educational activities	8	150	80
		<hr/>	<hr/>
		542	580
<i>Other income</i>			
Interest income		10	15
		<hr/>	<hr/>
Total income		2,188	2,505
Expenses			
<i>Operating expenses</i>			
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
		<hr/>	<hr/>
		2,128	1,892
<i>Expenses on grants and donations</i>			
Grants expenses	10	100	200
<i>Other expenses</i>			
Interest expense	16,17,18	13	16
		<hr/>	<hr/>
Total Expenses	11	2,241	2,108
		<hr/>	<hr/>
Operating surplus/(deficit)		(53)	397
Gain/(loss) on disposal of property, plant and equipment	12	(4)	2
Foreign exchange gain/(loss)	5	5	-
		<hr/>	<hr/>
Total surplus/(deficit)		(52)	399

Analysis of the result for the period

	Note	Unrestricted 20X2 CU000s	Restricted 20X2 CU000s	Total 20X2 CU000s	Unrestricted 20X1 CU000s	Restricted 20X1 CU000s	Total 20X1 CU000s
Total income	4	1,672	516	2,188	2,205	300	2,505
Total expenses	4	(1,954)	(287)	(2,241)	(2,108)	-	(2,108)
Total other changes	4	1	-	1	2	-	2
Total surplus/deficit	4	(281)	229	(52)	99	300	399



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