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 or through the website at www.ifr4npo.org/have-your-say

Respondent information:

First name:	Mohammad	**Country:** (this should be the country in which you are based)	Bangladesh
Last name:	Anwarul Karim	**Professional interest:** please choose from: • NPO, ie preparer of financial statements, • auditor, • accounting standard setter, • professional accounting organisation, • regulator of NPOs, • donor, • academic, • civil society, • user of NPO services, • other (please sta	Regulator of NPOs
Email:	Ed.ss@frc.gov.bd		
Position:	Executive Director- Standard Setting		
Organisation: (who do you work for)	**Financial Reporting Council**		
Response submitted:	• on behalf of my organisation or • as an individual [on behalf of FRC]		
Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.			Agree√ Disagree

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.

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
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?	G5.3, AG5.4	**Agree**
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?	G36.3–G36.4, Figure AG36.1	Proposal for changes in section G36.1- ~~**Unless other funds exist,**~~ *"The general fund will contain all of the historic surpluses and deficits of an NPO."* Reason: Irrespective of other funds, (such as endowment funds, fixed assets funds, etc.,) all of the historic surpluses and deficits of an NPO will be contained in the General Fund. Proposal to rewording section G36.4(a)- '*Legal or equivalent requirement'* may be replaced with *'legal or other obligatory requirements*. Reason: It would be easy to relate and apply. The definition of the term (obligatory requirement) may also be included in the glossary, such as A requirement that derives from an entity's actions where: (a) by an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities. Propose to rewrite section G36.4(b)- *"there are reasonable expectations, **(such as due to situations under section G36.3, subsection (a) & (d),)** by an individual stakeholder or a group of stakeholders that resources used for a specific set of activities will be tracked."* Reason: This will make a direct reference of characteristics of the fund easier to understand and apply.

1	Fund accounting	References	Response
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	**Agree**
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	Propose to rewrite section G36.9(b)- *"an NPO has made a~~n externally communicated~~ public commitment at or before the **initiation of a grant** ~~launch of a fundraising campaign~~ that the resources obtained ~~through the campaign~~ will be used for a specific purpose creating a valid expectation on the use of those resources."* Reason: In many jurisdictions, public commitment means something externally communicated. Therefore, using both terms might be redundant. It may be more appropriate not to limit public commitment only to fundraising situations. Public commitment may exist to receive grants with other arrangements. Propose to rewrite section G36.15- *An NPO's governing body can **internally** designate funds for specific **~~internal~~** purposes*. Reason: designation could be for both internal or external specific purposes.
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	Yes, I agree. However, a paragraph may be added as follows: *For ease of accounting and prompt, accurate closing of individual funds, programs, and projects, the grantor and recipient shall ensure that the total grant amount covers all expenses and is not in short or excess.*
f)	Do you agree with the NPO funds disclosures requirements? If not, what would you change and why?	G36.21–G36.23	**Yes, I agree.** However, A note on assets and liabilities on an individual fund basis may be disclosed for more information.
g)	Do the Illustrative examples demonstrate the key concepts in fund accounting? If not, what would you change and why?	Implementation Guidance – Section 36	**Sufficiently demonstrated**

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
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?	G24.43–G24.47, AG24.45–AG24.47	**Agree**
b) Do you agree that the rationale for using a classification of expenses other than by nature should be disclosed? If not, why not?	G24.44	**Agree**
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?	G24.46, AG24.48	**Agree**

2 Presentation of expenses	References	Response
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	There are some questions in the following sections- *G24.50 An NPO shall disclose the basis used in apportioning shared costs and support costs where analysis by <u>function</u> or <u>mixed presentation</u> of expenses has been used.* Q: Expenses by nature may also include apportioned share costs and support costs. Is not the basis used for apportioning shared and support costs in case of expenses by nature (such as salaries, rent, utilities) to be disclosed? *G24.51 An NPO shall disclose, if not already presented in the Statement of Income and Expenses, in the analysis of expenses or the notes:* Q: Disclosure in the analysis of expenses needs to be clarified further. If it's part of the notes, the section might be rewritten as "An NPO shall disclose, if not already presented in the Statement of Income and Expenses, in the notes under the heading of 'analysis of expenses' or as the notes:" *G24.54 "Losses, write-offs and ~~special~~ unusual payments relate to a range…." The word 'special' could be replaced with 'unusual' or 'extraordinary'.* Reason: Special might have different meanings, such as important, remarkable, unique, etc. G24.43 to G24.49 The word 'Analysis' may be replaced with 'Presentation'.
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	**Agree.**
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	**No, I can't entirely agree.** Reason: Commercial and trading activities as well as investment management are for generating earnings through exchange transactions. These are not processes to generate voluntary contributions through non-exchange transactions, not at the point of getting the proceeds. Therefore, these two should not be treated as fundraising activities. Net

2 Presentation of expenses	References	Response
		proceeds (profit, income less costs) from these activities transferred or used for NPO purposes would be contributions to NPO's funds. Therefore performances of those activities can be independently measured, monitored, and improved. In many jurisdictions, in the case of companies and for other eligible entities INPAG sections 6, 9 (consolidation), 14 (investment in associates), and 33 (RPD) would be more appropriate. Relevant section G24.59 may be redrafted as- *Fundraising activities* ***are the process of seeking and gathering voluntary financial or non-financial contributions by engaging individuals, businesses, charitable foundations, or governmental agencies*** *~~can be one of three distinct categories of activity that an NPO carries out~~ to generate funds for the provision of services and goods for the benefit of the public, carrying out programme and similar activities in pursuit of the NPO's stated mission or objectives, or supporting other activities.* *G24.60* Fundraising activities are carried out to obtain d*onations, gifts, grants, and similar transfers.*
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	**Agree**
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	I agree that the costs of category (i) under section 24.60 of fundraising activity should be separately disclosed and presented as gross. The other two categories are to be separately disclosed and presented as gross earnings/ proceeds less expenses and net revenue/ income in the notes and to be included as other revenue and subsequent contribution to NPO's own fund/ mother account/ general fund, unless the undertaking is covered by sections 9 (consolidation), 14 (investment in associates).

2 Presentation of expenses	References	Response
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)	In the case of G33.18 b) where the governing body member is a recipient of services or goods needs to be disclosed even if the service was made for the NPO's primary purpose, where the services are provided on the same terms as other eligible service recipients. The disclosure will make the transaction transparent, eliminate any risk of unethical practices, and help conduct assurance services and other regulatory review functions.

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	G37.4 Supplementary information is required to be produced using an accrual basis with optional adjustments for inventory and capital costs. Since supplementary information is for donor reporting, most of the donors prefer cash-basis donor reporting. Will it be an option for NPO to produce supplementary information on a cash basis with a reconciliation to the accrual basis balance in main INPAG reports in the notes to the supplementary information?
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	**Agree.**
c) Do you agree with the format of the Supplementary statement? If not, what would you change and why?	SS.5	Yes, subject to comment in a) above.

3 INPAG Practice Guide 1	References	Response
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	Yes, subject to comment in a) above.
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	INPAG, including section 37 is a general-purpose financial reporting framework (GPFRF). Financial reports prepared by GPFRF are general-purpose financial reports (GPFR). In many jurisdictions auditors performing audits by International Standards on Auditing are required to audit the whole GPFR and by ISA 720, The auditors' responsibilities relating to Other Information, INPAG Supplementary Information is part of the GPFR and auditors have to audit the supplementary statement.

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	Yes, I agree that the coverage is okay. However mentioning relevant section numbers of INPAG in parathesis next to the amounts, and balances would make it more useful.

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
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?	G2.73	**Agree**
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?	G2.74, AG2.6, AG2.7, Section 22	**Agree**
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	**Agree**

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	**Agree**

6 Transition to INPAG	References	Response
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	**Agree**

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	**Useful**
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	**Agree**

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	**Agree**
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	**Agree**
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	Proposal to amend section G27.15 (b) estimating the economic benefit or service potential the NPO expects to derive from the asset, which in the case of an NPO would be the net funds, grants it would receive and use in the future years; and

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	It is true that a combination of entities could be with businesses as well as with NPOs. However, the term 'business' is not suitable for NPO accounting guidance. It shows that the reporting NPO will be in combination with only businesses. We propose to replace the term 'Business Combination' to 'Combination of Entities', and replacing Businesses with 'Businesses or Combining Entities' for the whole section 19

9 Combinations of entities	References	Responses
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	**Agree**

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	**Section 14:** **The title of the section can be changed to 'Associate Accounting'** Reason: The associate of an NPO could be both commercial or another NPO. In the case of NPO, it's unlikely that there is involvement of investment. Most of the time the significant influence will become effective due to influence in the board not because of investing money of more than 20% of total shares. The words investment and returns are not suitable for NPOs. **investing NPO to be replaced with reporting NPO**. Reason: Sometimes the relationship is not about investment or commercial activities. Significant influence might be due to common board members. G14.2 An associate is an entity, including an **unincorporated** entity such as a partnership, over which the **~~investing~~** reporting NPO has significant influence and that is neither a controlled entity nor an interest in a joint arrangement. **Section 20- Agree**

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	
c)		**investing NPO to be replaced with reporting NPO**. Reason: Sometimes the relationship is not about investment or commercial activities. Significant influence might be due to common board members.
d)		
e)		G14.2 An associate is an entity, including an **unincorporated** entity such as a partnership, over which the ~~**investing**~~ reporting NPO has significant influence and that is neither a controlled entity nor an interest in a joint arrangement.

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
Glossary of terms - Control (of an entity)	Existing Definition: *A controlling NPO controls an investee (controlled entity) when the controlling NPO is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.* Proposed Definition: ***The power to govern the financial and operating policies of an entity to direct its functions and activities or to obtain benefits from its activities.*** **Reason:** NPO's key objective is to provide (through functions and activities) benefits to the public. Therefore, the words investment and returns are not suitable for NPOs.
Glossary of terms - Associate	***An entity, including an unincorporated entity such as a partnership, over which the reporting NPO has significant influence and that is neither a controlled entity nor an interest in a joint arrangement.***
Glossary of terms - Subsidiary	***An entity that is controlled by another entity (known as the parent).***
Section 9 Consolidated and separate financial statements	G9.9 Thus, an NPO controls an entity if, and only if, the NPO has all the following: a) power over the entity; b) exposure, or rights, to direct entity functions, activities, or to variable returns from its involvement with the entity; and c) the ability to use its power over the entity to affect the results of entity functions, and activities, or to affect the amount of its returns.