Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG02-04
16 July 2024 – Video Conference

Way Forward on Financial Statements

Summary	The paper presents the responses to those sections 3–10 of ED 1 that covered the requirements for the financial statements, and discusses the approach to be taken in finalising these sections.
Purpose/Objective of the paper	The paper discusses the responses to sections 3–10 of ED 1 and proposes the approach to be taken in finalising these sections. The paper seeks the TAG members' views on the approach to be taken. ED 3 included the illustrative financial statements and consequential amendments to some of these sections, and the feedback to these will need to be considered prior to finalising the sections. Consequently, this paper does not include drafting proposals to revise the text of these sections prior to the feedback on ED 3 being received
Other supporting items	None
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Actions for this meeting	Comment and advise on: • The approach to be taken in finalising sections 3–10 of INPAG, covering the requirements for the financial statements.

INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Technical Advisory Group

Illustrative Financial Statements

1. Introduction

1.1 Sections 3–10 of INPAG cover the requirements for the financial statements, and were included in ED 1.

1.2 The responses to ED 1 have been analysed, and this paper summarises the responses to each of the financial statements sections. Details of the responses to each question are included in Annex A. The paper also considers what, if any, changes are required in response to this feedback.

1.3 Additional feedback on these sections will be received through the responses to ED 3, which included the illustrative financial statements along with a number of consequential amendments to some of these sections. Drafting changes are therefore not proposed in this paper. Where drafting changes are required, these will be developed following the analysis of the responses to ED 3 and the TAG advice on the issues outlined in this paper.

1.4 The analysis of responses, and proposed approach to finalising the financial statement sections are set out, section by section, below. Where changes are proposed to a section, consideration is also given to whether changes would be required in other sections to ensure consistency.

2. Responses to Section 3 – Financial Statements

2.1 Section 3 prescribes the manner in which general purpose financial statements are to be presented, including specifying which financial statements are to be presented. The financial statements required, and the terminology used in INPAG, varied from the *IFRS for SMEs* Accounting Standard.

2.2 The requirements for individual financial statements are set out separately below in line with each of the INPAG sections. ED 1 asked three questions regarding the general requirements for the financial statements.

2.3 SMC 4(a) asked whether respondents agreed with the proposed changes to terminology from the *IFRS for SMEs* Accounting Standard; and if not, what alternatives they would suggest.

2.4 Of those who commented on this question, 78% supported the proposed changes, 14% did not support the proposed changes, and 8% partially supported the proposed changes.

2.5 Those who supported the proposed changes generally agreed that the proposed terminology better reflected NPOs' needs. Some respondents commented that use of the revised terminology should not be mandatory, and NPOs should be free to use alternatives provided the meaning was clear. The Secretariat notes that Section 3 specifically permits the use of different names for the statements provided they are not misleading.

2.6 A number of respondents who disagreed with the proposed changes had concerns with the term "equity". As ED 3 contains proposals relating to this term, the Secretariat propose to review these comments alongside responses to ED 3.

2.7 Some respondents did not see the need to replace "entity" with "NPO", and commented that terms such as reporting NPO or controlling NPO were less clear than the *IFRS for SMEs* Accounting Standard alternatives.

2.8 Some respondents also commented on the terms "controlling entity" and "controlled entity". Section 9, *Consolidated and separate financial statements*, proposed these terms, and SMC 10(d) specifically asked respondents for their views on them. Comments about these specific terms in Section 3 have been included in the analysis of responses to these terms in Section 9 discussed below.

2.9 SMC 4(b) asked whether respondents agreed that comparatives should be shown on the face of the primary statements, and in particular, the proposed comparatives for the Statement of Income and Expenses.

2.10 Proposals in ED 3 remove the requirement to show income and expenses with and without restrictions in the Statement of Income and Expenses. The ED3 proposals mean that the requirements for comparatives in that statement are no different to the requirements for any other statement.

2.11 Of those who responded to this question, over 90% supported the inclusion of comparative information on the face of the financial statements (with more mixed on the now superseded proposals for the Statement of Income and Expenses).

2.12 Only five respondents disagreed or partially agreed with the proposals. Three respondents considered that rather than comparative figures, a comparison with the budget should be included, with one respondent expressing the opposite concern. The TAG has previously discussed these responses and it has been agreed that a budget comparison will not be required by INPAG.

2.13 One further comment was that flexibility regarding the inclusion of comparatives in the notes would be helpful, including omitting comparatives where these were not useful to the users of the financial statements. The Secretariat considers that no additional flexibility is required as information that is not useful to users would not be material.

2.14 SMC 4(c) asked respondents to consider if the proposals for expressing compliance with INPAG create unintended consequences, and if so, what were respondents' main concerns. Most respondents (73%) did not identify any unintended consequences arising from the proposals.

2.15 A number of issues that were identified by those respondents who identified unintended consequences, or potential unintended consequences, are outside the scope of the IFR4NPO project.

2.16 Concerns were raised about jurisdictions not adopting INPAG, as well as concerns that the accounting framework to be adopted by NPOs might not be sufficiently differentiated from other frameworks. In this context, one respondent suggested that all references to entities with not-for-profit activities be removed from IAS 1. The Secretariat notes that the decision about the accounting framework to be applied to entities, whether they are operating for profit or not is one for regulators in each jurisdiction.

2.17 The cost of adopting INPAG was seen as an issue by some respondents, particularly where another accrual framework (such as IPSAS) has already been adopted.

2.18 Other concerns are detailed in Annex B. These concerns include:

- A combined statement of compliance with both the financial statement requirements and the narrative reporting requirements; and
- The use of a new independent review engagement.

2.19 The Secretariat is of the view that the statement of compliance is addressed in ED3, allowing a transition period from compliance with just the financial statements to full compliance. INPAG is not intended to set out assurance requirements and as such this is outside of its scope. Drafting will be reviewed to ensure this is clear.

Question 1: TAG members are asked for their views on the Secretariat's proposals to the responses received in relation to this Section?

3. Responses to Section 4 – Statement of Financial Position

3.1 INPAG Section 4 sets out the requirements for the Statement of Financial Position. ED 1 included two specific matters for comment on this section.

3.2 ED 1 asked whether all asset and liability balances should be split between current and non-current amounts, except where a liquidity-based presentation has been adopted.

3.3 No respondents disagreed with this approach, and only one respondent indicated partial support. A small number of respondents did, however, comment on aspects of the text in Section 4:

3.4 Some respondents considered that the current/non-current distinction should be used in all cases, and that the liquidity-based presentation option should be removed. The Secretariat considers that, while it will rarely be appropriate, a liquidity-based presentation may, in certain circumstances, provide more useful information. Also as there is no NPO specific reason to remove it, this option should be retained.

3.5 Respondents also commented on the wording relating to the operating cycle and how this should be interpreted.

- One respondent commented that any operating cycle that was not 12 months should be disclosed. The Secretariat take the view that an NPO would disclose its operating cycle as part of its disclosure of material accounting policy information.
- One respondent commented that NPOs might find it difficult to determine the operating cycle, and that the requirements should be simplified. The proposed simplification would define assets and liabilities as current where an asset would be realised or a liability settled within twelve months. The Secretariat acknowledges that some NPOs may find it

difficult to determine their operating cycle, but that in such cases the availability of the rebuttable presumption that the operating cycle is 12 month is sufficient to address the issue.

- Other respondents had concerns that the reference to "operating activities" could be misinterpreted, and result in some property, plant, and equipment that is used in the NPO's operating activities being treated as current assets. The Secretariat notes that the definition of operating activities in INPAG specifically excludes investing activities.

3.6 ED 1 also asked whether respondents supported the proposal that not all categories of asset and liability balances should be split between those with and those without restrictions.

3.7 Only two respondents (3.5% of those who responded to the question) disagreed, with one further respondent only partially agreeing.

3.8 Those respondents who disagreed with the proposal considered that separation of assets into restricted and unrestricted is a compliance issue that should be reflected in the Statement of Financial Position.

3.9 Some other respondents considered that it would be important for users of the financial statements that non-current assets were separated into restricted and unrestricted categories in the notes, whilst other respondents considered that such a split would be impracticable, particularly where assets had been acquired through a range of funding arrangements.

3.10 The Secretariat notes that restricted assets will be included in the fund balance until the restriction no longer applies and the asset is transferred to funds without restrictions. This will be part of the movement in funds note that is introduced in ED 3 and is shown in the illustrative financial statements.

3.11 There is currently no explicit requirement that grant funded non-current assets should be disclosed. However, this type of information was included in the illustrative financial statements. The Secretariat recognises the potential usefulness of this information. As the relevant sections have not been prioritised for review, specific proposals have not been made, noting that it has featured as part of previous TAG discussions.

Question 2: Do TAG members consider that any additional guidance or revised drafting is required in respect of the "operating cycle"?

Question 3: What are TAG members' views on the need for additional disclosures on grant funded non-current assets? Are the disclosures in the movement in funds note sufficient?

4. Responses to Section 5 –Statement of Income and Expenses

4.1 Section 5 of INPAG sets out the requirements for the Statement of Income and Expenses. ED 1 included four specific matters for comment on this section.

4.2 SMC 6(a) asked whether respondents agreed with the name of this primary statement being the Statement of Income and Expenses.

4.3 Of those who responded to this question, 79% agreed with the proposed name, which was seen to be in common usage in many countries. A small number of these respondents noted that other names were used in their jurisdiction, but as INPAG allowed NPOs to use an alternative name, they were content with the name chosen for use in INPAG.

4.4 Those respondents who indicated disagreement (14%) or only partial agreement (7%) suggested a range of alternative names for the statement. These are provided in Annex C. The Secretariat does not propose any changes to the name of the statement, given the ability to use an alternative.

4.5 SMC 6(b) asked respondents whether they agreed that that the terms surplus and deficit should be used instead of profit or loss (used in the *IFRS for SMEs* Accounting Standard). Of those who responded to this question, 93% agreed, commenting that referring to profit in a not-for-profit context did not make sense.

4.6 Of the remaining respondents, only one proposed retaining profit and loss. The other respondents had concerns that a surplus could be misinterpreted as 'more than required', and a deficit as 'insufficient'. "Financial result", "activity result", "excess (deficiency) of resources" and "net resources in excess (deficiency) of resources applied" were suggested as a replacement for "surplus or deficit" but no suggestions were made for the individual terms.

4.7 The Secretariat does not propose to move away from the terms "surplus" and "deficit". This does not preclude a different term for the result for the financial reporting period. One of the alternatives suggested could be used, or INPAG could allow an alternative in the same way that an alternative can be used for the Statement name. The Secretariat is open to an alternative term, but would prefer that this cannot be varied on the basis that this is a key term in the same way that profit and loss is used in the private sector.

4.8 SMC 6(c) asked whether respondents agreed that amounts on each line of revenue and expenses should be split between those with and those without restrictions on the face of the primary statement.

4.9 While 89% of those who responded to this question agreed with the proposal, feedback through other routes showed concern about its potential complexity. The TAG has already discussed this issue and agreed that each line of revenue and expenses is not required to be split between those with and those without restrictions on the face of the primary statement. Instead, this information will be presented in the notes.

4.10 Revised drafting to reflect this decision has been included in ED 3 and is reflected in the illustrative financial statements in that ED.

4.11 SMC 6(d) asked respondents whether they agreed that NPOs should be able to choose whether to present either income items or expense items first to get to a surplus or deficit. There were differing views on this issue, with 58% of those who responded to this question agreeing, and 42% disagreeing.

4.12 Respondents who agreed with the proposal considered that, while income first would be usual, the choice should be allowed, drawing the analogy with the option to provide a horizontal or vertical presentation of the Statement of Financial Position. Respondents commented that for some NPOs, costs are the most important issue for users of their financial statements, and some jurisdictions may require this presentation.

4.13 One respondent also noted that reordering the statement would not be prohibited by the *IFRS for SMEs* Accounting Standard, and they saw no NPO-specific reason for not allowing flexibility.

4.14 Respondents who disagreed with the proposal all considered that income should be presented first, and considered that this should be mandated to ensure a consistent presentation. Some respondents were concerned that alternative presentations may be confusing for some users, and may not meet donors' expectations.

> **Question 4:** Do TAG members agree with the Secretariat's proposed responses to the issues raised on the name of the financial statement and its presentation?
>
> **Question 5**: What are TAG members' views on the terminology for the result for the financial period?

5. Responses to Section 6 – Statement of Changes in Net Assets

5.1 Section 6 of INPAG sets out the requirements for the Statement of Changes in Net Assets. ED 1 included two specific matters or comment on this section.

5.2 ED 1 asked whether respondents agreed with the proposal that that there is no 'Other Comprehensive Income' (OCI) and that an expanded Statement of Changes in Net Assets would allow an equivalent to the OCI being produced.

5.3 Of those who responded to this question, 87% supported the proposal, 7% disagreed with the proposal and 6% partially agreed with the proposal. Respondents gave the following reasons for disagreeing with the proposal:

- The statement should be consistent with that in the *IFRS for SMEs* Accounting Standard;
- The proposed statement mixes items of performance with equity items;
- OCI is not relevant to NPOs. The Secretariat notes that transactions such as asset revaluations may be relevant to some NPOs; and
- Removal of OCI would prevent NPOs from applying some accounting treatments and this might harm the faithful presentation of the financial statements. The Secretariat notes that although the proposals change the presentation requirements, it does not prevent NPOs from applying any permitted accounting treatments.

5.4 ED 1 also asked whether respondents agreed that funds are split between those with and those without restrictions on the face of the primary statement. Respondents were asked to suggest alternatives if they disagreed with the proposals.

5.5 Of those who responded, 96% supported the proposals and 4% partially supported the proposals; no respondents disagreed with the proposals.

5.6 With the exception of the reasons for disagreeing with the proposals regarding OCI discussed above, respondents' comments across the two questions touched on similar issues. These were:

- Some respondents suggested relief from the requirements for the smallest NPOs, for example where the surplus or deficit for the year is the only change in net assets and such information could be included in the Statement of Income and Expenses or in the notes. The Secretariat notes that such NPOs are generally not the intended users of INPAG, although some larger NPOs may have surplus or deficit as their only change in net assets;
- Other components of OCI (for example, revaluation reserves) should also be shown separately. The Secretariat is of the view that this was the intention of the reporting requirements for the Statement of Change in Net Assets, and the illustrative financial statements in ED 3 include this presentation. The Secretariat will review the drafting to ensure this is clear;
- The glossary includes a definition of "income statement" that refers to OCI as well as the Statement of Income and Expenses. The Secretariat proposes to remove this definition from the glossary to avoid confusion;
- One respondent questioned the presentation of the accumulated history of equity holders (for example, the share of a revaluation reserve owing to shareholders); and
- Some respondents considered that more information on restrictions should be provided. The Secretariat considers this concern has been addressed by the movement in funds note introduced in ED 3.

5.7 The Secretariat considers that, except for the items identified above, no changes to this section 6 are required.

Question 6: Do TAG members agree that, subject to feedback on the illustrative financial statements in ED 3, no amendments to Section 6 are required except:

- clarification that items such as revaluation reserves should be presented separately in the Statement of Change in Net Assets; and
- Amendment to the glossary item on income statement.

6. Responses to Section 7 –Statement of Cash Flows

6.1 Section 7 of INPAG includes the requirements for the Statement of Cash Flows. ED 1 included three specific matters for comment on the statement.

6.2 SMC 8(a) asked whether respondents agreed with the separate presentation of cash donations and grants on the face of the statement. Of those respondents who answered this question, 98% agreed with the proposal, no respondents disagreed and one respondent partially agreed.

6.3 A common reason for supporting the proposal was that such information would be useful to users of the financial statements, particularly donors who are frequently most interested in cash information. However, one respondent commented that cash flow information was unlikely to be useful for most NPOs. Some respondents did note that the proposal relates mainly to the direct method, which many NPOs are unlikely to use.

6.4 The respondent who partially supported the proposals considered that separate disclosure of donations and grants should not be mandatory, but disclosed where it was useful. Some respondents who supported the proposal also commented that the requirement may be difficult for smaller NPOs, and disclosure in the notes may be appropriate for these NPOs.

6.5 Noting the potential usefulness of this information and that if the indirect method is selected the amount of cash received from grants and donations would not be disclosed, the Secretariat proposes that cash received from grants and donations should be disclosed on either the face of the Statement of Cash Flows or in the notes to the financial statements.

6.6 SMC 8(b) asked whether respondents supported the proposal that donations or grants received for the purchase or creation of property, plant and equipment should be treated as investing activities. Views were more mixed, with 68% of those who responded to the question supporting the proposal, 25% disagreeing and 7% partially agreeing.

6.7 The TAG has previously discussed the responses to this question when considering the illustrative financial statements (see the 27 February 2024 meeting papers). At that meeting, it was agreed that the guidance to include capital grants in investing activities would be removed, and replaced with guidance that such grants, where material, be disclosed separately (usually in operating activities). This change will be explained in the Basis for Conclusions, and reflected in the illustrative financial statements.

6.8 Respondents to this question also raised concerns regarding the terminology used in the statement of cash flows. "Investing activities", in particular, was seen as a profit-related term, and respondents commented that alternative terms for investing activities and financing activities would be preferable, although few alternatives were suggested. References to "service provision", and the possibility of separating investment activities into service related and commercial were mentioned.

6.9 SMC 8(c) asked whether both the direct method and indirect methods for preparing the cash flow statement should be permitted. Respondents generally supported the proposal. Of those who responded to this question, over 90% agreed that both methods should be permitted.

6.10 Of the three respondents who disagreed with the proposal, two favoured mandating the indirect method and one the direct method on the basis their chosen method would provide the most relevant information in the NPO context.

6.11 The one respondent who partially supported the proposal noted that the indirect method would not allow for grants and donations to be separately identified as part of operating activities; however, they considered this would be acceptable if the relevant information was available from the disclosures being developed for ED 3.

6.12 The Secretariat supports retaining both the indirect and the direct methods of preparing the statement of cash flows.

Question 7: Does the TAG agree that grants and donations should be separately reported in the Statement of Cash Flows or in the notes irrespective of the method chosen?

Question 8: What are TAG members' views on the terms "investing activities" and "financing activities"?

Question 9: Do TAG members agree that both the direct and indirect method of preparing the statement of cash flows should be permitted?

7. Responses to Section 8 – Notes to the financial statements

7.1 Section 8 of INPAG includes the requirements for the notes to the financial statements. The section specifies the general principles that apply to the notes to the financial statements, but does not specify specific disclosure requirements as these are included in other sections of INPAG.

7.2 In developing these INPAG requirements it was concluded that there are no NPO specific issues that need addressing and that the *IFRS for SMEs* Accounting Standard text could be adopted with appropriate terminology changes. SMC 9 sought respondents' views on this conclusion.

7.3 Of those who responded to this question, 80% agreed with the conclusion, 18% disagreed with the conclusion and 2% neither agreed nor disagreed with the conclusion.

7.4 Some respondents who disagreed with the conclusion considered that the *IFRS for SMEs* Accounting Standard requirements were not appropriate, and that NPO specific requirements should be developed. However, no suggestions were provided as to what amendments would be required.

7.5 Other respondents who disagreed with the requirements did so because they considered that additional specific disclosure requirements should be included. Some respondents who agreed with the conclusion, or neither agreed not disagreed with the conclusion, also suggested additional specific disclosure requirements.

7.6 Additional specific disclosures would be included in other sections of INPAG, not in Section 8. Some of the suggested disclosures have already been included in ED 3, for example the movement in funds note.

7.7 Some respondents also considered that it would be necessary that more details of the notes required should be provided, including examples. At least some of these concerns is likely to be have responded to ED 3 which includes a complete set of illustrative financial statements, whereas ED 1 only included a limited template.

7.8 Details of the suggested disclosures are provided in Annex D. The Secretariat does not consider that it is necessary to include any additional disclosure requirements in INPAG, noting that ED 2 and ED 3 have included a number of the suggested disclosures.

Question 10: Do TAG members agree that no further disclosure requirements other than those already proposed by the Exposure Drafts need be included in INPAG?

8. Responses to Section 9 – Consolidated and separate financial statements

8.1 Section 9 sets out the requirements for presenting consolidated and separate financial statements. In particular, this section includes guidance on determining whether another entity is controlled by an NPO. ED 1 asked four questions on this section, covering the guidance for determining control and the terminology used in the section.

8.2 SMC 10(a) asked respondents whether they considered that the Application Guidance on the application of the control principles was sufficient. Respondents were also asked to identify any changes or additions that they considered were needed.

8.3 Of those who responded to this question, 88% agreed the Application Guidance was sufficient (with some suggesting areas where additional guidance would nevertheless be welcome). Other respondents disagreed (2%) or partially agreed (10%), highlighting areas where they considered more guidance was required.

8.4 Annex E lists the additional guidance needs identified by respondents, which include:

- Situations where the controlling and controlled entities do not have a uniform reporting date;
- Situations where a particular individual, such as a founder or Board chair, wields more power or control in practice than their single 'vote' might imply; and
- Guidance on indirect control and more complex control structures.

8.5 One respondent was of the view that controlling NPOs should not be required to prepare consolidated financial statements. Another had concerns that consolidating for-profit entities may not provide useful and faithful information to the users. This respondent noted that the for-profit entity would have funds without restrictions, and this could obscure the NPO's reliance on funds with restrictions. The Secretariat considers that if an NPO had concerns, it could present separate financial statements alongside the consolidated financial statements, with appropriate disclosures.

8.6 SMC 10(b) asked respondents whether they agreed that a rebuttable presumption relating to control should be retained.

8.7 Of those who responded to this question, 93% agreed, with no respondent disagreeing. The remaining 7% of respondents either had concerns with the drafting of the presumption, or wider concerns with consolidation.

8.8 One respondent did not consider that for-profit entities should be consolidated (see paragraph 8.5 above for more details). Another respondent considered that the reporting entity should be "identified by uniqueness in missions/outputs" and that "one can only compare reporting entities if they have the same primary outputs or primary mission." The Secretariat has interpreted these comments as also referring to concerns about the consolidation of for-profit entities.

8.9 Other respondents commented that the drafting of paragraph G9.18 could be simpler. In particular, respondents questioned:

- Whether the rebuttable presumption is intended to apply only to the first test in paragraph G9.18 (owning the majority of voting rights), noting that the equivalent text in the Exposure Draft of the *IFRS for SMEs* Accounting Standard did not include the other tests (governance arrangement, other criteria). The Secretariat's intent was that the rebuttable presumption could be applied to a wider range of circumstances given that voting rights might not be the most significant factor for NPOs.
- Whether an NPO with the majority of the voting rights of an entity is required to assess whether it does not have one or more of the elements of control listed in G9.9, as this interpretation would make the rebuttable presumption of less value to NPOs.

8.10 The Secretariat propose to review the wording of the rebuttable presumption following the finalisation of the equivalent wording in the third edition of the *IFRS for SMEs* Accounting Standard.

8.11 SMC 10(c) asked respondents whether the Application Guidance is sufficient to apply the fundamental characteristics of faithful representation and relevance to consolidation. Respondents were also asked to indicate what additional guidance they considered would be needed if the AG was not sufficient.

8.12 Of those who responded to the question, 84% agreed the AG was sufficient, 7% disagreed and 9% did not wholly agree or disagree.

8.13 One respondent disagreed with the AG because they considered paragraph G9.22 could be misused. The paragraph states "*If, exceptionally, excluding an* *entity from consolidation would provide the most relevant information available about a controlling NPO and its controlled entities, then an NPO should not consolidate that entity.*"

8.14 Another respondent did not consider the AG sufficient because the consolidation requirements have not been revised as they were not prioritised for inclusion in Phase 1.

8.15 Of those who did not wholly agree or disagree with the AG, one respondent again did not consider that for-profit entities should be consolidated (see paragraph 8.5 above for more details).

8.16 One respondent considered that guidance on the fundamental characteristics was unnecessary and could be replaced by a cross-reference to Section 2. Other respondents identified areas where further guidance would be helpful. The Secretariat does not consider any additional Application Guidance is required, although some examples or educational material may be useful. Annex F includes more details on respondents' comments.

8.17 The Secretariat notes the views from some respondents that for-profit entities should not be included in the NPO consolidated financial statements. The TAG previously discussed whether there should be any exemptions based on dissimilar activities. Also, as consolidation is not a topic being prioritised for the first edition of INPAG, the Secretariat's view was to not depart from the *IFRS for SMEs* Accounting Standard. The Secretariat retains this view.

8.18 SMC 10(d) asked respondents whether they agreed with the use of the terms 'controlling entity', 'controlled entity' and 'beneficial interest' instead of 'parent', 'subsidiary' and 'investment'. Respondents were also asked for their suggested terminology if they did not agree with the proposals.

8.19 Of those who responded to this question, 83% supported the proposed terminology. The remaining 17% of respondents were split evenly between those who disagreed with the terminology and those who did not wholly support or disagree with the terminology.

8.20 A number of those who supported the proposed terminology commented that the terms were easy to understand and more relevant to the NPO context.

8.21 Comments from those who disagreed with the terminology and those who did not wholly support or disagree with the terminology are shown in Annex G. These comments include those made in response to Section 3, as discussed above. No changes to the terminology are proposed in response to these comments.

Question 11: What are TAG members' views on the inclusion of for-profit entities in NPO consolidated financial statements?

Question 12: Do TAG members' have any concerns about the approach to the rebuttable presumption, noting this will be considered alongside the finalisation of the equivalent wording in the new edition of the *IFRS for SMEs* Accounting Standard?

Question 13: Do TAG members agree that no changes to the terminology "controlling entity", "controlled entity" and "beneficial interest" are required?

Question 14: What are TAG members' views on the response proposed by the Secretariat that additional guidance is not required in relation to the control principles, noting the potential for educational material? Are more illustrative examples required?

Question 15: What are TAG members' views on whether the currently drafted application guidance relating to faithful representation and relevancy should be removed and replaced by cross references to Section 2?

9. Responses to Section 10 – Accounting policies, estimates and errors

9.1 In developing the INPAG requirements for accounting policies, estimates, and errors, it was concluded that there are no NPO specific issues that need addressing and that the *IFRS for SMEs* Accounting Standard text could be adopted with appropriate terminology changes. SMC 11 sought respondents' views on this conclusion.

9.2 No respondents disagreed with the conclusion that there are no NPO specific issues that need addressing.

9.3 Some respondents considered that additional guidance would be required on developing accounting policies for some transactions, with the examples given including depreciation, the effect of changes in foreign exchange rates, and revenue recognition. The Secretariat consider that such guidance is included in the individual sections covering these transactions, which are included in later exposure drafts and were therefore not available when the responses to ED 1 were prepared. In addition, the illustrative financial statements include example accounting policies for these transactions. Consequently, it is proposed that no changes to the text are required.

9.4 One respondent suggested that implementation guidance could provide illustrative examples, and gave the example of accounting for prior period errors.

9.5 The Secretariat consider that the illustrative financial statements generally provide appropriate examples. However, the illustrative financial statements do not illustrate the accounting for prior period errors. The Secretariat consider that such guidance would be helpful, and that including this in the illustrative financial statements would be more helpful than introducing implementation guidance for a single issue.

Question 16: Do TAG members agree with the Secretariat that no additional guidance is required and that prior period errors be covered in the illustrative financial statements.

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Annex A – Analysis of responses to SMCs

Responses to Section 3 – Financial Statements

SMC 4(a) Do you agree with the proposed changes to terminology from the IFRS for SMEs Accounting Standard? If not, what would you propose and why?	**Response**	**Number**	**% of those who responded (51)**
	Agree	40	78%
	Disagree	7	14%
	Partially Agree	4	8%
	No Response	18	–
	Total	69	100%

SMC 4(b) Do you agree that comparatives should be shown on the face of the primary statements? In particular, do you agree with the proposed comparatives for the Statement of Income and Expenses? If not, what do you propose?	**Response**	**Number**	**% of those who responded (58)**
	Agree	53	91.4%
	Disagree	2	3.4%
	Partially Agree	3	5.2%
	No Response	11	–
	Totals	69	100%

SMC 4(c) Do the proposals for expressing compliance with INPAG create unintended consequences? If so, what are your key concerns?	**Response**	**Number**	**% of those who responded (55)**
	No unintended consequences	40	73%
	Unintended consequences	3	5%
	Possible unintended consequences	12	22%
	No Response	14	–
	Totals	69	100%

Responses to Section 4 – Statement of Financial Position

SMC 5(a) Do you agree that all asset and liability balances should be split between current and non-current amounts (except where a liquidity-based presentation has been adopted)? If not, why not?	**Response**	**Number**	**% of those who responded (55)**
	Agree	54	98%
	Disagree	0	0%
	Partially Agree	1	2%
	No Response	14	–
	Total	69	100%

SMC 5(b) Do you agree with the proposal that not all categories of asset and liability balances should be split between those with and those without restrictions? If not, which categories of asset and/or liability should be split?	Response	Number	% of those who responded (57)
	Agree	54	94%
	Disagree	2	4%
	Partially Agree	1	2%
	No Response	12	–
	Totals	69	100%

Responses to Section 5 –Statement of Income and Expenses

SMC 6(a) Do you agree with the name of the primary statement being 'Statement of Income and Expenses'? If not, why not?	**Response**	**Number**	**% of those who responded (57)**
	Agree	45	79%
	Disagree	8	14%
	Partially Agree	4	7%
	No Response	12	–
	Total	69	100%

SMC 6(b) Do you agree that the terms surplus and deficit should be used instead of profit or loss? If not, why not?	**Response**	**Number**	**% of those who responded (55)**
	Agree	51	93%
	Disagree	3	5%
	Partially Agree	1	2%
	No Response	14	–
	Totals	69	100%

SMC 6(c) Do you agree that amounts on each line of revenue and expenses should be split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why?	**Response**	**Number**	**% of those who responded (57)**
	Agree	51	89%
	Disagree	1	2%
	Partially Agree	5	9%
	No Response	12	–
	Totals	69	100%

SMC 6(d) Do you agree that NPOs should be able to choose whether to present either income items or expense items first to get to a surplus or deficit? If not, what alternative approach would you propose and why?	**Response**	**Number**	**% of those who responded (55)**
	Agree	32	58%
	Disagree	23	42%
	Partially Agree	0	0%
	No Response	14	–
	Totals	69	100%

Responses to Section 6 – Statement of Changes in Net Assets

SMC 7(a) Do you agree with the proposal that there is no 'Other Comprehensive Income' (OCI) and that an expanded Statement of Changes in Net Assets would allow an equivalent to the OCI being produced. If not, why not?	**Response**	**Number**	**% of those who responded (55)**
	Agree	48	87.2%
	Disagree	4	7.3%
	Partially Agree	3	5.5%
	No Response	14	–
	Total	69	100%

SMC 7(b) Do you agree that funds are split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why?	**Response**	**Number**	**% of those who responded (56)**
	Agree	54	96%
	Disagree	0	0%
	Partially Agree	2	4%
	No Response	13	–
	Totals	69	100%

Responses to Section 7 –Statement of Cash Flows

SMC 8(a) Do you agree with the separate presentation of cash donations and grants on the face of the statement? If not, what alternative approach would you propose and why?	**Response**	**Number**	**% of those who responded (56)**
	Agree	55	98%
	Disagree	0	0%
	Partially Agree	1	2%
	No Response	13	–
	Total	69	100%

SMC 8(b) Do you agree that donations or grants received for the purchase or creation of property, plant and equipment should be treated as investing activities? If not, what alternative would you propose and why?	**Response**	**Number**	**% of those who responded (57)**
	Agree	39	68%
	Disagree	14	25%
	Partially Agree	4	7%
	No Response	12	–
	Totals	69	100%

SMC 8(c) Do you agree that both the direct method and indirect methods for the cash flow statement should be permitted? If not, why not?	**Response**	**Number**	**% of those who responded (54)**
	Agree	50	92.6%
	Disagree	3	5.6%
	Partially Agree	1	1.8%
	No Response	15	–
	Totals	69	100%

Responses to Section 8 – Notes to the financial statements

SMC 9(a) Do you agree that there are no additional NPO specific considerations for this Section? If not, what changes would you propose and why?	**Response**	**Number**	**% of those who responded (55)**
	Agree	44	80%
	Disagree	10	18%
	Partially Agree	1	2%
	No Response	14	–
	Totals	69	100%

Responses to Section 9 – Consolidated and separate financial statements

SMC 10(a) Is the Application Guidance to apply the control principles sufficient? If not, what changes or additions would you propose and why?	**Response**	**Number**	**% of those who responded (57)**
	Agree	50	88%
	Disagree	1	2%
	Partially Agree	6	10%
	No Response	12	–
	Total	69	100%

SMC 10(b) Do you agree that a rebuttable presumption relating to control should be retained? Is the current drafting sufficient? If not, what additions would you propose and why?	Response	Number	% of those who responded (57)
	Agree	53	93%
	Disagree	0	0%
	Partially Agree	4	7%
	No Response	12	–
	Totals	69	100%

SMC 10(c) Is the Application Guidance sufficient to apply the fundamental characteristics of faithful representation and relevance to consolidation? If not, what additions would you propose and why?	Response	Number	% of those who responded (57)
	Agree	48	84%
	Disagree	4	7%
	Partially Agree	5	9%
	No Response	12	–
	Totals	69	100%

SMC 10(d) Do you agree with the use of the terms 'controlling entity', 'controlled entity' and 'beneficial interest' instead of 'parent', 'subsidiary' and 'investment'? If not, what would you propose and why?	Response	Number	% of those who responded (59)
	Agree	49	83.0%
	Disagree	5	8.5%
	Partially Agree	5	8.5%
	No Response	10	–
	Totals	69	100%

Responses to Section 10 – Accounting policies, estimates and errors

SMC 11(a) Do you agree with the updates made to Section 10 and that there are no additional NPO specific considerations that need to be addressed in this Section? If not, what changes or additions would you propose and why?	Response	Number	% of those who responded (50)
	Agree	49	98%
	Disagree	0	0%
	Partially Agree	1	2%
	No Response	19	–
	Totals	69	100%

Annex B – Concerns regarding the requirements for expressing compliance with INPAG (SMC 4(c))

Concern	Secretariat comment
Requirements may not align with the requirements of donors	Donor requirements do not relate to the compliance statement; work with DRG should mitigate this concern.
A combined statement of compliance with both the financial statement requirements and the narrative reporting requirements of the Guidance could create unintended consequences. For example, if the narrative reporting requirements in the Guidance duplicate or conflict with existing requirements (for example, those set by an entity's jurisdiction), an entity may be required to produce information twice.	Noted. The Secretariat will consider this.
INPAG requirements may differ from local legislation, requiring a divergence (and preventing the NPO asserting compliance) unless the NPO can use the same disclosures as when a departure is required for fair presentation.	Noted. However, if the financial statements are not compliance with INPAG, the NPO should not asset compliance with INPAG as the financial statements may not be comparable with those prepared under INPAG.
These proposals include the use of a new independent review engagement, which would provide a higher level of assurance than a compilation engagement, but a lower level of assurance than an audit engagement. There is a risk that this could increase costs, or not provide the level of assurance donors require.	INPAG does not intend to propose audit arrangements which are outside the scope of INPAG.
The use of "Guidance" in the title of INPAG may be confusing. Guidance is generally seen as supporting material, but INPAG is structured as a full accounting standard.	The Secretariat acknowledges this issue, which it is considering.

Concern	Secretariat comment
It is not clear whether compliance with INPAG includes the Application Guidance and the Implementation Guidance	Compliance is only required with the authoritative material – core text and application guidance. The Secretariat will review the wording to ensure this is clear. The review of the structure of INPAG may also mitigate this issue.
Education of all stakeholders, including governments / regulators, will be critical.	The Secretariat agrees.

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Annex C – Alternative names for the Statement of Income and Expenses (SMC 6(a))

Suggested names	**Secretariat comment**
Statement of Receipts and Payments as most NPOs use cash accounting.	INPAG is accrual based, so receipts and payments is not appropriate.
Statement of Activities	Statement of financial activities was considered in developing INPAG, but this name is used in some national standards or guidance.
Statement of Income and Expenditure, as expenses was seen to be profit focused.	'Expenditure' can be used to also mean expenditure on capital items. It was previously decided that this is not appropriate.
Statement of Resources and variations (for example, *Statement of Sources and Application of Resources*,	One respondent only, so unlikely to have widespread support.
Statement of Comprehensive Income	This would be misleading as some items that are included in comprehensive income in *IFRS* are included in the Statement of Changes in Net Assets.
Statement of Realisation of Funds	This name may not appropriate given the fact the statement no longer includes separate columns for funds.
Statement of Revenues and Expenses as INPAG generally refers to revenue rather than income.	While there is a logic to this proposal, income and expenses is already well understood by the NPO community and a change may cause more confusion.
Statement of Grants and Expenses	Income (revenue) may be wider than grants.

Annex D – Suggested additional disclosures notes (SMC 9)

Suggested disclosures	**Secretariat comment**
A comparison of the budget and actual figures, with explanation of any significant variances for any NPO that publishes its budget (in line with the requirements of IPSAS 24).	No such comparison is required by the *IFRS for SMEs* Accounting Standard. If the NPO's budget is on a cash basis, direct comparison with the Statement of Income and Expenses will not be possible. The TAG considered this suggestion at its February 2024 meeting. It was agreed not to require a comparison with the budget in the financial statements. A comparison to budget could be included in the narrative report.
Analysis of restricted funds.	ED 3 includes a requirement of a Movement in Funds note which addresses this suggestion.
Disclosure of the outcomes or non-financial performance of the NPO.	This is addressed by the narrative reporting requirements (Section 35) which were also included in ED 1.
Additional disclosures relating to foreign exchange gains and losses, particularly where an agreement with a donor specifies the exchange rate to be used.	Exchange rate gains and losses are dealt with by Section 30, covered in ED 2. This includes additional disclosures for gains and losses related to funds with restrictions, which address this suggestion.
Disclosures on related parties and the remunerations of trustees / key personnel are required.	These suggestions are addressed in Section 33, which is included in ED 3.
Increased disclosure of the types of cost incurred by NPOs.	Parts II and III of Section 24 (included in ED 3) deal with the classification of expenses and with fundraising costs, and therefore address this suggestion.

Suggested disclosures	Secretariat comment
Disclosure of information about heritage assets held by the NPO (for example, preservation and management arrangements).	Heritage assets will meet the definition of property, plant, and equipment or, in some cases, intangible assets. These sections were not identified as priority areas for INPAG. The Secretariat takes the view that NPOs are able to provide disclosures about heritage assets through narrative reporting. The development of additional disclosure requirements would require a full update of the sections covering property, plant, and equipment and intangible assets, taking into account the requirements in the recently issued updated IPSAS on property, plant, and equipment (IPSAS 45). The secretariat considers this would go beyond the scope of this phase of INPAG development.
Disclosure of accounting policies in line with INPAG is required.	Section 10 (included in ED 1) covers accounting policies, including disclosure requirements. The illustrative financial statements included in ED 3 include the related accounting policies; these were not included in the template in ED 1.
More detailed guidance on the presentation of the notes is required.	This suggestion is addressed by the illustrative financial statements included in ED 3.

Annex E – Suggested areas where additional guidance on control is required (SMC 10(a))

Suggested guidance	Secretariat comment
Wording could be simpler, and separating AG from core text causes confusion.	The structure of INPAG is under consideration.
Where the controlling and controlled entities do not have a uniform reporting date, guidance should be included on the maximum acceptable difference between the dates, as is paragraph B.93 of IFRS 10.	The *IFRS for SMEs* Accounting Standard does not limit the difference to three months, unlike IFRS 10. The three-month restriction was removed in response to comments on the 2007 ED (first edition of the Standard). There are no NPO-specific reasons to reintroduce this restriction.
Situations where a particular individual, such as a founder or Board chair, wields more power or control in practice than their single 'vote' might imply on paper (for example, a right of veto).	The Secretariat will consider whether this can be included as an illustrative example.
Provide more specific examples and explanations of control in the context of NGOs.	TAG is asked whether more examples are required.
Incorporation of a procedure to consolidate NPOs over which there is control, but which have not issued equity instruments, a treatment similar to the combination of financial statements.	The consolidation procedures in the AG would be applicable to situations without equity. If further guidance is required, an Illustrative example could be prepared.
Guidance on indirect control and more complex control structures.	Guidance or illustrative examples could be added if this is considered sufficiently common for NPOs. Alternatively, NPOs could be directed to the guidance in IFRS.
Guidance on the difference between a shareholder and a donor of fund.	This appears to be addressed by paragraph AG9.6.

Suggested guidance	Secretariat comment
Additional examples of variable benefits to the public that establish control.	Examples could be added if considered necessary.
Additional guidance is required on how control relates to risk, quality, customer, or user service, and on the limitations on costs, exemptions, or undue efforts.	The Secretariat will further consider this response.

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Annex F – Suggested areas where additional guidance on applying the fundamental characteristics of faithful representation and relevance to consolidation is required (SMC 10(c))

Suggested guidance	Secretariat comment
In one country, NPOs cannot control other NPOs, but may own companies. The companies have to report separately under IFRS. The guidance could recognise this and permit equity accounting.	Equity accounting is not appropriate for consolidated financial statements but is permitted when presenting separate financial statements.
NGOs often work in partnership with other organizations or entities to achieve their mission, and the determination of control in these situations may be complex. Therefore, additional guidance may be needed to assist NGOs in determining whether consolidation is appropriate in these types of arrangements.	Working in partnership with another organisation would not generally give rise to control of the other organisation. Specific arrangements may be joint ventures or joint operations, and these are addressed in other sections of INPAG. Consideration will be given to the illustrative examples
There may be situations where an NGO has subsidiaries or investments in entities that operate in different geographic regions, with different legal and regulatory requirements. In these cases, guidance on how to appropriately consolidate financial statements across multiple jurisdictions may be needed.	The principles in Section 9 of INPAG would apply. In these cases, the Secretariat acknowledges that more practical guidance would be helpful. The Secretariat considers that this would be best located in educational material, as it is likely to go beyond the scope of Illustrative examples in INPAG.

Suggested guidance	Secretariat comment
The fundamental characteristics of faithful representation and relevance are explained in Section 2 in more detail than the Application Guidance therefore it may be convenient to direct the reader to those requirements instead of duplicating some text in the Application Guidance.	TAG are asked for their views on whether relevant text should be included in the AG, or references to Section 2 provided instead.
Additional examples could be provided to explain when a subsidiary may not be consolidated, eg when the subsidiary is not material to the results of the group.	Additional examples could be included if the TAG consider this would be helpful. However, the Secretariat has concerns that including an example where a subsidiary is not consolidated could be taken as guidance and used too widely.
Additional guidance is required on how control relates to risk, quality, customer, or user service, and on the limitations on costs, exemptions, or undue efforts.	This is to be further considered by the Secretariat.
Judgments about excluding an entity from consolidation should not be based on expediency and should be supported by evidence supporting management's judgment. The guidance should include situations in which management would decide to consolidate.	The Secretariat will consider what guidance needs to be included, taking this comment alongside other comments.
One respondent read the reference to economic phenomena in paragraph G9.18 as encompassing macro-economic phenomena such as unemployment, migration, etc. that cannot be quantified in financial statements. The respondent suggested the following alternative drafting:	The Secretariat considers that the reference to economic phenomena is intended to cover micro-economic phenomena affecting an individual NPO, and will be read as such. No changes are proposed in respect of this comment. However, the Secretariat notes the comment has come from a non-English speaking country, and will consider whether alternative translations would help.

Suggested guidance	Secretariat comment
"The financial statements represent through numbers and words the different processes (direct and indirect) of the operation of an entity; These processes may be affected by economic phenomena of a financial nature, which will in turn affect the monetary and financial flows that will give rise to income, costs, expenses, assets, liabilities, equity, and disclosure notes. For financial information to be useful, it must not only represent the relevant facts, it must also faithfully represent the essence of the economic and financial phenomena that affect the information to be represented. In many circumstances, the essence of accounting facts and economic-financial phenomena and their legal form are the same. If they are not, the provision of information only on the legal form would not faithfully represent the economic phenomenon."	

Annex G – Respondents' comments on the terms 'controlling entity', 'controlled entity' and 'beneficial interest' (SMC 10(d))

Suggested guidance	Secretariat comment
Some respondents considered the following terms would be better left unchanged: • Parent rather than controlling entity; • Subsidiary rather than controlled entity; and • Investment rather than beneficial interest (although interest in other entities was also suggested as an alternative). Respondents preferred these terms as they considered they were well understood within the NPO sector. This reason was also given by some respondents who did not consider there should be any changes to the IFRS for SMEs Accounting Standard terminology. Other respondents considered that these terms better reflected the ethos of the sector, with control being seen as more appropriate for profit-related entities.	The Secretariat notes the comments; however, most respondents supported the proposed terms.
One respondents commented that, in some cases, the "investment" term is more relevant and reflects the nature of the relationship between the NPOs and the other party.	See previous comment.
One respondent considered the terms more suited to for-profit entities. They commented that the "branch" term should be used, as this gives a better presentation and there would not be so much complication in the consolidation of information, Precisely because of what is mentioned in that it is the asset, minus the liability gives us a net asset and the result of this in case of not continuing will be contributed to another entity that	The Secretariat considers that "branch" has a particular meaning and is not appropriate terminology to replace controlled entity, which can encompass for-profit organisations.

Suggested guidance	Secretariat comment
provides the benefit to the communities for which it was created, this makes it more differentiating to other entities or organizations.	
One respondent recommended caution about replacing established terms and concepts from the *IFRS for SMEs Accounting Standard* without clear benefit. They considered that the using the terms 'controlling NPO' and 'controlled entity' instead of 'parent' and 'subsidiary' is not necessary as the definitions of the new terms are the same as the definitions of the original terms, and therefore the Guidance does not introduce any new concepts or interpretations. Using the established terms should aid understanding.	The Secretariat acknowledges these comments, but notes that most respondents considered the proposed terminology to be more appropriate for NPOs. This respondent also identified some inconsistencies in the terminology used in ED 1. The Secretariat will review the text and update the terminology as required, taking into account other inconsistencies identified by other respondents.
One respondent considered that preparers should be allowed to use different terminology, provided that it is not misleading. This would also allow for adaptations to be made to the standard suggested wording where there are jurisdictional requirements.	The Secretariat agrees with this comment.
One respondent expressed concerns over the term "beneficial interest" (referred to as "interest in participating in the benefits" or "participation of profits") because of translation difficulties into Spanish.	The Secretariat considers this comment would be best addressed by reviewing the translation.