



**INTERNATIONAL FINANCIAL REPORTING**  
FOR NON PROFIT ORGANISATIONS

## **International Non-profit Accounting Guidance (INPAG) Exposure Draft 3**

### **Response template**

Please use this form to record your responses to the Specific Matters for Comment relating to [INPAG Exposure Draft 3](#)

Comments are most helpful if they:

- a) Address the question asked;
- b) Contain a clear explanation to support the response provided, whether this is agreeing or otherwise with any proposals made;
- c) Propose alternatives for consideration, where responses are not in agreement with the proposal made;
- d) Specify the INPAG paragraphs to which any comments relate; and
- e) Identify any wording in the proposals that might not be clear because of how they translate.

The text boxes will expand as required. There is no size limit. There are 11 question areas, according to the various sections in INPAG. You do not need to answer all questions and can choose to answer as many or as few as you wish. You may comment on any aspect of Exposure Draft, not just the specific matters identified. General comments should be added at the end of this document.

Responses must be received by **16 September 2024 and must be in English.**

Responses can be submitted to [ifr4npo@cipfa.org](mailto:ifr4npo@cipfa.org) or through the website at [www.ifr4npo.org/have-your-say](http://www.ifr4npo.org/have-your-say)

**Respondent information:**

<b>First name:</b>	Mohammad	<b>Country:</b> (this should be the country in which you are based)	Bangladesh
<b>Last name:</b>	Shafiqul Kabir	<b>Professional interest:</b> please choose from: <ul style="list-style-type: none"> <li>• NPO, ie preparer of financial statements,</li> <li>• auditor,</li> <li>• accounting standard setter,</li> <li>• professional accounting organisation,</li> <li>• regulator of NPOs,</li> <li>• donor,</li> <li>• academic,</li> <li>• civil society,</li> <li>• user of NPO services,</li> <li>• other (please state)</li> </ul>	NPO, ie preparer of financial statements,
<b>Email:</b>	mskabir@icddrb.org		
<b>Position:</b>	Senior Manager, Grants & Compliance		
<b>Organisation:</b> (who do you work for)	<b>International Centre for Diarrhoeal Disease Research, Bangladesh (icddr,b)</b>		
<b>Response submitted:</b>	<ul style="list-style-type: none"> <li>• on behalf of my organisation</li> </ul>		
Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.			Agree

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1. [Question 1: Fund accounting](#)
2. [Question 2: Presentation of expenses, fundraising costs and related disclosures](#)
3. [Question 3: Supplementary information and INPAG Practice Guide 1 – Supplementary statements](#)
4. [Question 4: Illustrative financial statements](#)
5. [Question 5: Equity](#)
6. [Question 6: Transition to INPAG](#)
7. [Question 7: Application of fair value](#)
8. [Question 8: Impairments](#)
9. [Question 9: Combinations of entities](#)
10. [Question 10: Other topics in Exposure Draft 3](#)
11. [Question 11: IFRS for SMEs Addendum](#)
12. [General Feedback](#)

## Specific Matters for Comment

### Question 1: Fund accounting

INPAG Section 36 sets out the characteristics of a fund for the purposes of INPAG and whether a fund is presented in the financial statements as being with or without restrictions. A fund is presented as with restrictions where the use of resources is limited to a specific purpose or activity as a consequence of externally imposed legal or equivalent arrangements or where a fund is established for a fundraising campaign with an externally communicated commitment on the specific use for the funds. The guidance requires that the income, expenses, assets and liabilities associated with a fund are recorded. New disclosures are required for fund balances and movements in the year. INPAG Section 5 has been amended to remove the requirement to disclose funds with and without restrictions on the face of the Statement of Income and Expenses.

1 Fund accounting	References	Response
<p>a) Do you agree that the ED1 requirement to present funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses should be removed? If not, why not?</p>	<p>G5.3, AG5.4</p>	<p>To address whether the Exposure Draft 1 (ED1) requirement to present funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses should be removed, we need to consider the following:</p> <p><b>Purpose of the Presentation:</b> The original requirement in ED1 was aimed at providing transparency and clarity regarding how funds are utilized and restricted. Presenting income and expenses with and without restrictions in separate columns can enhance the clarity of financial statements, making it easier for users to understand how restricted funds are managed compared to unrestricted ones.</p> <p><b>Respondent Feedback:</b> The amendments proposed in the Exposure Draft 3 (ED3) reflect respondent feedback from ED1, suggesting a shift towards more flexibility in presentation. The ED3 allows but does not mandate the presentation of income and expenses with restrictions in a separate column. This change acknowledges that the original requirement may have been too rigid and that different organizations might benefit from different presentation styles.</p> <p><b>Useful Information for Users:</b> ED3 emphasizes that the separate column presentation is not required but may be chosen if it provides useful information to users of the financial statements. This flexibility allows organizations to tailor their financial statements to better meet the needs of their stakeholders, which is a positive step towards enhancing the relevance and usefulness of financial reporting.</p>

1 Fund accounting	References	Response
		<p><b>Consistency and Comparability:</b> On the flip side, removing the mandatory requirement might affect consistency and comparability between different entities' financial statements. If some entities choose to present the information differently, it could lead to challenges in comparing financial statements across organizations.</p> <p>Removing the mandatory requirement can be justified if it aligns with the goal of improving the relevance and usefulness of financial statements. The flexibility to present income and expenses with and without restrictions in a way that suits the organization's needs and provides useful information to users is beneficial. However, it's important to ensure that this flexibility does not compromise the overall comparability and consistency of financial reporting.</p>
<p>b) Do you agree that the guidance in Section 36 will ensure that material funds can be identified? If not, what changes would you propose? Is there a risk that funds are not identified?</p>	<p>G36.3–G36.4, Figure AG36.1</p>	<p>Yes, the guidance in Section 36 provides a comprehensive framework for ensuring that material funds can be properly identified by nonprofit organizations (NPOs). Here's why:</p> <p>Section 36 clarifies that all NPOs must identify at least one fund (the general fund) and sets out the conditions under which separate funds, either with or without restrictions, must be recognized. This provides a clear basis for identifying different funds based on legal requirements, donor restrictions, or public commitments.</p> <p>The guidance provides explicit criteria for when a separate fund exists (e.g., legal or equivalent requirements, or reasonable stakeholder expectations), which helps ensure that all material funds are identified.</p> <p>Decision Tree: Figure AG36.1 includes a decision tree to help NPOs identify whether separate funds are required, and if so, whether these funds should be classified as restricted or unrestricted. This is a practical tool for NPOs to avoid overlooking any material funds.</p> <p>In addition, Section G36.5 mandates the maintenance of separate accounting records for each identified fund. This further ensures that any material funds are not only identified but also appropriately tracked and reported.</p>

1 Fund accounting	References	Response
		<p>The guidance emphasizes transparency through the disclosure requirements in the financial statements. These include details on fund balances, movements, and transfers, providing stakeholders with visibility into how funds are being used.</p> <p><b>Potential Risks:</b></p> <p><b>Risk of Misinterpretation or Misapplication:</b> Some NPOs may misinterpret or overlook the conditions that lead to the creation of separate funds, particularly when the criteria are subjective, such as "reasonable expectations by stakeholders" (G36.4(b)). Clarifying this concept with more specific examples or guidance might help ensure consistency in how funds are identified across different organizations.</p> <p><b>Complexity of Implementation:</b> NPOs with complex funding structures may find it challenging to apply the guidance, especially if they receive numerous grants or donations with varying conditions. The complexity could lead to the risk of not identifying funds or misclassifying them. Additional guidance or tools (e.g., more detailed examples, checklists, or templates) could assist in streamlining the fund identification process.</p> <p><b>Small Funds Aggregation:</b> Paragraph G36.23 allows for the aggregation of small, immaterial funds. While this simplifies reporting, there is a risk that aggregating small funds could obscure important restrictions or purposes tied to those funds. To mitigate this, the guidance could be enhanced by requiring more specific disclosure criteria or thresholds for aggregation.</p> <p>Overall, Section 36 is robust and well-designed to ensure material funds are identified, but there are some potential risks of misapplication or complexity in implementation. To reduce the risk of funds not being identified, the guidance could include more detailed examples, provide clearer definitions around subjective concepts, and offer additional tools for NPOs to follow when identifying and classifying funds.</p>
c) Do you agree that income, expenses, assets and liabilities are tracked for each fund? What are the costs and benefits? What, if anything, would you change and	G36.5, G36.7, AG36.3	Yes, I agree that income, expenses, assets, and liabilities should be tracked for each fund, especially in the context of nonprofit organizations (NPOs) using fund accounting. This practice ensures transparency, accountability, and compliance with donor and

1 Fund accounting	References	Response
<p>why? What are the practical considerations?</p>		<p>legal requirements. However, there are both costs and benefits to this approach, along with practical considerations.</p> <p><b><u>Costs:</u></b></p> <p><b>Administrative Burden:</b> Tracking multiple funds with detailed records for income, expenses, assets, and liabilities requires robust accounting systems and well-trained staff, which can increase operational costs.</p> <p><b>Complexity:</b> For organizations with numerous funds, especially those managing large numbers of restricted funds, maintaining accurate records can become complex, which could lead to potential errors.</p> <p><b>System Requirements:</b> NPOs may need advanced accounting software to manage multiple funds, adding initial and ongoing costs for technology and support.</p> <p><b>Time Consumption:</b> Time spent on reconciling and tracking different funds may detract from time that could otherwise be used for direct mission-driven activities.</p> <p><b><u>Benefits:</u></b></p> <p><b>Transparency and Accountability:</b> Accurate tracking demonstrates to donors, grantors, and regulators how funds are being used, building trust and helping to secure future donations.</p> <p><b>Compliance:</b> NPOs often face legal or donor restrictions on how funds should be used. Proper tracking helps ensure that resources are used according to these stipulations, reducing the risk of non-compliance.</p> <p><b>Financial Control:</b> By tracking the financial position of each fund, organizations gain better insight into their financial health, allowing them to manage resources effectively and plan for future expenses.</p> <p><b>Donor Trust:</b> Clear and transparent fund tracking assures donors that their contributions are being used as intended, increasing the likelihood of continued or increased donations.</p>

1 Fund accounting	References	Response
		<p><b><u>Changes or Improvements:</u></b></p> <p><b>Simplified Reporting for Small Funds:</b> One possible improvement could be allowing for the aggregation of immaterial funds (as already mentioned in G36.23) to reduce administrative burden. Expanding the criteria for this aggregation could be helpful for smaller NPOs.</p> <p><b>Automation:</b> Encouraging the use of automated accounting systems that track funds and generate reports could reduce human error and increase efficiency. Some smaller organizations may benefit from recommendations on affordable software options.</p> <p><b><u>Practical Considerations:</u></b></p> <p><b>Staff Training:</b> Staff must be trained in fund accounting principles, including understanding restricted vs. unrestricted funds, to ensure accurate tracking and reporting.</p> <p><b>Software Selection:</b> NPOs should select accounting software capable of handling multi-fund reporting, keeping in mind their organization's size, the number of funds, and reporting requirements.</p> <p><b>Donor Communication:</b> NPOs must communicate fund restrictions clearly with donors and stakeholders to avoid misunderstandings and ensure compliance with donor wishes.</p> <p><b>Balancing Transparency with Efficiency:</b> While tracking is important, organizations need to balance detailed reporting with efficiency. For smaller organizations, overly complex tracking can drain resources that could be used for direct services.</p> <p>In conclusion, while the tracking of income, expenses, assets, and liabilities for each fund is essential for NPOs, it's important to consider ways to minimize administrative costs and complexity while maintaining transparency and compliance. Practical solutions such as software automation, staff training, and thoughtful fund aggregation can help mitigate some of the costs.</p>
d) Do you agree with the two criteria for a fund to be a fund with restrictions? If not, what would you change and why?	G36.9	The two criteria for a fund to be presented as a fund with restrictions in G36.9 are:

1 Fund accounting	References	Response
		<p><b>1.</b> Resources in the fund must be limited to a specific purpose or activity because of externally imposed legal requirements or equivalent arrangements, such as terms from a grantor or donor; and</p> <p><b>2.</b> The NPO has made a public commitment before or at the launch of a fundraising campaign that the resources will be used for a specific purpose, creating a valid expectation for stakeholders.</p> <p>I generally agree with these two criteria, as they reflect common practices in nonprofit accounting and align with the principles of accountability and transparency. They help ensure that funds are used according to the expectations of donors, grantors, or the public, which is essential for maintaining trust.</p> <p><b><u>Possible Changes or Clarifications:</u></b></p> <p><b>Broader Definition of "Externally Imposed Arrangements":</b> The first criterion focuses on legal or equivalent arrangements. It may be helpful to broaden this to include any formal agreement that creates binding restrictions, even if not strictly legal. This could include certain regulatory expectations or quasi-legal arrangements where enforcement might come from reputational damage rather than legal penalties.</p> <p><b>Clarity on "Public Commitment":</b> The second criterion relies on the idea of a public commitment, which might benefit from further clarification. For example, what constitutes a "public" commitment? Should this be confined to formal communications, or could it also include more informal channels like social media announcements or even verbal commitments made in public forums? Adding examples of what counts as public commitment would improve clarity.</p> <p><b>Incorporating Internal Expectations:</b> While external factors drive both criteria, internal governance decisions (such as board resolutions) that create expectations for specific fund use could also be considered. Some NPOs might want to account for</p>



1 Fund accounting	References	Response
		internal restrictions set by their governing bodies as restricted funds, even if they aren't legally binding.
<p>e) In order to provide transparency about the finances of an individual fund, do you agree that all the expenses should be charged against a fund with restrictions even if there are currently insufficient resources to cover these, or specific costs are not eligible under a grant arrangement? If not, what alternative would you propose and why?</p>	G36.11–G36.12	<p>Yes, I agree that all expenses should be charged against a fund with restrictions, even if there are currently insufficient resources to cover them or if certain costs are not eligible under a grant arrangement. This approach provides a clear and transparent view of the true costs associated with a restricted fund's specific purpose or activity. It ensures that all legitimate expenses are fully accounted for and charged to the fund, even if they are not immediately covered by available resources. This practice also aligns with the principle of accountability in fund accounting, showing the full financial picture for stakeholders and grantors.</p> <p>However, it is essential that NPOs monitor and disclose these situations properly. If the fund has a negative balance, it should be reviewed at the reporting date to assess if the shortfall is temporary or permanent, as outlined in G36.12. If it appears permanent, the NPO can take appropriate action, such as transferring funds from unrestricted sources.</p> <p>This method enhances transparency by presenting the total costs of the specific activities and enabling stakeholders to see any funding gaps clearly. If these costs were omitted, it would create an incomplete financial picture, making it harder to evaluate the NPO's overall financial health and effectiveness in managing restricted resources.</p> <p>If an alternative were proposed, it could involve segregating ineligible or uncovered costs into a separate line item in the financial disclosures. This would provide clarity on which costs were outside the scope of the fund but still allow for full transparency and avoid the appearance of mismanagement or overspending within a restricted fund.</p>
<p>f) Do you agree with the NPO funds disclosures requirements? If not, what would you change and why?</p>	G36.21–G36.23	<p>The NPO funds disclosure requirements in paragraphs G36.21–G36.23 are generally reasonable and provide transparency into the financial management of Non-Profit Organizations (NPOs). However, I would suggest a few modifications to further improve clarity and usability of the information for stakeholders:</p> <p><b><u>Positive Aspects:</u></b></p>

1 Fund accounting	References	Response
		<p><b>Detailed Fund Information (G36.22(a)):</b> The requirement to disclose individual fund balances and purposes is essential for transparency, enabling donors, grantors, and regulators to understand how resources are being allocated and used.</p> <p><b>Movement on Funds (G36.22(b)):</b> Requiring details on the movement of funds (income, expenses, and transfers) provides visibility into financial activity, giving a comprehensive view of fund management.</p> <p><b>Transfer Explanations (G36.22(c)):</b> Disclosing reasons for fund transfers ensures transparency and mitigates potential concerns about mismanagement or misuse of restricted funds.</p> <p><b>Aggregation of Small Funds (G36.23):</b> The ability to aggregate immaterial funds simplifies reporting and avoids overwhelming stakeholders with unnecessary detail.</p> <p><b><u>Suggested Changes:</u></b></p> <p><b><u>Materiality Thresholds (G36.22(b)):</u></b> The disclosure of movements on funds might become overly detailed, particularly for large organizations with many funds.</p> <p><b>Change:</b> Introduce materiality thresholds for reporting, where only significant fund movements (e.g., above a certain percentage of total income or expenses) must be detailed. This would avoid overburdening the financial statements with minutiae while ensuring transparency on larger, more impactful fund movements.</p> <p><b><u>Fund Purpose Disclosures (G36.22(a)):</u></b> Simply listing the purpose of each fund may not provide enough context about how each fund aligns with the NPO's overall mission or strategic goals.</p> <p><b>Change:</b> Consider requiring a brief explanation of how each fund supports the NPO's broader objectives or initiatives. This would help donors and stakeholders see the connection between the restricted funds and the NPO's mission, enhancing clarity.</p>

1 Fund accounting	References	Response
		<p><b><u>Planned Use of Designated Funds (G36.22(e)):</u></b> While disclosing the purpose of designated funds is valuable, there is a risk that this requirement might not provide clear insight into the timeline or anticipated impact of these designations.</p> <p><b>Change:</b> Include a requirement to disclose not just the purpose, but also the expected time frame for utilizing designated funds, if applicable. This will give stakeholders a sense of how soon these funds will be deployed and for what expected outcomes.</p> <p>Finally, the disclosure requirements as outlined are a good framework for transparency, but they could be refined with materiality thresholds and more context around fund purposes and timelines. These changes would enhance the relevance and clarity of the financial statements without compromising on transparency.</p>
<p>g) Do the Illustrative examples demonstrate the key concepts in fund accounting? If not, what would you change and why?</p>	<p>Implementation Guidance – Section 36</p>	<p>The illustrative examples in implementation guidance for Section 36 of INPAG (International Non-Profit Accounting Guidance) should indeed demonstrate key concepts in fund accounting to ensure clarity. These key concepts include fund classification (funds with or without restrictions), tracking resources, transfers between funds, and ensuring transparency in reporting. If the examples provided in the guidance fail to effectively demonstrate these aspects, adjustments could be considered to ensure they are aligned with the following points:</p> <p>1. Separation of Funds:</p> <p>Current Illustration: Should provide scenarios where a non-profit organization (NPO) holds both restricted and unrestricted funds, illustrating the requirement to maintain separate accounting records for each.</p> <p>Improvement: If not adequately shown, more detailed examples should present cases where funds are legally restricted (due to grant agreements) versus internally designated unrestricted funds (like savings for a future project).</p> <p>2. Classification and Disclosure of Restrictions:</p>

1 Fund accounting	References	Response
		<p>Current Illustration: Must clarify the process of determining whether a fund is classified as restricted or unrestricted and how NPOs should present them in financial statements.</p> <p>Improvement: If this isn't clear, the examples should add specific scenarios where an NPO must assess whether public communication during a fundraising campaign creates restrictions. Examples should also demonstrate how restricted and unrestricted funds are disclosed separately in the notes to financial statements.</p> <p>3. Allocation of Shared and Support Costs:</p> <p>Current Illustration: It should demonstrate the allocation of shared and support costs between funds (as per Section 24 Part II) and include guidance on charging legitimate costs even when grant arrangements restrict fund usage.</p> <p>Improvement: If lacking, examples should detail how these costs are allocated and reported across different funds, particularly if one fund has a shortfall.</p> <p>4. Transfers Between Funds</p> <p>Current Illustration: Should explain the legal and operational reasons for transfers between restricted and unrestricted funds and how to disclose them in financial statements.</p> <p>Improvement: If this is weak, examples should include situations where a non-current asset purchased using restricted funds is reclassified as unrestricted due to changes in usage. The disclosure of these transfers in notes should be clear.</p> <p>5. Fund with Temporary Negative Balances</p>

1 Fund accounting	References	Response
		<p>Current Illustration: Should include cases where a fund with restrictions shows a negative balance and illustrate the required steps and disclosure until the shortfall is addressed.</p> <p>Improvement: If this is not covered well, examples should clarify whether the shortfall is temporary or permanent and how NPOs deal with negative balances.</p> <p>6. Closing a Fund with Restrictions</p> <p>Current Illustration: Should show the steps to close a fund once its purpose is complete, including any remaining balance transfers.</p> <p>Improvement: If missing, include examples of how NPOs manage and report the closure of restricted funds in compliance with legal or donor requirements.</p> <p>In summary, the current examples need to effectively cover various fund scenarios, decision points on fund classification, transfers, and disclosure practices. If the guidance lacks in any of these areas, incorporating more comprehensive examples demonstrating real-world application would greatly improve understanding and implementation.</p>

### Question 2: Presentation of expenses, fundraising costs and related disclosures

INPAG Section 24 Part II provides guidance on the presentation of expenses. It permits an expense analysis by nature, by function, or a mixture of the two. It includes a rebuttable presumption that an analysis by nature is used unless another analysis provides information that is more relevant and reliable. Guidance is provided on the allocation and aggregation of costs where a functional or mixed presentation is used, which will be useful for calculating support costs. INPAG Section 24 Part III provides a definition of fundraising activities and identifies three categories to be disclosed: activities to generate donations, gifts and similar transfers; commercial and trading activities; and investment management. There is a pragmatic exception where costs need to be split between fundraising and other activities.

INPAG Section 33 on related party disclosures draws attention to the possibility that an NPO's financial position and/or its surplus or deficit have been affected by the existence of related parties. Disclosure is required of personnel compensation made to governing body members as well as key management personnel. INPAG Section 28 has been updated to include the disclosure of short term employee related benefits.

2 Presentation of expenses	References	Response
<p>a) Do you agree that there is a rebuttable presumption that a by nature classification of expenses is used unless this doesn't provide the most relevant and reliable information to the users of the financial statements? If not, why not?</p>	<p>G24.43–G24.47, AG24.45–AG24.47</p>	<p>Yes, I agree that there is a rebuttable presumption that the nature of expenses classification should be used unless it doesn't provide the most relevant and reliable information to the users of the financial statements.</p> <p><b><u>Reasons for agreement:</u></b></p> <p>Rebuttable Presumption in G24.44: This guidance states explicitly that the nature of expense analysis is presumed to provide the most relevant and reliable information. This means that unless specific circumstances indicate otherwise, NPOs should default to this classification.</p> <p>Flexibility in G24.44–G24.47: The presumption can be rebutted if the NPO believes that another method, such as classifying expenses by function or using a mixed presentation, would provide more relevant and reliable information to the users. However, when an NPO chooses to rebut this presumption, it must explain the reasons in the notes to the financial statements.</p> <p>Consideration of Relevance and Management Practices: AG24.46 outlines criteria for when the presumption might be rebutted, such as:</p> <p>The way an NPO generates its surplus or deficit (e.g., retail activities may need cost-of-sales information).</p> <p>How management reports internally, especially for NPOs with complex functional areas like humanitarian operations.</p> <p>Sector practices to ensure comparability.</p> <p>The risk of arbitrary allocations when using functional classifications, which would not provide a faithful representation.</p>

2 Presentation of expenses	References	Response
		<p>These reasons provide flexibility but maintain a clear starting point, making the by-nature classification a strong default unless a case for functional or mixed classification is evident.</p>
<p>b) Do you agree that the rationale for using a classification of expenses other than by nature should be disclosed? If not, why not?</p>	<p>G24.44</p>	<p>Yes, I agree that the rationale for using a classification of expenses other than by nature should be disclosed. The reason lies in the principle of transparency and the need for users of financial statements to understand why a particular method of expense classification has been chosen.</p> <p>In G24.44, it is stated that there is a rebuttable presumption that analyzing expenses based on their nature provides the most relevant and reliable information to users. If an NPO chooses to classify expenses by function or using a mixed presentation, it must provide a justification. This ensures that the NPO's management explains why this alternative classification offers better insights, enhancing the reliability of the financial statements and making it easier for users to comprehend the financial information presented.</p> <p>Without this disclosure, users may be left without a clear understanding of why an NPO deviates from the presumed best practice, which could undermine confidence in the reported information. Therefore, explaining the rationale increases the faithfulness of the representation and supports better decision-making by stakeholders.</p>
<p>c) Do you agree that where a functional or mixed presentation of expenses is used, a narrative description of the types of expenses incurred on each function line item is sufficient and that a requirement for these to be quantified is not necessary? If not, why not?</p>	<p>G24.46, AG24.48</p>	<p>In response to the question about whether a narrative description of the types of expenses incurred on each functional line item is sufficient when a functional or mixed presentation of expenses is used, and whether a requirement for quantification is necessary, here are some points to consider:</p> <p><b><u>1. Sufficiency of Narrative Description (G24.46, AG24.48):</u></b></p> <p>Narrative sufficiency: The guidance in G24.46 and AG24.48 indicates that when expenses are analyzed by function or through a mixed presentation, the requirement is for a narrative description of the types of expenses (based on their nature) included in each functional line item. This implies that the narrative would describe the expense types such as employee benefits, supplies, materials, etc., but not necessarily provide specific monetary amounts for each type.</p>

2 Presentation of expenses	References	Response
		<p>Relevance and understandability: The reasoning behind requiring a narrative description instead of mandatory quantification could be based on the assumption that such a description provides users with a broad understanding of how resources are allocated within an NPO's activities without over-complicating financial statements. Especially in cases where the functional allocation itself may involve multiple categories, a narrative description can aid in presenting a clearer picture of expense categorization without overwhelming users with granular detail that might obscure high-level insights.</p> <p><b><u>2. Quantification Consideration:</u></b></p> <p>Additional insight through quantification: Quantification of expense types within functional categories could provide additional value to users of the financial statements, particularly for those interested in understanding specific resource allocations. For example, knowing how much of a particular functional line item consists of employee benefits versus supplies and materials could improve transparency and allow for more detailed comparison or analysis.</p> <p>Complexity and burden: On the other hand, requiring detailed quantification could impose additional reporting complexity and administrative burden on NPOs. For some NPOs, allocating expenses between functions with precision may not always be feasible or cost-effective, especially when activities are interrelated, and allocation would require arbitrary or subjective decisions. This is why the INPAG guidance provides flexibility, assuming that a narrative would suffice in many cases.</p> <p>While a narrative description provides a sufficient level of disclosure in many cases, quantification could offer deeper insights and transparency. However, mandating it may not be necessary in all cases, especially if it leads to excessive complexity or if such breakdowns are not material to the users of financial statements. Ultimately, the decision should be driven by whether such additional information enhances the relevance and reliability of the financial statements without imposing undue burden on NPOs.</p>



2 Presentation of expenses	References	Response
		Therefore, the existing guidance appears balanced, but quantification could be useful in specific scenarios where users would benefit from additional detail.
d) Do you agree with the expense disclosure requirements? If not, what would you change and why?	G24.50–G24.57, G33.7–G33.11, G28.38	<p>The expense disclosure requirements outlined in Sections G24.50–G24.57, G33.7–G33.11, and G28.38 cover several key areas and aim to provide transparency and clarity in financial reporting for non-profit organizations (NPOs). Here’s a breakdown and analysis of these requirements:</p> <p><b><u>Strengths:</u></b></p> <p>Classification of Expenses: The requirements for classifying expenses by nature, function, or a mixed presentation are robust. They ensure that users of financial statements receive information that is relevant and reliable. The rebuttable presumption favoring the nature-based classification ensures that the default option provides clear and understandable data unless there is a strong reason to use another method.</p> <p><b><u>Detailed Disclosures:</u></b></p> <p>Benefits Received by Volunteers: Separating these benefits from employee benefits is crucial for transparency and ensures that users can distinguish between different types of compensation.</p> <p>Losses, Write-Offs, and Special Payments: Detailed requirements for disclosing these items help in understanding extraordinary or non-recurring expenses that impact financial health.</p> <p>Fundraising Costs: The specific categorization of fundraising activities and the requirement to report costs gross (not netted against income) improve transparency and allow for a better understanding of fundraising efficiency.</p>

2 Presentation of expenses	References	Response
		<p>Narrative Descriptions: Requiring narrative descriptions of expense allocations and fundraising activities enhances the clarity and comprehensibility of financial statements.</p> <p><b><u>Areas for Improvement</u></b></p> <p><b><u>Pragmatic Exemption:</u></b></p> <p>Allocation of Costs with Multiple Purposes (G24.71 and AG24.50): While the pragmatic exemption is useful for practical reasons, it could lead to a lack of granularity in financial reporting. This might be problematic for users who need a detailed breakdown of expenses. Encouraging more precise allocation when feasible, or at least providing guidelines on thresholds for applying the exemption, could enhance the quality of reporting.</p> <p><b><u>Consistency in Cost Allocation:</u></b></p> <p>Allocation Methods (G24.48 and G24.49): Ensuring that the methods of allocation and aggregation are consistently applied is important, but it might be challenging for NPOs to maintain consistency, especially with changing circumstances. Providing more detailed guidelines or examples on applying these methods could help mitigate this issue.</p> <p><b><u>Sector Practice Considerations:</u></b></p> <p>Relevance of Sector Practice (AG24.46(c)): The emphasis on sector practice is good for comparability, but it could lead to a one-size-fits-all approach that might not fit all NPOs equally. Allowing for some flexibility in how expenses are reported, based on the specific context and needs of the NPO, could be beneficial.</p> <p><b><u>Detailed Disclosure of Fundraising Costs:</u></b></p>

2 Presentation of expenses	References	Response
		<p>Disclosures of Fundraising Costs (G24.74–G24.76): While the requirement to disclose fundraising costs separately is beneficial, the detail might be overwhelming for smaller NPOs. A tiered approach to disclosures, where smaller organizations can provide summarized information while larger ones provide more detailed breakdowns, could reduce the reporting burden while still ensuring transparency.</p> <p>In summary, the expense disclosure requirements are generally comprehensive and designed to enhance transparency and reliability. However, there are areas where more flexibility or guidance could improve the balance between detailed reporting and practical implementation.</p>
<p>e) Do you agree with the description of direct costs, shared costs and support costs and that these allow the full cost of an activity to be identified? If not, why not?</p>	<p>G24.48–G24.49</p>	<p>Yes, the descriptions of direct costs, shared costs, and support costs provided in G24.48–G24.49 are generally appropriate for identifying the full cost of an activity. Here’s a summary of how each cost type contributes to this identification:</p> <p><b>Direct Costs:</b> These are costs that can be directly attributed to a specific activity, such as salaries for employees working solely on that activity or the cost of a dedicated vehicle. This direct attribution ensures that all costs directly incurred in carrying out the activity are accurately accounted for.</p> <p><b>Shared Costs:</b> These costs contribute to multiple activities and are allocated based on some rational basis, such as time spent or usage. For example, if a staff member’s time is divided between fundraising and program delivery, their salary would be apportioned between these activities. This ensures that costs which support multiple activities are fairly distributed according to their usage.</p> <p><b>Support Costs:</b> These are organization-wide costs that support the overall functioning of the NPO but cannot be directly linked to a single activity. Examples include governance costs. These costs need to be allocated to different activities or disclosed separately, ensuring that the full cost of each activity is accurately represented.</p> <p>These classifications help provide a comprehensive view of the costs associated with each activity, ensuring that all relevant expenses are captured. However, the effectiveness of this approach depends on the reasonableness and consistency of the</p>

2 Presentation of expenses	References	Response
		allocation methods used. The descriptions and principles outlined allow for a structured and transparent way to account for the full costs associated with an activity, aligning with the requirement to provide a faithful representation of those costs.
f) Do you agree that commercial and trading activities that are for the purposes of fundraising and investment management costs associated with a fund whose purpose is to generate future returns are included as fundraising activities? If not, why not?	G24.64–G24.66	<p>Yes, I agree that commercial and trading activities intended for fundraising purposes and investment management costs associated with a fund meant to generate future returns are included as fundraising activities. Here's why:</p> <p>Commercial and Trading Activities: According to G24.64, activities involving generating profits from transactions on a commercial basis to support the NPO's mission are considered fundraising activities. These activities are viewed as a means to raise funds that contribute to the NPO's objectives. This aligns with the idea that any activity designed to generate revenue to support the NPO's mission, even if it operates commercially, should be included as part of fundraising efforts.</p> <p>Investment Management Costs: G24.66 specifies that costs associated with managing investments intended to generate returns for the NPO's missional purposes are considered fundraising costs. This includes portfolio management, investment advice, and related administrative costs. These costs are directly related to generating income through investments, which supports the NPO's activities.</p> <p>Including these costs ensures that all expenses related to generating funds are accounted for, providing a complete and transparent view of the NPO's fundraising efforts. It helps users of the financial statements understand the full cost of raising and managing funds, which is crucial for evaluating the efficiency and effectiveness of the NPO's fundraising strategies.</p>
g) Do you agree with the pragmatic exception that fundraising costs do not need to be split from other costs where the cost of doing so would exceed the information benefit to stakeholders? If not, what would you change and why?	G24.72	<p>The pragmatic exception in G24.72 allows NPOs to simplify cost allocation when splitting costs between fundraising and other purposes becomes overly burdensome. This approach can be beneficial for several reasons:</p> <p>Cost-Efficiency: It acknowledges that the administrative burden and costs of detailed allocation may outweigh the benefits, particularly for smaller NPOs or when the amounts involved are minor.</p>

2 Presentation of expenses	References	Response
		<p>Practicality: It provides flexibility, ensuring that NPOs aren't unduly constrained by complex reporting requirements that could divert resources away from their mission.</p> <p>However, while this pragmatic approach can be practical, it's crucial to balance it with the need for transparency and accountability. Here are a few considerations and potential changes:</p> <p>Materiality Threshold: Clearly define what constitutes a "material" cost to avoid subjective interpretations. Setting a specific threshold for materiality can provide clearer guidance and help ensure consistency across reporting entities.</p> <p>Disclosure Requirements: Even if the pragmatic exception is applied, NPOs should still provide a narrative explanation of the rationale behind not splitting costs. This would maintain transparency and allow stakeholders to understand the decision-making process.</p> <p>Periodic Review: Consider including a requirement for periodic reviews of whether applying the pragmatic exemption remains appropriate, especially if the nature or scale of activities changes.</p> <p>Guidance on Primary Purpose: Offer more guidance on how to determine the primary purpose of activities when costs are shared. This can help ensure that the allocation is done in a way that reflects the true nature of the activities and provides useful information to stakeholders.</p> <p>Overall, the pragmatic exemption can be effective if implemented with these considerations in mind to ensure it serves both the NPO's operational efficiency and stakeholders' need for clarity.</p>
h) Do you agree that the costs for each of the three categories of fundraising activity should be separately disclosed and presented gross? If not, what should be disclosed and why?	G24.74	<p>Yes, I agree that the costs for each of the three categories of fundraising activity should be separately disclosed and presented gross. Here's why:</p> <p>Transparency: Separately disclosing costs for each category of fundraising activity (donations, gifts, grants, and similar transfers; commercial and trading; investment</p>

2 Presentation of expenses	References	Response
		<p>management) enhances transparency. It allows users of the financial statements to see the specific costs associated with each fundraising method, providing a clearer picture of how funds are raised and spent.</p> <p>Comparability: Presenting these costs gross (without netting them off from the related income) ensures comparability between different NPOs and across periods. This approach follows the general principle in financial reporting to account for transactions on a gross basis unless explicitly permitted otherwise.</p> <p>Detailed Insight: Different fundraising activities have varying cost structures. For example, the costs associated with commercial and trading activities might differ significantly from those related to investment management. Disclosing costs separately allows stakeholders to better understand the efficiency and effectiveness of each fundraising activity.</p> <p>Regulatory Compliance: According to G24.74, costs should be presented separately and gross to align with INPAG requirements. This practice ensures compliance with reporting standards and helps maintain the integrity of financial information.</p> <p>Overall, separate and gross presentation of fundraising costs aligns with principles of transparency, comparability, and regulatory compliance, which are crucial for providing useful financial information to stakeholders.</p>
<p>i) Do you agree that grants or donations made in arm’s-length transactions with governing body members and any services they receive on the same terms as other eligible service recipients need not be disclosed as a related party transaction? If not, why not?</p>	<p>G33.18 a)- G33.18 b)</p>	<p>Yes, I agree with that statement. Under typical accounting and financial reporting standards, grants or donations made to governing body members in arm's-length transactions, where these transactions occur under the same terms as those offered to other eligible service recipients, generally do not need to be disclosed as related party transactions. This is because:</p> <p>Arm’s-Length Transactions: When transactions are conducted at arm’s length, they are done on fair and competitive terms, similar to those that would be offered to an unrelated third party. In this case, there is no indication of preferential treatment or conflict of interest.</p>

2 Presentation of expenses	References	Response
		<p>Uniform Terms: If services or benefits are provided to governing body members under the same conditions as those extended to the general public or other eligible recipients, it means that the transactions are not influenced by the personal relationships of the governing body members.</p> <p>In summary, as long as the transactions are conducted at arm's length and on the same terms as those provided to others, they typically do not require disclosure as related party transactions. This aligns with standard practices in financial reporting where related party disclosures focus on transactions where there is an element of preferential treatment or special terms due to the relationship.</p>

### Question 3: Supplementary information and INPAG Practice Guide 1 – Supplementary statements

INPAG Section 37 requires additional information to be disclosed when an NPO produces one or more supplementary statements using INPAG Practice Guide 1. NPOs may choose to prepare a single note to meet the requirements or disclose only the additional information. INPAG Practice Guide 1 – Supplementary Statements enables the presentation of key financial information about a specified activity, project or grant, in a prescribed statement format, which can be included as an Annex to the financial statements. The Practice Guide provides templates for different variants of reporting that includes comparison to budget, multiple grants, multiple time periods and different currencies.

3 INPAG Practice Guide 1	References	Response
a) Do you agree that the requirements of Section 37 do not have to be met unless Supplementary statements are prepared in accordance with INPAG Practice Guide 1– Supplementary statements? If not, why not?	G37.1–G37.2	
b) Do you agree that a whole of NPO supplementary statement need not be presented if the additional information is already in the financial statements and/or notes? If not, why not?	G37.3, G37.10–G37.12	

3 INPAG Practice Guide 1	References	Response
c) Do you agree with the format of the Supplementary statement? If not, what would you change and why?	SS.5	
d) Do you agree with the options for the disclosure of capital and inventory related costs? If not, what would you change and why?	SS.18-SS.21	
e) Do you agree that the Supplementary statements are not part of the general purpose financial report but can be published as an annex? If not, why not?	SS.25-SS.26	

#### Question 4: Illustrative financial statements

INPAG Implementation Guidance Annex A includes Illustrative financial statements. The templates have been populated with data to cover the most common NPO transactions. The illustrative financial statements focus on new INPAG requirements.

4 Illustrative financial statements	References	Response
a) Do you agree that the illustrative financial statements cover the transactions that are prevalent for NPOs? If not, which prevalent transactions are missing and why do these need to be covered?	Illustrative financial statements	

#### Question 5: Equity

INPAG Section 2 provides the concepts and principles on which INPAG is based. Amendments are proposed to equity and net assets as a result of feedback. Net assets is a new element defined as the residual amount of an NPO's assets and liabilities available to achieve its objectives. The term equity claim is introduced to describe equity type instruments, which is a subset of net assets. INPAG Section 22 has the principles for classifying financial instruments as either liabilities or equity claims. As INPAG does not use the term equity, consequential amendments reflect the expected nature of NPO equity claims.



5 Equity	References	Response
<p>a) Do you agree with the revised description of net assets and its inclusion as an element? If not, what would you change and why?</p>	<p>G2.73</p>	<p>The revised description of net assets in G2.73 provides a clear and comprehensive explanation of what constitutes net assets in the context of an NPO. It effectively outlines that net assets are the residual value of recognized assets minus recognized liabilities available to the NPO to achieve its objectives. Here's a breakdown of the key points and any potential considerations:</p> <p><b><u>Agreement with the Description:</u></b></p> <p>Clarity on Net Assets: G2.73 accurately describes net assets as the residual interest in assets after liabilities are deducted, which aligns with general accounting principles. This is a fundamental concept in accounting for any entity, including NPOs.</p> <p>Inclusion of Equity Claims: The inclusion of equity claims as a subset of net assets, where applicable, acknowledges situations where holders of equity claims have a financial interest in some of the NPO's net assets. This is an important addition, given that some NPOs may have structures or arrangements involving equity claims.</p> <p>Management of Net Assets: The mention of managing net assets through separate funds (funds with restrictions and funds without restrictions) adds practical relevance. It reflects how NPOs organize and present their financial resources for clarity and compliance with external restrictions.</p> <p><b><u>Potential Considerations:</u></b></p> <p>Clarification on Non-Controlling Interests: The reference to non-controlling interests being included in net assets is useful but might need further elaboration in cases where it applies. This can help in understanding specific scenarios where non-controlling interests affect the presentation of net assets.</p> <p>Equity Claims in NPOs: While the description of equity claims is accurate, it's worth emphasizing that equity claims are rare in NPOs and usually not a significant feature. This aligns with AG2.6 and AG2.7, which clarify that equity claims are expected to be rare and not material by magnitude.</p>

5 Equity	References	Response
		<p>Alignment with Financial Reporting Standards: Ensure that the description and treatment of net assets align with broader financial reporting standards and practices. This helps maintain consistency and comparability with other reporting frameworks.</p> <p>Overall, the revised description in G2.73 is well-structured and reflects the essential aspects of net assets for NPOs. The additional considerations are minor and mainly involve ensuring clarity and alignment with broader accounting standards.</p>
<p>b) Do you agree with the use of the term equity claims in Sections 2 and 22 and that equity claims are a subset of net assets? If not, what would you change and why?</p>	<p>G2.74, AG2.6, AG2.7, Section 22</p>	<p>The term "equity claims" in Sections 2 and 22, as well as the characterization of equity claims as a subset of net assets, is generally appropriate within the context of non-profit organizations (NPOs). Here's a detailed analysis:</p> <p><b><u>Understanding "Equity Claims"</u></b></p> <p><b>Definition and Context:</b></p> <p>Equity Claims: As defined, equity claims represent a financial interest in the net assets of an NPO. They confer rights to future economic benefits or service potential and can include entitlements to distributions in the event of liquidation.</p> <p>Net Assets: Net assets, in this context, are defined as the residual amount of recognized assets minus recognized liabilities available to the NPO to achieve its objectives.</p> <p><b>Subset of Net Assets:</b></p> <p>Classification: Equity claims being a subset of net assets reflects the financial interest that certain stakeholders may have in the residual net assets of the NPO, particularly in scenarios where equity claims are present.</p> <p>Recognition: The inclusion of equity claims as part of net assets aligns with the concept that equity claims reflect specific entitlements within the broader net assets available to the NPO.</p> <p><b><u>Analysis of Sections and Terms</u></b></p> <p><b>Sections G2.74 and AG2.6:</b></p>

5 Equity	References	Response
		<p>These sections describe how equity claims are a specific category within net assets, recognizing their unique characteristics and how they relate to financial interests and distributions.</p> <p><b>Section 22:</b></p> <p>This section typically covers the recognition and measurement of liabilities and equity claims. Including equity claims as a subset of net assets ensures clarity on how such claims are accounted for and how they differ from other net assets and liabilities.</p> <p><b><u>Recommendations for Improvement:</u></b></p> <p>Clarification on Rare Instances: Since equity claims in NPOs are expected to be rare, it might be beneficial to explicitly state that these provisions are meant to cover exceptional cases where equity claims do exist. This would help in distinguishing normal net asset management from specific scenarios involving equity claims.</p> <p>Consistency and Transparency: Ensure that the definitions and applications of equity claims are consistently applied across all related sections to avoid confusion. Any unusual circumstances where equity claims exist should be clearly outlined to ensure transparency.</p> <p>Finally, the use of "equity claims" as a term and its classification as a subset of net assets is appropriate for capturing the unique financial interests that may arise in certain NPOs. The sections provide a structured approach to managing and recognizing these claims, aligning with the broader accounting principles for NPOs. Ensuring clear definitions and consistent application will enhance the understandability and effectiveness of these provisions.</p>
c) Do you agree that the paragraphs relating to the sale of options, rights and warrants, extinguishing financial liabilities with equity claim instruments and treasury shares are removed from	G22.12-G22.15	<p>To address this query, let's consider the context of the paragraphs are referring to and the implications of removing or retaining them:</p> <p><b><u>Paragraphs to Remove:</u></b></p>

5 Equity	References	Response
<p>and that the paragraphs relating to capitalisation or bonus issues of shares and share splits and convertible debt or similar compound financial instruments are retained? If not, why not?</p>		<p>Sale of Options, Rights, and Warrants: These typically pertain to the issuance of financial instruments that provide the holder with certain rights, such as purchasing shares at a future date. Removing these could simplify financial reporting, especially in an NPO context where such instruments are not commonly used.</p> <p>Extinguishing Financial Liabilities with Equity Claim Instruments: This involves using equity instruments to settle financial liabilities. In NPOs, this might be less relevant because they usually don't engage in complex financial structuring involving such transactions.</p> <p>Treasury Shares: These are shares that a company has issued and then repurchased. For an NPO, this is generally not applicable because their structure and funding do not typically involve repurchasing their own shares.</p> <p><b><u>Paragraphs to Retain:</u></b></p> <p>Capitalisation or Bonus Issues of Shares: This involves issuing new shares to existing shareholders, typically to capitalize retained earnings or reserves. While this is more relevant to for-profit entities, retaining guidance on this can provide completeness in case an NPO engages in similar transactions or issues new shares for specific purposes.</p> <p>Share Splits: This refers to dividing existing shares into multiple new shares. Although less common in NPOs, retaining guidance can be beneficial if an NPO has any equity-like structures or needs to manage such events.</p> <p>Convertible Debt or Similar Compound Financial Instruments: These are financial instruments that can be converted into equity. While NPOs usually don't issue such instruments, retaining guidance ensures that if such a situation arises, there's a clear approach for accounting and reporting.</p> <p><b>Conclusion:</b></p>

5 Equity	References	Response
		<p>Agree with Removal: Removing paragraphs on options, rights, warrants, extinguishing liabilities with equity claims, and treasury shares aligns with the practical reality of NPOs and simplifies the guidance. These aspects are typically irrelevant to NPOs.</p> <p>Agree with Retention: Retaining guidance on share capital issues, share splits, and convertible instruments ensures that all bases are covered, even if they are less common in the NPO context. It allows for comprehensive guidance should such situations arise.</p> <p>If our focus is on simplifying the framework while ensuring completeness, the proposed changes seem reasonable. They align the guidance more closely with the typical financial activities of NPOs.</p>

### Question 6: Transition to INPAG

INPAG Section 38 describes the requirements for recognising and measuring assets and liabilities to create a Statement of Financial Position when INPAG is adopted for the first time. Accumulated funds that contain historic surpluses and deficits must be split between funds with restrictions and funds without restrictions. Compliance with just the financial statements can be asserted ahead of full compliance. The narrative reporting requirements must be completed within a two-year period to be able to continue to express compliance with INPAG.

6 Transition to INPAG	References	Response
a) Do you agree with the pragmatic approaches proposed for the first time adoption of INPAG? If not, what are the practical challenges that are likely to be experienced?	G38.11–G38.12	
b) Do you agree that compliance with INPAG can be expressed in relation to the financial statements only for a two-year transitional period? If not, why not?	G38.5–G38.6	

### Question 7: Application of fair value

INPAG Section 12 describes how to measure assets and liabilities using fair value. The use of fair value to determine the deemed cost of donated assets is reflected in INPAG Section 16, for investments in land or buildings that are held to earn rentals or for their capital appreciation, INPAG Section 17, for property, plant and equipment, including capitalisation and depreciation and INPAG Section 18, for identifiable non-monetary assets that does not have a physical substance (eg licenses). The cost model in Section 17 applies to all tangible assets that are held for use in the activities of the NPO and are expected to be used during more than one period as well as to property held to deliver an NPO's missional objectives, eg social housing. There are no exceptions for assets that are funded by grants or donations.

7 Application of fair value	References	Responses
<p>a) Is the Section 12 application guidance that sets out how the fair value hierarchy applies to NPO assets and liabilities and the illustrative examples of fair valuing donations in-kind useful? If not, how could it be improved?</p>	<p>AG12.1– AG12.11</p>	<p>The Section 12 application guidance in the INPAG, which addresses how the fair value hierarchy applies to NPO assets and liabilities, and provides illustrative examples of fair valuing donations in-kind, is indeed useful. It offers specific insights and practical guidance tailored to the unique context of non-profit organizations (NPOs). Here are some thoughts on its usefulness and potential improvements:</p> <p><b><u>Usefulness:</u></b></p> <p><b>Tailored Guidance:</b></p> <p>The guidance addresses the unique challenges NPOs face, such as valuing social use or heritage assets that do not have observable market prices. This specificity helps NPOs apply fair value measurement principles in a manner that reflects their unique asset types and purposes.</p> <p><b>Illustrative Examples:</b></p> <p>Providing examples for donated assets and restrictions helps clarify how to apply the fair value principles in practice. These examples are crucial for understanding the application of theoretical concepts to real-world scenarios.</p> <p>Consideration of Restrictions:</p> <p>AG12.5 and AG12.6 offer valuable insights into valuing assets with restrictions, emphasizing that fair value should reflect the asset's usage under those restrictions, which is often a nuanced aspect of NPO accounting.</p>

7 Application of fair value	References	Responses
		<p><b><u>Potential Improvements:</u></b></p> <p><b>Expand Illustrative Examples:</b></p> <p>Including more diverse and detailed examples could further enhance understanding. For instance, examples covering a wider range of asset types (e.g., intangible assets, specialized equipment) or different types of restrictions could be beneficial.</p> <p><b>Clarify Complex Valuation Situations:</b></p> <p>While the guidance covers many scenarios, it might benefit from additional clarification on particularly complex situations, such as assets with significant restrictions or those acquired through unique donation arrangements.</p> <p><b>Integration with Broader Frameworks:</b></p> <p>A clearer connection to broader accounting frameworks or guidance that NPOs might be using could help integrate fair value measurement into their overall financial reporting processes more seamlessly.</p> <p><b>Update with Current Market Practices:</b></p> <p>Regular updates to reflect current market practices and changes in valuation techniques could ensure that the guidance remains relevant and practical for NPOs dealing with evolving market conditions.</p> <p>Overall, the application guidance in Section 12 provides a solid foundation for fair value measurement in NPOs, with room for further enhancement to address the evolving needs and complexities in the sector.</p>
<p>b) Do you agree with the additional guidance provided for donated:</p> <ul style="list-style-type: none"> <li>i) investment property (Section 16)?</li> <li>ii) property, plant and equipment (Section 17)?</li> </ul>	<p>G16.7</p> <p>G17.10</p> <p>G18.14</p>	<p>The additional guidance provided for donated assets in Sections 16, 17, and 18 of the INPAG is aimed at addressing specific challenges NPOs face when accounting for donated investment property, property, plant and equipment, and intangible assets. Here's a brief overview of the guidance in each section and a discussion on whether it aligns well with fair value measurement principles:</p>

7 Application of fair value	References	Responses
<p>iii) intangible assets (Section 18)? If not, why not?</p>		<p><b>i) Investment Property (Section 16)</b></p> <p>Guidance (G16.7): This section typically provides that investment property donated to an NPO should be measured at fair value on initial recognition, and this fair value will be considered its deemed cost.</p> <p>Evaluation: The guidance aligns with the fair value measurement principles outlined in Section 12. It recognizes that investment property, like other assets, should be measured at fair value when initially recognized. This approach is consistent with the objective of reflecting the asset's market value and supports transparency in financial reporting.</p> <p><b>ii) Property, Plant, and Equipment (Section 17)</b></p> <p>Guidance (G17.10): For donated property, plant, and equipment, the guidance often emphasizes using a valuation technique to determine the fair value of the asset, typically adopting the cost approach if an observable market price is not available.</p> <p>Evaluation: This approach is consistent with fair value measurement principles that require the use of appropriate valuation techniques when market prices are not available. The cost approach, as a valuation technique, is appropriate for determining the fair value of donated property, plant, and equipment when no active market exists. It provides a reasonable estimate of the asset's value based on the current cost to replace the asset.</p> <p><b>iii) Intangible Assets (Section 18)</b></p> <p>Guidance (G18.14): This section generally outlines that for donated intangible assets, the fair value on initial recognition should be used as the deemed cost. If a market price is not available, alternative valuation techniques should be applied.</p> <p>Evaluation: The guidance for intangible assets is consistent with fair value measurement principles. It acknowledges the challenge of valuing intangible assets, especially when no active market exists. Using fair value as the deemed cost ensures that these assets</p>



7 Application of fair value	References	Responses
		<p>are recognized at a value that reflects their potential contribution to the NPO's operations.</p> <p>Overall, the additional guidance for donated investment property, property, plant, and equipment, and intangible assets aligns well with the principles of fair value measurement. It supports the use of fair value as the deemed cost for initial recognition, and where market prices are not available, it appropriately recommends alternative valuation techniques. This approach ensures that donated assets are reflected in the financial statements in a manner that is consistent with fair value measurement principles and provides a transparent view of the assets' worth.</p>

### Question 8: Impairments

INPAG Section 27 requires that the carrying amount of an asset is reduced to the recoverable amount, where its carrying amount is higher than its recoverable amount. The new measurement base for inventories held for distribution at no or nominal cost has been added. The Section refers to an NPO's 'operating units' to encompass assets that are held for missional purposes rather than purely cash-generation.

8 Impairments	References	Responses
a) Do you agree that inventory held for distribution is measured for impairment using cost adjusted for any loss of service potential? If not, what would you change and why?	G27.2-G27.4	
b) Do you agree that the term operating unit better reflects the nature of an NPO's operations and with its proposed definition? If not, what alternative term would you use and why?	G27.8	
c) Do you agree that impairments to assets that form an operating unit can take account of other economic benefits and service potential? If not, what would you change and why?	G27.15	

### Question 9: Combinations of entities

INPAG Section 19 applies to the combining of entities, (including NPOs) that meet the definition of a business. The term business has been broadened to include the types of activities carried out by NPOs. It provides guidance on the recognition and measurement of the assets and liabilities acquired in a combination and includes a simplification where there is a combination of two NPOs that both have positive net assets.

9 Combinations of entities	References	Responses
a) Do you agree that the term 'business' can be applied by NPOs when taken alongside the amendments proposed, (including the expansion of examples of control)? If not, why not? What practical issues are experienced?	G19.4, G19.5, AG19.1-AG19.2	
b) Do you agree with the proposed exemption for two NPOs that have net assets and that it should not apply where one NPO has net liabilities? If not, describe the practical and accounting issues that arise?	G19.24	

### Question 10: Other topics in Exposure Draft 3

INPAG Section 14 and INPAG Section 15 provide guidance on accounting for associates and joint arrangements in consolidated and separate financial statements respectively. INPAG Section 20 covers the accounting for all leases and INPAG Section 34 provides guidance on three types of specialised activities: agriculture, extractive activities and service concessions. None of these Sections have been amended other than for terminology changes.

10 Other topics in ED3	References	Response
a) Do you agree that no further alignment changes are needed to: i) Section 14 Investment in associates? ii) Section 15 Joint arrangements? iii) Section 20 Leases? If not, why not?	Section 14 Section 15 Section 20	

10 Other topics in ED3	References	Response
b) Is any of the guidance in Section 34 needed by NPOs? If yes, which elements of the section are needed and why?	Section 34	

### Question 11: IFRS for SMEs Addendum

INPAG Section 7 and INPAG Section 30 (published in ED1 and ED2 respectively) have been updated as a consequence of additional text proposed in the Addendum to the draft Third edition of the IFRS for SMEs Accounting Standard issued by the International Accounting Standards Board on 28 March 2024. There is additional text on supplier finance arrangements in Section 7 and lack of exchangeability in Section 30.

11 Addendum	References	Responses
a) Do you agree that the guidance for supplier finance arrangements is useful and relevant to NPOs? If not, what would you change and why?	G7.20A– G7.20B,	
b) Do you agree that the guidance on lack of exchangeability is useful and relevant to NPOs? If not, what would you change and why?	G30.5A, G30- 31–32, AG30.26– AG30.43	

### General Feedback

Please share any other comments that you wish to raise on Exposure Draft 3. When providing additional feedback please reference the paragraph numbers, where possible and provide a short explanation to support your comments.

Reference	Comment
	The INPAG Exposure Draft 3 (ED3) offers a significant step forward for the financial reporting of non-profit organizations (NPOs) by introducing new sections on fund accounting, expense classification, and supplementary reporting on grants and projects. One of its key elements is the focus on fund accounting, which is vital for ensuring accountability and transparency regarding the use of restricted funds in NPOs. However, the practical challenges—such as system upgrades and staff capabilities—may be particularly difficult for smaller NPOs.

Reference	Comment
	<p>ED3 also addresses the complexity of reporting to multiple donors, which has traditionally been resource-intensive. By proposing a standardized format for donor reports, the draft aims to reduce duplication and increase efficiency, making financial reporting more streamlined across the sector.</p> <p>In addition, the draft tackles cost classification, including support and fundraising costs, aiming to improve the consistency of expense categorization across diverse NPOs. This ensures more comparable financial data across various types and sizes of organizations.</p> <p>Overall, ED3 is expected to have a positive impact by reducing the reporting burden on NPOs while enhancing accountability and transparency.</p>