Expenses Classification Webinar 9 July 2024

Unanswered Questions

| Questions | INPAG Secretariat Response |
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| Should changes in the [allocation/apportionment] method be treated in the same way as changes in accounting policies? | Changes to methodologies for allocation/ apportionment of support service costs for reported functions or activities will be changes in accounting estimate if changes occur, for example, as a result of new information, new developments or more experience. They are to be reported prospectively in accordance with INPAG section 10, Accounting policies estimates and errors.  If the changes in allocation/apportionment result from the correction of prior period errors because the apportionment allocation was based on incorrect information or inappropriate techniques then it should be reported retrospectively. |
| I do agree with [the views expressed], FD's Salary could be allocated to a specific project and also could recover from indirect costs. | It is often the case that the Finance Director’s salary will be a part of support service costs as finance directors often support the whole of the NPO’s activities by leading the finance function.  Where an NPO reports costs by function, or uses a mixed presentation and costs need to be allocated to functions or activities then an appropriate apportionment basis must be selected.  The basis chosen is one that most faithfully represents the components that comprise support costs.  It is possible though that major projects need the direct support of the Finance Director. Where expenses are reported by function or activity it may be appropriate to directly allocate the Finance Director’s costs to the major project. |
| I believe that the main challenge of the project is to link the basic principle of recognition based on that expectation of linking expenses based on budgetary consumption. It is important to focus efforts on the classification according to the object of expenditure. What have the entities contributed in relation to these concerns? | INPAG requires that expenditure is classified based on its nature or function and not based on budget allocations. Comparison to budget was considered by the project’s Technical Advisory Group. A comparison to budget could be included in the narrative report but is not required in the financial statements. No further budget related issues have been raised in the development of the proposals in ED3. |
| Will this treatment of grant-funded assets be retrospective? I'm thinking too of assets purchased by a fund but not capitalised. | INPAG requires that historic accumulated funds are split between funds with restrictions and funds without restrictions on first time adoption. Subject to materiality considerations, this would mean that grant funded assets that are part of a restricted fund would need to be retrospectively recorded as an asset against the relevant fund. |
| Fundraising costs could be similar to commission payments /payable in IFRS17. Maybe something to explore (without the complexity of IFRS 17). | The proposals for fundraising costs in Exposure Draft 3 incorporate investment management costs such as the costs of administration and portfolio management. The proposals include this activity as fundraising costs particularly to address circumstances where an NPO has large funds  such as endowments that need to be effectively managed to generate income for an NPO to apply to its missional purposes. IFRS 17 *Insurance Contracts* differs from this approach as it seeks to define those cashflows within the insurance contract boundary including policy administration costs. |
| Where there are different policies on asset recognition from different funders. In that case, how the assets will be recognized in the financial statements as per INPAG? For example, some donors' asset threshold is US$ 5,000, some others have $500 or more or less. Does this need any disclosure in FS? | Items will need to be recognised as assets when they meet the recognition criteria of the relevant section of INPAG:   * Section 16, Investment property; * Section 17, Property, plant and equipment; and * Section 18, Intangible assets other than goodwill.   NPOs will need to take its own decisions on materiality and the threshold for the recognition of assets. Where amounts are not material for the NPO’s financial statements, these transactions may be recognised as an expense in the financial statements.  The threshold determined by an NPO may mean that some assets that are below a donor’s threshold are recognised in the financial statements. This does not need to be disclosed. An NPO may choose to disclose such information if in its view it would be useful to the primary users of its general purpose financial statements and not just an individual donor.  NPO’s can address this difference in thresholds through use of the optional section in the Supplementary statement. |
| Some donors require project assets to be donated at the end of the project. These are treated as direct project expense upon purchase. Do we have to capitalize these in the financial statements and record depreciation? | If the project asset meets the definition of an asset in accordance with the proposals for section 2 Concepts and pervasive principles, because the NPO controls the economic resources in the asset as a result of past decisions then it would be capitalised. It would be recognised as an asset in the financial statements and depreciated or amortised as necessary.  Where these assets are subsequently donated at the end of the project they would be derecognised. |
| I would like to ask question in regards to section 33 about related parties, in my opinion it has focused more on individual parties, what about related parties with regard to organizations such as sub grantees or even major donors? [It] would be more fair to show the transactions in regard to revenue and expenses incurred with related parties organisation together with showing up the nature of the transactions during the year. | ED3 of INPAG paragraph G33.4 clarifies, that a customer, grant provider, supplier, franchisor, distributor or general agent with whom an NPO transacts a significant volume of business is not necessarily a related party, merely by virtue of the resulting economic dependence. This follows the approach in the *IFRS for SMEs* Accounting Standard and IFRS more generally.  INPAG does, however, require an NPO to consider the substance of the relationships it has, which may include donors. If the substance of the relationship with the NPO is such that a donor it bears the characteristics of a related party (eg there is control or significant influence) then it should be treated as such. |
| On related parties, why would the board members be considered as related parties? | It is a common feature of NPOs in many jurisdictions that oversight and control of the NPO is ultimately exercised not by executive officers who are members of staff of the NPO, but by a separate governing body that is formed of individuals, often volunteers, who are not employed by the NPO. These can be known as trustees, board members, or similar. Section 33 (Related Party Disclosures) therefore includes governing body members as related parties. Oversight and control creates the opportunity to affect the financial position and surplus or deficit. |
| What are the rules or what to look for to be able to recognise a donor as a related party? | The specifications for identifying all related parties whether as an person or an entity are set out in paragraph G33.2 (largely following the approach in *IFRS for SMEs* Accounting Standard, with the addition of governing body members).  The list of related parties includes key management personnel but also entities within the same group and entities that are associates of or jointly controlled by the NPO. This applies equally to donors. G33.3 and G33.4 provide additional guidance. |