

Practitioner Advisory Group Issue Paper

AGENDA ITEM: PAGFG06-01

6 February 2025 – Online

Illustrative financial statements

Summary	This paper provides a summary of stakeholders' responses to the illustrative financial statements provided in Exposure Draft 3 and sets out key actions proposed
Purpose/Objective of the paper	This paper seeks PAG members' advice, taking into account the comments provided by stakeholders in response to ED 3, on the Secretariat's proposal to support finalisation of the illustrative financial statements.
Other supporting items	
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Actions for this meeting	<p>Advise on the Secretariat's proposals in respect of:</p> <ul style="list-style-type: none"> • Additional disclosures to be included in the illustrative financial statements; and • Approach to suggested disclosures not recommended for inclusion in the illustrative financial statements.

Practitioner Advisory Group

Illustrative financial statements

1. Introduction

- 1.1 Exposure Draft (ED) 3 included a set of illustrative financial statements, and sought feedback from respondents as to whether these financial statements covered the transactions that are prevalent for NPOs.
- 1.2 This paper summarises the feedback on the illustrative financial statements. It seeks PAG members' views on the Secretariat's proposals to help finalise the illustrative financial statements.

2. Responses to Exposure Draft 3

- 2.1 ED 3 asked the following question:

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?

- 2.2 Respondents generally agreed that the illustrative financial statements covered those transactions that are prevalent for NPOs. Of the 48 respondents who answered this question, 35 (73%) agreed and only 3 (6%) disagreed. Another 10 respondents (21%) neither agreed or disagreed. Those that neither agreed nor disagreed generally agreed with SMC 4, but suggested one or two additional disclosures. This group also included those that suggested additional disclosures that could be addressed in the narrative report rather than the financial statements. The summary of the responses is provided in [Appendix A](#).
- 2.3 Some respondents that disagreed with the illustrative financial statements did so because they disagreed with the proposal to remove the requirement to present funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses set out in ED3. However, this was not a significant number of responses as can be seen from the analysis in [Appendix B](#). It is also worth noting that many respondents that disagreed with the removal of funds with and without restrictions from the face of the

Statement of Income and Expenses, agreed with the Illustrative Financial Statements.

3. Comments by respondents

- 3.1 Some respondents commented that no single example could cover all types of NPO. These respondents considered that the illustrative financial statements covered the key transactions, and provided a basis for comparability, while allowing NPOs sufficient flexibility to reflect their own circumstances and transactions.
- 3.2 In addition to suggesting some additional disclosures, discussed in the next section of this paper, respondents to ED 3 also made a number of other comments. These are summarised, along with the Secretariat response, in the table below.

Respondent comment	Secretariat response
Some respondents suggested the illustrative financial statements could include cross-references to the relevant section or paragraphs in INPAG.	The Secretariat agree that this could be helpful, particularly if the notes identify which parts of INPAG require the disclosure, and will consider this further.
One respondent considered that there was a risk that the illustrative financial statements could be used as a template, resulting in boilerplate disclosure of information. This respondent questioned whether INPAG should include illustrative financial statements.	The Secretariat acknowledge that this is a risk, but consider that NPOs, particularly those adopting accrual accounting for the first time, will find the illustrative financial statements useful. The <i>IFRS for SMEs</i> Accounting Standard includes illustrative financial statements, and the Secretariat therefore proposes to retain them.
Some respondents questioned the use of some terminology in the illustrative financial statements.	Some of the terminology has been amended following feedback on other INPAG sections. NPOs have the flexibility to revise the terminology in their financial statements. The Secretariat will also

	review the terminology used to ensure it is clear.
One respondent considered that the level of detail in the cash flow statements was more than is required, particularly regarding expenses.	The Secretariat will review the level of detail in finalising the illustrative financial statements.
One respondent considered that the note on the financial statements being authorised for issue was unnecessary and could be linked to the date the statement of financial position was signed.	The Secretariat notes that the <i>IFRS for SMEs Accounting Standard</i> includes a separate note, and the Secretariat will consider whether to replace the note with a date and signature on the face of the statement of financial position.

Question 1: Do PAG members have any advice on these responses and in particular:

- What is most valuable in providing cross references to INPAG;
- How to prevent illustrative financial statements becoming boilerplate; and
- Experience of using cash flow information?

4. Additional disclosures suggested by respondents

- 4.1 A large number of additional disclosures were suggested by respondents, although the number of respondents proposing each disclosure was small.
- 4.2 The Secretariat's response to each proposed disclosure falls into one of the following categories:
- Consider including in the illustrative financial statements
 - Can be addressed in other reports
 - Consider including in education material
 - Already addressed in illustrative financial statements
 - No action required
- 4.3 The Secretariat's recommendations for those disclosures it considers could be in the illustrative financial statements are shown in the table below:

Proposed additional disclosure	Secretariat recommendation
The Statement of Financial Position should include a total assets line.	The Secretariat agrees, and considers a total liabilities line should also be included.
An income tax line should be included in the Statement of Income and Expenses as many NPOs are liable for income tax.	The Secretariat considers that an income tax line could be included, along with the related payable line in the Statement of Financial Position.
An example of the impairment of property, plant and equipment should be included as this is more important to NPOs than the impairment of inventories example included.	The Secretariat agrees that it would be helpful to include an example of the impairment of property, plant and equipment alongside the existing example of the impairment of inventories.
Respondents suggested that the net book value of assets for restricted and unrestricted funds be disclosed separately.	At the January 2025 TAG meeting it was agreed that the net book value of restricted assets would be required to be disclosed, which will address this issue. This will be incorporated into the illustrative financial statements.

4.4 The Secretariat's recommendations for the other proposed disclosures are included in [Appendix C](#).

Question 2: What are PAG members' views on the additional disclosures proposed in the paragraph 4.3, to be included in the illustrative financial statements?

Question 3: What comments to PAG members have on the Secretariat's recommendations for disclosures proposed by respondents as shown in Appendix C, particularly regarding the use of the narrative report?

January 2025



Appendix A – Summary of Feedback Responses to SMC

SMC 4(a):	Aggregate Response	Number	% of those who responded (48)
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?	Agree	35	73%
	Disagree	3	6%
	Neither agree nor disagree	10	21%
	No Response	15	–
			63

Appendix B – Comparison with responses to presentation of funds in the Statement of Income and Expenses

		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?				
		Agree	Disagree	Neither Agree or Disagree	No Response	Total
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?	Agree	20	14	0	1	35
	Disagree	1	2	0	0	3
	Neither Agree or Disagree	7	2	0	1	10
	No Response	6	2	1	6	15
	Total	34	20	1	8	63

The numbers reported for SMC 1(a) differ slightly from those previously reported to the TAG as a result of a further review of the responses.

Appendix C – Additional disclosures proposed by respondents

Can be addressed in other reports

Disclosures proposed by respondents	Secretariat comments
A respondent proposed that an analysis of surplus or deficit should be disclosed.	The Secretariat consider that such an analysis will be provided in the narrative report, and it should not be included in the illustrative financial statements.
A respondent proposed that performance measures and indicators should be disclosed.	The Secretariat consider that performance information is a requirement of the narrative report, and should not be included in the illustrative financial statements.
A respondent proposed that specific donor requirements be disclosed.	Specific donor information can be disclosed in accordance with INPAG Practice Guide 1, where a new illustrative example is being developed.

Consider including in education material

Disclosures proposed by respondents	Secretariat comments
A respondent suggested that additional examples from different types of NPO could improve the practical utility of the guidance.	The illustrative financial statements focus on prevalent NPO-specific transactions. Additional statements could be considered when developing the education material.
<p>Respondents requested additional examples covering a range of topics including:</p> <ul style="list-style-type: none"> • Further examples on volunteers; • Complex grant agreements; • NPOs with commercial activities (eg marketing or manufacturing of goods); • NPOs with multiple significant donors; • Donations in multiple currencies; • Inter-fund borrowing; • Membership contributions for membership organisations; • Advances to subgrantees and work advances; and • Reserve policies and guidance on general reserves. 	Some requests relate to sections that have not been reviewed in this phase of INPAG or are being addressed through feedback to other sections. The Secretariat will consider these topics when developing additional education material.