



**INTERNATIONAL FINANCIAL REPORTING**  
FOR NON PROFIT ORGANISATIONS

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

### **Response by Professor Gareth G Morgan – September 2024**

#### **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>	Gareth	<b>Country:</b> (this should be the country in which you are based)	Scotland (UK)
<b>Last name:</b>	Morgan	<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>	<ul style="list-style-type: none"> <li>• auditor [former independent examiner]</li> <li>• regulator of NPOs [extensive work with charity regulators e.g. on working parties - but not in a formal role]</li> <li>• donor [both individual and through a charitable grant-maker - Paristamen]</li> <li>• academic [retired].</li> </ul>
<b>Email:</b>	[REDACTED]		
<b>Position:</b>	(a) Partner – now retired (b) Emeritus Professor (c) Chair of Trustees  Note: In organisation (c) we are an extensive user of charity accounts.		
<b>Organisation:</b> (who do you work for)	(a) The Kubernesis Partnership LLP – Charity Consultants (b) Sheffield Hallam University – Emeritus Professor of Charity Studies (c) The Paristamen Charity – grantmaker		
<b>Response submitted:</b>	<ul style="list-style-type: none"> <li>• as an individual</li> </ul> [Choose one]		
Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.			Agree

This document has been designed purely to enable feedback to Exposure Draft 3. Participation is undertaken on an entirely voluntary basis. The responses will be used to shape the development of INPAG and not for any other purpose. We ask for your name and contact information to enable us to contact you if we should have any clarifications regarding your responses. Responses will be public, but personal contact information will not be disclosed. Personal information will only be held for the purposes of developing INPAG. You may withdraw your consent for us to hold any of your personal information at any time by contacting us at [ifr4npo@cipfa.org](mailto:ifr4npo@cipfa.org).

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## 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><b>Although I welcome the greater emphasis on fund accounting principles, I do <u>not</u> support the removal of the requirement to separate funds with and without restrictions on the face of the Statement of Income and Expenses.</b></p> <p><b>When reading an income statement for an NPO I find it almost useless if restricted and unrestricted funds are aggregated – for several reasons:</b></p> <p><b>(a) The unrestricted funds column is extremely important in understanding the overall financial resources of the organisation that are available for use at the discretion of the management board. Even if this column is numerically small compared to the restricted funds column it is still vital to readers. Speaking as an extensive user of NPO accounts for grant-awarding decisions, we really do not want to have to go to the notes to find this information.</b></p> <p><b>(b) Timing issues associated with restricted funds can lead to very substantial surpluses and deficits on restricted funds from year to year. So if all funds are aggregated, this confusion of wide fluctuations extends to the surplus/deficit of the NPO as a whole. What is of prime interest to us as a user of the accounts is the surplus or deficit on unrestricted funds.</b></p> <p><b>(c) The level of the NPO's reserves is inherently linked to the amounts held as unrestricted funds and it therefore becomes much harder to understand the reserves position if the funds are not separated.</b></p> <p><b>Whilst I note that INPAG will still <i>permit</i> the separation of restricted and unrestricted funds on the Statement of Income and Expenses, this should be <i>mandatory</i> except on those cases where the separation is immaterial.</b></p>

1 Fund accounting	References	Response
		<p>The rationale presented in BC5.6 for removing the mandatory separation on the face of the income statement is to "simplify" the statement. But as the INPAG makes clear, fund accounting will still be required so this will not simplify the day to day financial procedures. So long as the Statement has a "total funds" column, I do not think readers will be challenged by the inclusion of columns for unrestricted and restricted funds.</p> <p>In jurisdictions such as the UK where the Charities SORP has required separate columns for nearly 30 years, readers of accounts, including non-accountants have no difficulty. It only took perhaps 2-3 years for users of charity accounts to get used to this and it has dramatically improved the financial decision making by charity boards. Even the smallest charities preparing receipts and payments accounts normally use separate unrestricted and restricted funds columns in this way.</p> <p>(It is the accruals concept in income recognition that present the challenges for readers of accounts, not the fund accounting concepts.)</p> <p>I would also encourage the use of the term "unrestricted funds" which is much more concise than the phrase "funds without restrictions" and has the advantage for readers that it starts with a different letter. I note that this terminology is (helpfully) used in several places in the Illustrative Financial Statements.</p> <p>I would also repeat my submission on ED1 that unrestricted funds should be the <i>first column</i> on the Statement. Even if the amounts are relatively small, there is a natural hierarchy that unrestricted funds are the most valuable to the NPO in terms of their flexibility of use. Likewise in the note showing detailed fund movements (Note 4 in the Illustrative statements) the unrestricted funds should come first.</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>The new guidance in Section 36 is helpful, but I feel the principles in this Section will be of little value in practice unless NPOs are required to separate the funds on the Statement of Income and Expenses.</p> <p>However, I feel the figure in AG36.1 is confusion because the key questions about whether a fund is restricted are duplicated. Essentially the same questions appear in column 1 and in column 2. It would be much clearer just to pose each question once.</p>



1 Fund accounting	References	Response
		<p>I also repeat the comment above that it would be clearer to use the terms "unrestricted funds" and "restricted funds".</p> <p>However, para G36.18 perhaps needs modifying to make clear that no specific legal authority is needed for transfers between designated funds and other unrestricted funds. But I agree that the planned use of any designated funds must be made clear (para G36.22(e)).</p> <p>However, it is unhelpful to leave such a fundamental concepts as fund accounting until Section 36 of INPAG. The fund accounting principles need to come much earlier.</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 why? What are the practical considerations?	G36.5, G36.7, AG36.3	<b>Yes, this is essential.</b>
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	<b>Yes.</b>
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?	G36.11–G36.12	<p><b>No – Costs should never be charged to a fund that fall outside the restrictions on a fund. That would represent a breach of trust in jurisdictions where trust law principles apply.</b></p> <p><b>Where there are insufficient resources in a fund at a given point in time it may be permissible for a restricted fund to show a negative balance if the governing body is satisfied that there is a high likelihood of additional income being received for the fund in future periods – but only if the expenses fall within the purpose of the fund and if the rationale for the negative balance is explained in a note. (Example: A project has substantial start up costs in year 1 but there are committed donors who may be expected to support the project in future years, but without a sufficiently formal commitment to justify advance recognition of that income).</b></p>
f) Do you agree with the NPO funds disclosures requirements? If not, what would you change and why?	G36.21–G36.23	<b>Yes – all the disclosures are vital. Even if you accept my strong recommendation to reinstate separate columns on the income statement, these disclosures are still vital to separate each individual restricted fund (subject to materiality).</b>
g) Do the Illustrative examples demonstrate the key concepts in fund accounting? If not, what would you change and why?	Implementation Guidance – Section 36	<b>They are generally helpful – the example Note 4 is particularly important, though it would be much clearer with the unrestricted funds appearing first – and I would also refer to see the General Fund prior to listing Designated Funds.</b>

1 Fund accounting	References	Response
		<p>However, the examples seem to be <u>lacking</u> a clear explanation of the purpose of each fund as required by G36.22(a). Although the names of the funds give some idea of their purpose, the names are not sufficient to enable a reader to appreciate the overall purpose of each fund.</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><b>Yes, I agree with this approach. I welcome this pragmatic approach by INPAG. (Vast efforts have been wasted in the UK on requiring charities to provide a functional split of their expenses, but it is rarely very useful and extensive additional disclosures are needed to explain the basis of the functional split.)</b></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><b>Yes.</b></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><b>Yes.</b></p>
<p>d) Do you agree with the expense disclosure</p>	<p>G24.50–G24.57,</p>	<p><b>Yes.</b></p>

2 Presentation of expenses	References	Response
requirements? If not, what would you change and why?	G33.7–G33.11, G28.38	
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?	G24.48–G24.49	<b>Yes – although the important issue here is often the allocation of overhead costs between funds rather than the split between functions. So the text should make clear that these principles also apply to fund accounting (cross referenced from Section 36).</b>
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	<b>Yes, where fundraising costs are separated this requirement is correct.</b>  <b>But I do not think NPOs below a certain size (say, up to USD 1million income) should be required to separate fundraising costs so I think G24.58 is too broad.</b>  <b>Also, there are some NPOs where fundraising costs are simply not material so an explicit clarification is needed on that issue – but perhaps in such cases a statement is needed along the lines: "The NPO does not engage in any material activities that give rise to fundraising expenses."</b>
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	<b>I agree with the pragmatic exception, but I don't think G24.72 is the relevant para, so maybe the question is referring to something else?</b>
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	<b>Yes (where material).</b>
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?	G33.18 a)–G33.18 b)	<b>Yes. (But this issue doesn't seem to relate to presentation of expenses.)</b>

### 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	<p><b>Yes, but where is the "Practice Guide 1" to which this refers? It needs a clear cross-ref. OK – I have now found it on the IFR4NPO website, but why isn't it part of the "Full document" download for ED3?</b></p> <p><b>But I don't understand the separation of documents. If it is mandatory to follow PG1 by virtue of Section 37 of INPAG it would surely be clearer to include the text of PG1 in the main document.</b></p>
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	<p><b>Yes, but they need a statement on the lines "this is an extract from the full financial statements and may not provide all the info needed ..." with a reference to how to obtain the full statements.</b></p>
c) Do you agree with the format of the Supplementary statement? If not, what would you change and why?	SS.5	<p><b>No, I don't think a prescribed format is helpful. Let each NPO present summary financial info as it feels most useful – so long as (a) it is not misleading and (b) it clearly refers to the full statements.</b></p>
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	<p><b>No – see above. No explicit guidance is needed in the sense of being mandated by INPAG.</b></p>
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	<p><b>No, Supplementary statements should <u>not</u> be published as an annex to the main financial statements – that is very confusing for readers. Pages presented in a similar layout to the financial statements but with a label "This page is not part of the formal financial statements" should be prohibited. If more detail is needed for readers, the NPO should provided that further details within the financial statements themselves so that the relevant information is subject to audit (or other external scrutiny).</b></p> <p><b>However, some financial info (including charts and tables) can be presented in the <i>narrative report</i> attached to the financial statements – there should be no restrictions on this – but such information needs to be reviewed by auditors (or equivalent) to ensure it is not inconsistent with the full statements.</b></p>

#### 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
<p>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?</p>	<p>Illustrative financial statements</p>	<p><b>The idea of a set of illustrative financial statements that seek to cover almost everything is quite challenging. A range of examples are needed – for example (a) a service-providing NPO and (b) a grant-making NPO whose main resources are from investments. I would also strongly wish to see a simpler example for a small NPO operating in only one country and one currency, no inventories, no non-current liabilities, no shares.</b></p> <p><b>Also Note 5 is very confusing with the use of "CX" to denote another currency where the examples also use "X" for the year.</b></p> <p><b>However, where the example relates to a multi-country context, all references to "Government" – as in "Government grants" etc should make clear which Government is intended.</b></p> <p><b>It's also unhelpful to include time-limited examples such as "pandemic funding" – or if they are essential, the nature and timescale of the pandemic needs explaining.</b></p> <p><b>I also suggest the illustrative statements should avoid use of abbreviations such as "EGOs" and "PPE" unless these are explained within the document.</b></p> <p><b>I am also confused by Note 19 – Supplementary information. The purpose of this note is unclear to me – especially as a Cash flow statement is already provided. If it is essential to readers it needs a much more specific heading.</b></p>

### 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><b>Yes, this is now clear.</b></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</p>	<p>G2.74, AG2.6, AG2.7, Section 22</p>	<p><b>This should go in a special Section as it relates to very rare circumstances – it certainly does not belong in Section 2.</b></p>

5 Equity	References	Response
not, what would you change and why?		<p>However, it would be clearer if AG2.7 came <u>before</u> AG2.6.</p> <p>But a statement is also needed that a claim by a third party which would <i>only</i> arise if the NPO is dissolved (and where the third party cannot directly trigger such dissolution) would not normally needs to be recognised.</p> <p>But the INPAG may also need to point out that if equity claims are substantial it may no longer be appropriate to identify the entity as an NPO.</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 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?	G22.12–G22.15	<p>I would prefer to see as little as possible in INPAG relates to shares and equity rights. Shares that give a voting right but no significant financial benefit need a mention, but if the entity has the power to issue stock dividends I would not feel it is an NPO as generally understood.</p> <p>A comment may be needed that in some cases commercial accounting may be more appropriate (e.g. the normal IFRS for SMEs) rather than INPAG.</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	<p>I agree with the principle of a pragmatic approach for first time adoption, but what is proposed in Section 38 seems very complex in terms of mandatory requirements. Prescriptive measures like G38.11 seem unnecessary – I would just give users as much flexibility as possible.</p> <p>So long as the first financial statements disclose any departures from INPAG with regard to prior year figures etc I do not feel this Section needs to say much more.</p>
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	Yes, this is reasonable.

### 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
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?	AG12.1– AG12.11	<b>Yes, this is clear and the explanations are helpful.</b>
b) Do you agree with the additional guidance provided for donated: i) investment property (Section 16)? ii) property, plant and equipment (Section 17)? iii) intangible assets (Section 18)? If not, why not?	G16.7 G17.10 G18.14	<b>Yes, this is a sensible approach.</b>

## 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	<p><b>Yes, where inventories are recognised this is OK, but the INPAG should be remind readers that there are many circumstances where inventories should be valued at nil, and even if there was a previous value, the impairment may well take the value down to nil.</b></p> <p><b>This Section thus needs clear cross-referencing to Section 13 – especially G13.5.</b></p>
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	<p><b>No – this is a very unhelpful term. To most people 'operating unit' would mean a department or section of an NPO providing a specific services or operating in a specific geographical area. (So the glossary needs amending.) I suggest just referring to collections of 'similar assets'.</b></p>
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	<p><b>There is a huge problem around seeking to value NPO assets on the basis of future cashflows and other economic benefits are similarly very hard to measure for most NPOs. So, in practice, I anticipate very few NPOs will be in a position to apply this approach.</b></p> <p><b>Even if an NPO has a valuable asset such as a museum or art gallery building that attracts many visitors, it is quite likely to have a policy of free admissions, so there is no direct economic benefit. And trying to estimate to value of future grant aid linked specifically to the asset is very challenging.</b></p>



### 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
<p>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?</p>	<p>G19.4, G19.5, AG19.1–AG19.2</p>	<p><b>No – I do not think the term 'business' is appropriate except when applied to a commercial trading entity established to generate funds for an NPO. I suggest 'organisation' and 'organisational combination' is more appropriate for INPAG.</b></p> <p><b>Also, except in relation to commercial trading entities, seeking to assign a value to goodwill is rarely appropriate in an NPO context.</b></p> <p><b>Please remove references to 'equity interests' as there will hardly ever be any material equity interests in an NPO combination.</b></p> <p><b>I also reject the proposal that all combinations should be accounted for by the acquisition method. Most NPO mergers involve one entity winding up and transferring its assets and activities to another NPO as a gift (or grant) – so there is generally no consideration to recognise under G19.26.</b></p> <p><b>So in most cases, I suggest the assets (net of liabilities) that are transferred should be recognised as a capital grant to the receiving NPO in accordance with AG23.46 (though further clarification of combinations is needed and in general the value of assets transferred through the combination will need to be shown as an extraordinary item, separate from the normal revenue on the Statement of Income and Expenses). Nevertheless, the principles in Section 19 for valuing assets and liabilities transferred is appropriate.</b></p> <p><b>I suggest the acquisition approach should only be used when an NPO acquires a commercial entity <u>or</u> where the receiving NPO pays significant consideration to those formerly in control of the transferring entity.</b></p>
<p>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?</p>	<p>G19.24</p>	<p><b>Para 19.24 is not very clearly worded, so I am not clear what it is really saying, but I think it will be unnecessary if you accept the suggestion above.</b></p>

### 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	<b>This seems reasonable, though I do not have any special expertise to probe further.</b>
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	<b>I agree these issues will very rarely apply to NPOs and it would be better just to cross-ref to external documentation rather than include this in INPAG.</b>

### 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>No specific comments, but as I have argued elsewhere I feel smaller NPOs should be exempted from the requirement to provide a Statement of Cash Flows. It is of little use of readers of the accounts, especially for a NPO with substantial restricted funds.</b>
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	<b>Yes, this is definitely helpful.</b>

### 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
General	<b>I repeat the points I made on earlier EDs that it is vital to do all you can to simplify the language and drastically to shorten provisions that will hardly ever apply in an NPO context.</b>