



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:	Swar	Country: (this should be the country in which you are based)	INDIA
Last name:	Kansagra	Professional interest: please choose from: <ul style="list-style-type: none"> • 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 state) 	Others
Email:	swar@withlaw.co		
Position:			
Organisation: (who do you work for)	WITH LAW (law firm)		
Response submitted:	on behalf of my organisation		
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.

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
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	<p>Yes, I agree with the removal of this requirement from the face of the statement, as this simplifies the presentation of financial statements. The separation of restricted and unrestricted funds should still be disclosed but can be effectively addressed through the notes, which provides flexibility for reporting without compromising transparency.</p> <p>By removing the requirement, financial statements become less cluttered, making them easier to understand for users who may not be familiar with overly detailed presentations. This is important for non-profits where simplicity can aid in comprehension by a broader audience, including donors and stakeholders. Even though the requirement is removed from the face of the statement, the Exposure Draft maintains that this information should be disclosed in the notes. Thus, users still have access to all necessary information without overcomplicating the main financial statement.</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?	G36.3–G36.4, Figure AG36.1	<p>Yes, the guidance in Section 36 appropriately outlines the identification of material funds. This will aid in ensuring that restricted funds are highlighted without confusing users with excessive information. The inclusion of comprehensive disclosures mitigates the risk of material funds not being identified.</p> <p>The Exposure Draft provides clear criteria (G36.3 and G36.4) for identifying</p>

1 Fund accounting	References	Response
		<p>material funds based on external restrictions or public commitments. This ensures that all important funds are highlighted, while immaterial ones are aggregated, preventing information overload.</p> <p>The draft's requirement for comprehensive disclosures (G36.21–G36.23) in notes ensures that important fund information is still available, even if it's not on the face of the statement. This reduces the risk of missing any material funds.</p>
<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?</p>	<p>G36.5, G36.7, AG36.3</p>	<p>Yes, tracking income, expenses, assets, and liabilities for each fund is essential for transparency and accountability. However, smaller NPOs may face practical challenges due to resource limitations. Providing a simplified tracking method or templates for smaller organizations would reduce costs while maintaining accountability.</p> <p>Tracking income, expenses, assets, and liabilities at the fund level is crucial for ensuring that funds, especially restricted ones, are used appropriately for their intended purposes . This ensures that NPOs can provide detailed reporting to donors, regulators, and other stakeholders, thus promoting trust and accountability. Smaller organizations may struggle to track this data due to limited resources or technical expertise. INPAG acknowledges the varying capacities of NPOs. A streamlined, simpler version of fund tracking (perhaps using templates or simplified tools) for smaller NPOs would help them comply without incurring high administrative costs</p> <p>While tracking is necessary, it must be balanced with the capacity of the organization. Providing smaller NPOs with simplified solutions reduces costs and makes the standard more accessible, without sacrificing accountability</p>
<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?</p>	<p>G36.9</p>	<p>Yes, the criteria—externally imposed legal restrictions and externally communicated commitments—are appropriate. These clearly define when funds should be classified as restricted, which aligns with sector expectations and promotes consistency.</p> <p>The criteria laid out by INPAG (legal restrictions and externally communicated commitments) are widely understood and accepted in the NPO sector. Legal</p>

1 Fund accounting	References	Response
		<p>restrictions and public commitments form the core basis for classifying funds as restricted, ensuring that resources are allocated and tracked properly.</p> <p>Donors often place conditions on how their funds are used. The proposed criteria ensure consistency in how funds are reported across NPOs, which enhances comparability and transparency</p>
<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>	<p>G36.11–G36.12</p>	<p>Yes, it is important to charge expenses against restricted funds even if resources are insufficient. This ensures that reporting reflects actual resource use. However, clear guidelines on how to report when restricted funds are insufficient could be beneficial to avoid confusion or misrepresentation.</p> <p>Adding detailed guidance on how to handle situations where restricted funds are overspent or inadequate would ensure clearer reporting</p> <p>Charging expenses to restricted funds despite shortfalls maintains transparency with donors, showing where their funds have been used, even if additional funding is required.</p> <p>Without clear guidance on how to manage or report insufficient restricted funds, NPOs might misreport or misunderstand the financial status of a project. Adding detailed guidance on how to handle situations where restricted funds are overspent or inadequate</p>
<p>f) Do you agree with the NPO funds disclosures requirements? If not, what would you change and why?</p>	<p>G36.21–G36.23</p>	<p>Yes, the disclosure requirements are comprehensive and enhance transparency. However, the inclusion of illustrative examples specific to different types of NPOs (e.g., small vs. large) would enhance understanding.</p> <p>These disclosures help users of financial statements understand how restricted and unrestricted funds are utilized. For instance, showing transfers between funds, the purpose of each fund, and any deficits or surpluses ensures there’s no confusion regarding the financial health and accountability of the NPO. Transparency is crucial, especially for donor-funded organizations, where restricted funds are legally or contractually tied to specific activities.</p> <p>In case of more illustrations, for example, a small community-based NPO that receives grants for a specific project may need simpler examples of how to track restricted funds, whereas a large international NPO with multiple donors and projects could benefit from more complex illustrations that cover scenarios like multi-year projects or different funding periods.</p>

1 Fund accounting	References	Response
<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>Yes, the examples provided are useful and demonstrate key concepts effectively. Adding more examples for NPOs with complex fund structures, such as multi-donor funded organizations, would further enhance the practical application of the guidance.</p> <p>The current examples in INPAG provide a solid foundation for NPOs to understand the principles of fund accounting. They demonstrate how restricted and unrestricted funds are reported, how fund transfers are accounted for, and how income and expenses are tracked for each fund.</p> <p>For example , An international NPO might receive funds from three donors with restrictive use of each of them for various purpose , then the example would illustrate how to:</p> <ul style="list-style-type: none"> • Track income and expenses separately for each donor’s funds. • Provide transparency about how much each donor’s contribution has been spent at a given reporting period. • Track and disclose any fund balances that carry forward into the next financial year.

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, the presumption is appropriate as the nature classification often provides more straightforward information. However, flexibility to use a functional classification should be encouraged if it provides more relevant insights, particularly for larger organizations with varied activities. This classification groups expenses by type (e.g., salaries, rent, depreciation), which is straightforward and generally easier for smaller NPOs to implement. This method is often more useful for donors or regulators who are interested in how the organization is spending its resources across broad categories. flexibility, which is critical for larger, more complex NPOs that might benefit from a functional classification (i.e., classifying expenses by program, project, or department). This ensures that the reporting method chosen reflects the operational structure of the organization.</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, disclosing the rationale promotes transparency and allows users to understand the basis for the classification choice. This aligns with best practices in financial reporting and helps stakeholders make informed decisions. Disclosing the rationale ensures that stakeholders understand why a particular classification method was chosen. This is important because it helps explain how the NPO organizes its activities and allocates resources. For example, a functional classification might be used because it aligns better with how the NPO manages its projects or reports to specific donors. Stakeholders, including donors and regulators, rely on financial statements to make decisions. If the classification method isn't immediately clear, they might misinterpret the financial data.</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>Yes, a narrative description provides adequate context for users without overburdening the financial statements. Quantifying all expenses may lead to unnecessary complexity, especially for NPOs with limited resources. A detailed narrative is often sufficient to explain the nature of expenses under each functional category. Providing too much quantified detail can overwhelm users with unnecessary information, particularly when it may not add significant value. For example, In a functional presentation, an NPO could provide a narrative description for "Program A," explaining that expenses include salaries for</p>

2 Presentation of expenses	References	Response
		<p>program staff, travel costs for fieldwork, and materials for beneficiaries. Rather than listing specific amounts for each item in this program, the narrative helps stakeholders understand the nature of the costs without needing to see every individual number.</p>
<p>d) Do you agree with the expense disclosure requirements? If not, what would you change and why?</p>	<p>G24.50–G24.57, G33.7–G33.11, G28.38</p>	<p>Yes, the disclosure requirements are clear and ensure that all relevant expenses, including support costs and fundraising costs, are adequately reported. This promotes transparency in the use of donor funds.</p> <p>The INPAG expense disclosure requirements ensure that both direct and indirect costs (like support costs) are reported.</p> <p>Disclosing costs related to fundraising and support costs ensures that donors understand how much of their contributions go toward mission-related activities versus administrative or fundraising expenses. This shows donors how much was spent on generating income versus directly funding programs.</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 are clear and allow for accurate identification of costs. This clarity will assist NPOs in demonstrating the true cost of their activities, which is important for both donors and regulators.</p> <p>The descriptions of direct costs, shared costs, and support costs are comprehensive. These categories help NPOs to allocate their expenses more accurately, ensuring that each activity’s true cost is fully captured.</p> <p>Breaking down costs in this way provides clarity for donors, who often want to see exactly how their funds are being utilized. By distinguishing between direct program costs and overhead (support costs), NPOs can show that they are managing resources effectively.</p>
<p>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?</p>	<p>G24.64–G24.66</p>	<p>Yes, including these activities as part of fundraising is logical, as they contribute to generating resources for the NPO. This approach aligns with the need for full transparency regarding how funds are raised and managed.</p> <p>Commercial activities and trading are often aimed at generating additional resources that will fund the NPO’s mission. For example, NPOs may operate social enterprises or conduct trading activities to create surplus funds. Including these activities under fundraising helps provide a more complete picture of how the NPO raises funds.</p>

2 Presentation of expenses	References	Response
		<p>Investment management costs, when related to a fund that exists to generate future returns, are a natural extension of fundraising efforts. These costs reflect the resources the NPO dedicates to ensuring that its investments grow and continue to support its mission. Grouping them with fundraising activities offers stakeholders a clear understanding of the resources spent on generating additional funds.</p>
<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?</p>	G24.72	<p>Yes, this exception is reasonable and balances the cost of reporting with the benefit to stakeholders. It avoids overburdening smaller NPOs with excessive administrative costs.</p> <p>Splitting fundraising costs from other costs may not always be practical or valuable, especially for smaller NPOs with limited resources. The cost of separating these expenses could outweigh the benefits of providing the information, leading to an inefficient use of time and money.</p> <p>For smaller NPOs, administrative efficiency is key to maintaining focus on their mission. If reporting requirements are too onerous, they could detract from the organization's ability to deliver services.</p>
<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?</p>	G24.74	<p>Yes, presenting these costs gross provides greater transparency and allows stakeholders to fully understand the costs associated with fundraising activities. Disclosing fundraising costs in three separate categories—activities to generate donations and similar transfers, commercial and trading activities, and investment management—ensures that stakeholders understand the full scope of the NPO's fundraising efforts. Presenting these costs gross (before deducting any income) provides a more accurate picture of the resources dedicated to each type of fundraising.</p> <p>For example : An NPO may spend money on a direct mail campaign aimed at soliciting donations. Presenting the costs gross would show the total amount spent on postage, printing, and advertising, without deducting the donations raised from the campaign.</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</p>	G33.18 a)– G33.18 b)	<p>Yes, arm's-length transactions do not need special disclosure, as they do not pose a conflict of interest. This aligns with common reporting practices in both the public and private sectors.</p> <p>These transactions are conducted on the same terms as those available to unrelated third parties. Since there is no preferential treatment or conflict of interest</p>

2 Presentation of expenses	References	Response
not be disclosed as a related party transaction? If not, why not?		<p>involved, they do not present a special risk of misstatement or bias. In this context, arm’s-length transactions are treated as ordinary business transactions, and requiring special disclosure might be unnecessary .</p> <p>In financial reporting standards, similar principles are applied. For instance, IFRS and GAAP generally do not require related party disclosures for transactions that occur under normal market conditions or on terms similar to those available to other customers. This is to avoid overloading financial statements with disclosures that do not add substantial value to understanding the organization’s financial position .</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	<p>Yes, I agree with this approach. The flexibility provided in Section 37 is beneficial for NPOs, allowing them to prepare additional statements only if they are using Practice Guide 1. This ensures that reporting remains focused on general-purpose financial reporting unless additional information is needed.</p> <p>By not requiring all NPOs to meet Section 37 unless supplementary statements are needed, INPAG ensures that the general-purpose financial reporting remains streamlined and relevant. This flexibility reduces the reporting burden on NPOs, especially those with simpler financial structures</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	G37.3, G37.10–G37.12	Yes, presenting the whole-of-NPO supplementary statement is unnecessary if the required information is already covered in the financial statements or notes. This avoids duplication and reduces the reporting burden on NPOs.

3 INPAG Practice Guide 1	References	Response
and/or notes? If not, why not?		The primary aim of supplementary statements is to provide additional clarity on specific aspects that are not fully covered in the main financial statements. If the financial statements and notes already provide a comprehensive view, a separate supplementary statement may not add significant value. Thus, it is practical to avoid redundant reporting .
c) Do you agree with the format of the Supplementary statement? If not, what would you change and why?	SS.5	<p>The format is clear and well-structured, making it easy for NPOs to disclose additional project or grant-specific information. No changes are necessary.</p> <p>The format’s design is likely aligned with best practices, providing a logical and organized way to present supplementary information. This supports both the reporting needs of NPOs and the informational needs of stakeholders, ensuring that additional disclosures are both useful and comprehensible .</p> <p>For example , If an NPO is using the Supplementary statement to report on multiple grants, the format allows for clear sections dedicated to each grant, including details such as the amount received, purpose, expenditures, and any remaining balances.</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>Yes, the options for disclosure are appropriate and flexible enough to accommodate NPOs with varying financial structures. This ensures that capital and inventory-related costs are reported transparently.</p> <p>Flexibility in how these costs are reported ensures that all relevant information is provided transparently, regardless of the NPO’s size or complexity . Clear and flexible options help ensure that capital and inventory costs are disclosed in a manner that aligns with the organization’s financial practices and the needs of its stakeholders.</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>Yes, publishing supplementary statements as an annex allows NPOs to provide additional information to donors and stakeholders without complicating the main financial report. This separation is logical and practical.</p> <p>By treating supplementary statements as an annex rather than part of the main financial report, NPOs can keep the primary financial statements concise and focused on core financial data. Supplementary statements provide additional context and details without cluttering the main report . This approach allows NPOs</p>

3 INPAG Practice Guide 1	References	Response
		<p>to include comprehensive details relevant to specific projects or grants in a separate document. It ensures that stakeholders who need in-depth information can access it without navigating through a more complex main financial report .</p> <p>For example , An NPO that operates various funded projects might include a detailed supplementary statement as an annex that outlines specific project expenditures, outcomes, and remaining balances.</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>Yes, the illustrative financial statements effectively cover the most common transactions for NPOs, including grants, donations, and expenses related to program delivery. However, additional illustrations for complex grant agreements or joint venture activities could be beneficial for larger NPOs operating in multiple jurisdictions.</p> <p>The illustrative financial statements cover core NPO transactions such as grants, donations, and expenses related to program delivery. This is essential because these are the most common financial activities NPOs engage in. By providing guidance for these prevalent scenarios, INPAG ensures that NPOs can confidently apply the standard to their primary financial dealings.</p> <p>Larger NPOs may engage in more complex activities, such as multi-donor funded projects, cross-border operations, or joint ventures. These activities often involve more intricate financial transactions and reporting requirements that the current illustrative examples may not fully address.</p> <p>A large NPO operating in multiple jurisdictions might need to account for complex foreign exchange fluctuations across different countries. An illustrative example showing how such NPOs could handle exchange rate changes in compliance with</p>

	<p>INPAG would be helpful.</p> <p>A large NPO could have multiple donors funding different aspects of a large project, each with specific restrictions. An example showing how to allocate, track, and report expenses for each donor’s funds under INPAG's fund accounting principles would provide clarity.</p>
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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>Yes, the revised description of net assets is clear and aligns with the realities of NPO operations. It provides a more accurate reflection of the resources available for achieving the organization's objectives.</p> <p>The concept of "net assets" captures the residual value of assets available after liabilities are deducted, focusing on the resources available to pursue the NPO’s mission, which is different from for-profit equity. By defining net assets as the resources available to achieve the organization's objectives, it provides a clearer understanding of the financial position of an NPO. This change emphasizes the fiduciary responsibility NPOs have to manage assets for mission-driven purposes. This change aligns with INPAG’s objectives of ensuring that NPO financial reporting reflects the organization’s mission-driven nature rather than focusing on concepts tied to shareholder value, which is irrelevant in the NPO context.</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>Yes, the term "equity claims" is appropriate, as it differentiates between obligations and the resources available to fund the organization’s mission. This term will help NPOs report on their financial obligations more clearly.</p> <p>NPOs may have certain financial instruments that resemble equity in form but are not equity in the traditional sense (e.g., membership shares that don’t entitle holders</p>

5 Equity	References	Response
		<p>to a claim over net assets).</p> <p>Introducing equity claims helps differentiate between liabilities (obligations that the NPO must settle) and equity claims, which may involve some type of financial interest but are ultimately held in the service of the NPO’s mission. This provides clarity in reporting financial obligations specific to NPOs. This distinction enhances the clarity of financial reporting for stakeholders, such as donors, regulators, and beneficiaries, who need to understand the financial position without the confusion that arises from traditional equity terminology.</p>
<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?</p>	<p>G22.12–G22.15</p>	<p>Yes, I agree with the removal of these paragraphs, as they are not relevant to the majority of NPOs. Their inclusion would complicate reporting unnecessarily. Concepts like the sale of options, rights, warrants, treasury shares, and extinguishing liabilities with equity claim instruments are specific to for-profit entities where ownership stakes and shareholder interests exist. NPOs, by contrast, do not issue shares or engage in the sale of ownership interests because their resources are dedicated to public benefit rather than to shareholders. Including these concepts in NPO financial reporting would misrepresent how NPOs operate and could cause confusion for stakeholders.</p> <p>Including these financial instruments would unnecessarily complicate NPO reporting, as they would introduce irrelevant and confusing financial mechanisms that do not apply to NPOs. NPO stakeholders (e.g., donors, beneficiaries) are focused on understanding how resources are used to further the organization’s mission. Introducing options and warrants would distract from this focus and could increase the burden of compliance without offering any added value to the clarity of NPO financial reporting.</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
<p>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?</p>	<p>G38.11–G38.12</p>	<p>Yes, the pragmatic approach to first-time adoption, including the flexibility to implement INPAG gradually, is appropriate. However, smaller NPOs may face challenges in understanding the technicalities of the transition, so additional training resources would be beneficial.</p> <p>The proposed approach allows for a gradual transition to INPAG, which helps NPOs manage the complexities of adopting new accounting standards without being overwhelmed. This flexibility is particularly useful for organizations that need time to adjust their accounting systems and practices to comply with INPAG requirements.</p> <p>Smaller NPOs may lack the resources or expertise to navigate the complexities of INPAG. Additional training resources, such as webinars, online modules, and workshops, are essential to support these organizations in understanding and implementing the new standards. This helps ensure that all NPOs, regardless of size, can achieve compliance and benefit from the new framework.</p>
<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?</p>	<p>G38.5–G38.6</p>	<p>Yes, the two-year transitional period is reasonable, allowing NPOs to align their reporting with INPAG without being penalized during the transition. This period provides enough time for NPOs to adjust to the new framework.</p> <p>Many international accounting frameworks offer transitional periods to allow entities to gradually adapt to new standards. For instance, IFRS and US GAAP often include transitional provisions to ease the implementation process for businesses and not-for-profit organizations. This practice recognizes that adapting to new standards requires time and resources. A two-year transitional period is a practical approach, providing NPOs with sufficient time to adapt their accounting practices to meet INPAG standards.</p>

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>Yes, the fair value hierarchy is clearly explained and useful for NPOs. The illustrative examples for valuing in-kind donations provide clarity, which is often a challenging area for non-profits. Expanding these examples to include common donated assets like equipment and services would further improve the guidance.</p> <p>The offered solution is consistent with the concepts contained in Section 12 of the International Non-Profit Accounting Guidance (INPAG) Exposure Draft 3. Here's the breakdown:</p> <ol style="list-style-type: none"> Fair Value Hierarchy: Section 12 of INPAG provides a clear framework for applying the fair value hierarchy to non-profit assets and liabilities. This hierarchy, modified from various accounting models, is especially useful for non-profit organizations dealing with donated assets. It divides fair value into three tiers based on the availability of market data, ensuring that assets such as donations-in-kind are valued transparently and consistently. Illustrative Examples for In-kind Donations: The examples presented assist NPOs in understanding how to use the fair value hierarchy when measuring donated products and services, which can be difficult for non-profits. These examples demonstrate how different sorts of donations, such as volunteer time or donated property, might be valued, making the guidance more practical and accessible. Suggested Improvements: Broadening the examples to include more prevalent forms of donated assets, such as equipment or professional services, will improve the recommendations. This would encompass a broader range of scenarios that NPOs regularly face, clarifying the applicability of fair value principles in these situations. <p>Thus, the statement that the fair value hierarchy is clearly explained and useful for NPOs is supported, and the suggestion to expand examples is valid. Including more examples for commonly donated assets would make the guidance even more comprehensive and practical for non-profits.</p>
<p>b) Do you agree with the additional</p>		<p>Yes, the additional guidance is well-structured and relevant for NPOs. It covers the</p>

7 Application of fair value	References	Responses
<p>guidance provided for donated:</p> <ul style="list-style-type: none"> i) investment property (Section 16)? ii) property, plant and equipment (Section 17)? iii) intangible assets (Section 18)? <p>If not, why not?</p>	<p>G16.7 G17.10 G18.14</p>	<p>essential areas for valuing donated assets and aligns with the fair value principles established in other accounting frameworks.</p> <p>Investment Property (Section 16): The INPAG mandates that donated investment property be originally valued at fair value. This recommendation guarantees that NPOs get investment property that is correctly appraised considering its possible future economic or service advantages. This technique adheres to the fair value principles and provides uniformity throughout the financial reporting structure.</p> <p>2. Property, Plant, and Equipment (Section 17): Donated property, plant, and equipment must likewise be valued at fair value upon initial recognition. The guidance specifies how such assets should be valued, whether acquired or donated, and offers a systematic approach for non-profits to follow. This treatment mirrors how fair value is commonly applied in other accounting standards and ensures that assets are accurately reflected in financial statements.</p> <p>3. Intangible Assets (Section 18): The guidance for donated intangible assets also requires fair value measurement at initial recognition. This guarantees that non-physical assets, such as licenses or other intangible objects, are appropriately reported using fair value standards. The added guidance helps NPOs handle these assets effectively, offering clarification on how to approach the initial recognition of intangibles.</p> <p>As a result, the claim that the guidance is "well-structured and relevant for NPOs" is supported. The guidance for valuing donated assets using fair value follows worldwide accounting standards and gives clear instructions for non-profit organizations, guaranteeing transparency and uniformity in financial reporting.</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
<p>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?</p>	<p>G27.2-G27.4</p>	<p>Yes, measuring inventory based on loss of service potential is an appropriate method for NPOs. This approach reflects the nature of NPO inventories, which are often not for sale but for distribution.</p> <p>This is consistent with the concepts established in the International Nonprofit Accounting Guidance (INPAG) Exposure Draft 3. Section 27 specifically addresses inventory maintained for distribution by Non-Profit Organizations (NPOs) and affirms that such inventory is measured for impairment using its cost, adjusted for any loss of service potential. This strategy is regarded appropriate because NPOs normally store inventory not for sale but for distribution to beneficiaries.</p> <p>The concept of service potential emphasizes the fact that these inventories may not yield economic gains, but rather help the business achieve its objective by delivering commodities or services. INPAG clearly allows the use of service potential in asset value, such as goods retained for distribution. Thus, the statement that measuring inventory based on the loss of service potential is appropriate for NPOs is consistent with the guidance.</p>
<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?</p>	<p>G27.8</p>	<p>Yes, the term "operating unit" aligns with the mission-driven nature of NPOs and distinguishes them from for-profit entities. This term accurately reflects how NPOs utilize assets in furtherance of their objectives.</p> <p>The consultation paper endorses the viewpoint on the term "operating unit" for NPOs. It advocates using this phrase instead of "cash-generating unit" because many non-profit organizations do not produce cash from their assets in the same manner that for-profit businesses do. An operating unit is defined as the smallest</p>

8 Impairments	References	Responses
		<p>recognizable group of assets that function mainly independently of other units. This change in language reflects the nature of NPO operations, concentrating more on the service potential and mission-driven activities rather than solely economic advantages.</p> <p>Thus, is consistent with the guidance, ensuring that the term "operating unit" accurately represents the unique character of NPOs.</p>
<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?</p>	<p>G27.15</p>	<p>Yes, allowing impairments to consider both economic benefits and service potential is crucial for NPOs, as many assets provide non-financial benefits. This reflects the dual focus on mission and financial sustainability in the sector.</p> <p>The consultation paper backs up the claim that impairments to assets in an operating unit can consider both economic benefits and service potential. It clarifies that an asset's value in use is computed by taking the present value of future cash flows, economic benefits, and service potential. This strategy emphasizes that many non-profit organizations maintain assets primarily for their service potential, rather than for income creation. The guidance fits the distinctive aims of non-profit organizations (NPOs), concentrating on both financial sustainability and mission-related goals.</p> <p>As a result, the belief that this flexibility is critical for non-profit organizations is consistent with the advice presented in the article.</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</p>	<p>G19.4, G19.5, AG19.1-</p>	<p>Yes, expanding the definition of "business" to include NPO activities is appropriate. This aligns NPO accounting with for-profit frameworks while</p>

9 Combinations of entities	References	Responses
<p>alongside the amendments proposed, (including the expansion of examples of control)? If not, why not? What practical issues are experienced?</p>	<p>AG19.2</p>	<p>considering the unique nature of NPO operations. The consultation paper agrees with the assessment that broadening the definition of "business" to cover NPO operations is reasonable. Section 19 highlights that, while NPOs may not necessarily see themselves as businesses, the concepts of business combinations and the definition of a "business" are nonetheless applicable to NPO activities. This is especially true in circumstances where non-profit organizations merge or acquire operations.</p> <p>The modifications to the agreement include examples of control, such as the ability to appoint or dismiss the majority of a NPO's governing body. These examples clarify the concept of control within the NPO context, guaranteeing that the term "business" is appropriate for the specific elements of NPO activities.</p> <p>Therefore, the user's statement that expanding the definition of "business" aligns NPO accounting with for-profit frameworks while considering their specific nature is well-supported by the guidance.</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>Yes, the exemption makes sense for NPOs with net assets, as it simplifies the combination process. However, clear guidance on handling combinations involving NPOs with net liabilities would be helpful to avoid ambiguity.</p> <p>The consultation paper primarily supports the proposed exemption for NPOs with net assets, but it raises some concerns about NPOs with net liabilities. It underlines that the exemption simplifies the combination procedure when both businesses have positive net assets, which is consistent with the perception of reduced complexity. However, the document states that there is insufficient information to identify the entire impact of combinations in which one entity has net liabilities, emphasizing the need for clearer guidance on how to handle such circumstances to avoid ambiguity and problems.</p> <p>This confirms the suggestion that the exemption is viable, but it requires more</p>

9 Combinations of entities	References	Responses
		guidance on how to handle combinations with net liabilities.

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
<p>a) Do you agree that no further alignment changes are needed to:</p> <ul style="list-style-type: none"> i) Section 14 Investment in associates? ii) Section 15 Joint arrangements? iii) Section 20 Leases? <p>If not, why not?</p>	<p>Section 14 Section 15 Section 20</p>	<p>Yes, no further changes are needed in these sections. The guidance is adequate and aligns with the needs of NPOs.</p> <p>The consultation paper supports the assertion that no further alignment modifications are required in the aforementioned areas.</p> <p>Investment in Associates (Section 14) The guidance already addresses the needs of non-profit organizations. It establishes explicit criteria for identifying significant influence and allows for investment measurement flexibility, including the use of cost, equity, and fair value models. The guidance effectively addresses financial and operational concerns without requiring significant adjustments.</p> <p>Joint Arrangements (Section 15): The advice addresses a variety of joint arrangements, including jointly owned operations and companies, and provides numerous measurement techniques (cost, equity, and fair value). This flexibility allows NPOs to account for various types of joint ventures in a way that reflects the substance of their involvement. There is no need to make changes.</p> <p>Leases (Section 20): This section addresses both financial and operating leases, offering clear guidelines on lease categorization and accounting. The recommendation is adequate for NPOs, as it ensures that leasing transactions are</p>

10 Other topics in ED3	References	Response
		recorded publicly and consistently. The current guidance looks adequate, without requiring further revisions.
<p>b) Is any of the guidance in Section 34 needed by NPOs? If yes, which elements of the section are needed and why?</p>	Section 34	<p>The guidance in Section 34 on specialized activities like agriculture and service concessions may be relevant for specific NPOs involved in these sectors. However, it is not widely applicable to the majority of NPOs.</p> <p>Section 34 provides recommendations for specialized activities such as agriculture, extraction, and service concessions. It appears to be important for specific non-profit organizations active in these fields, but it is not universally applicable.</p> <p>Agriculture: This section provides practical guidance for non-profit organizations engaged in agricultural operations, including the recognition, measurement, and declaration of biological assets. For example, the guidance permits NPOs to assess biological assets at fair value or cost, depending on the availability of valid measurements.</p> <p>Service Concession Arrangements: The advise on service concessions is critical for non-governmental organizations (NGOs) that collaborate with governments or public sector authorities to manage public infrastructure projects. It clarifies how to recognize both financial and intangible assets based on the concession structure.</p> <p>The argument that Section 34 applies only to specific NPOs, particularly those involved in agricultural or public infrastructure, is consistent with the consultation document. The guidance includes sector-specific information, but most NPOs not involved in these specialized activities may not need this section. As a result, while it is not widely applicable, it remains extremely useful to people working in these industries.</p>

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
<p>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?</p>	<p>G7.20A– G7.20B,</p>	<p>Yes, the guidance is relevant, particularly for larger NPOs that engage in complex financing arrangements. It ensures that NPOs can report these transactions transparently.</p> <p>The inclusion of transparency provisions is critical because it promotes confidence and accountability among stakeholders such as donors and regulatory authorities. The consultation paper agrees that guidance on supplier finance arrangements is beneficial and relevant to Non-Profit Organizations (NPOs). Section 7.20A describes how supplier finance agreements enable non-profit organizations to properly manage their cash flows, which is crucial for both operational stability and long-term planning. These procedures are especially significant for larger NPOs, which frequently deal with complex finance processes. The guidance guarantees that such transactions are disclosed transparently, which is consistent with the user's statement that it assists non-profit organizations in reporting such transactions explicitly.</p>
<p>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?</p>	<p>G30.5A, G30- 31–32, AG30.26– AG30.43</p>	<p>Yes, the guidance on lack of exchangeability is useful, particularly for NPOs operating in regions with volatile currencies. It provides practical ways to account for currency issues that could otherwise complicate financial reporting.</p> <p>The consultation paper provides NPOs with clear and practical recommendations on how to deal with the lack of exchangeability in foreign currency transactions, particularly those operating in volatile currency countries. The paper outlines the methodologies NPOs can use to assess the spot exchange rate for non-exchangeable currencies and the disclosures required. The guidance is flexible, allowing for the use of an observable exchange rate or other estimation techniques. This is especially useful for non-profit organizations in regions where currency issues can complicate financial reporting. The guidance provides clarity in the way exchange rates are recorded, which is critical for accurate financial accounts. This supports the claim that the guidance provides practical solutions for currency challenges faced by NPOs. Therefore, the provided answer is well-supported by the paper.</p>

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
	<p>Overall, the structure of INPAG Exposure Draft 3 is commendable, particularly in its efforts to address the complexities of NPO financial reporting. However, the following areas could benefit from further attention:</p> <p>Practical Implementation for Smaller NPOs: While INPAG is comprehensive, smaller NPOs may struggle with the complexity of some sections, particularly those related to fund accounting and detailed expense reporting. To address this, it would be helpful to include tiered levels of reporting based on organizational size, similar to what is done in some national frameworks. This would ensure that smaller NPOs can comply without facing disproportionate administrative burdens.</p> <p>INPAG is designed to be comprehensive and globally applicable. However, smaller NPOs may find it difficult to implement certain aspects, such as fund accounting and detailed expense reporting. This could impose disproportionate administrative burdens on smaller organizations. In many jurisdictions, tiered reporting is adopted based on organizational size. Adding a tiered reporting approach for smaller NPOs would allow them to comply without excessive difficulty, ensuring inclusivity</p> <p>Training and Capacity Building: The introduction of INPAG represents a significant change, especially for organizations unfamiliar with international standards. Developing training resources, such as webinars, online modules, and workshops, could greatly assist NPOs in the transition phase. This would be particularly important in regions where regulatory oversight is less developed.</p> <p>INPAG introduces significant changes in financial reporting, particularly for organizations unfamiliar with international standards. This complexity can create a barrier to adoption, especially in regions with less developed regulatory oversight. Comprehensive training programs—webinars, online modules, and workshops—would help bridge the knowledge gap, providing practical support for organizations to transition smoothly.</p> <p>Donor Engagement: One of the strongest aspects of INPAG ED3 is the harmonization of donor reporting formats. This will greatly reduce the reporting burden on NPOs and increase transparency. However, widespread adoption will depend on how well donors, especially large institutional funders, accept and integrate these standards into their own reporting</p>

Reference	Comment
	<p>requirements. Additional outreach to engage major donors could facilitate broader acceptance.</p> <p>Widespread adoption will hinge on major donors, especially large institutions, integrating these standards into their reporting requirements. Engaging donors to ensure their support and integration of INPAG would lead to greater adoption and consistent use of financial reporting standards</p> <p>Global Applicability and Local Adaptation: INPAG is designed to be globally applicable, but local contexts vary greatly. Including additional guidance on how to adapt INPAG to local regulations, without losing the core principles, would be beneficial. This could be especially relevant in jurisdictions with different legal and financial reporting requirements for NPOs.</p> <p>NPOs operate in diverse jurisdictions with unique legal and financial reporting requirements. While INPAG provides a global framework, some regions may have specific requirements that differ from its guidelines.</p> <p>Providing flexibility and guidance on local adaptation would make INPAG more practical. For instance, countries with distinct financial reporting requirements for charitable organizations may need to adapt INPAG to comply with both local laws and international standards.</p> <p>Ongoing Review and Updates: Given the rapidly evolving landscape of NPO funding and accountability, it will be essential to periodically review and update INPAG. A mechanism for regular updates, informed by feedback from global stakeholders, will ensure that the guidance remains relevant and practical for all NPOs.</p> <p>The landscape of NPO funding and accountability is constantly evolving due to new funding mechanisms, regulatory changes, and shifts in public expectations . As such, standards like INPAG need to be agile to remain relevant. formal mechanism for receiving feedback from stakeholders and incorporating it into regular updates ensures that INPAG evolves alongside the sector’s needs. This iterative process is vital for maintaining trust and compliance among NPOs.</p> <p>Illustrative Examples: While the illustrative examples provided in the exposure draft are helpful, additional examples from different types of NPOs—ranging from small community-based organizations to large international entities—could improve the practical utility of the guidance. For example, scenarios involving multi-donor projects, or NPOs operating in</p>

Reference	Comment
	<p>multiple countries, would add depth.</p> <p>NPOs vary widely in size, mission, and operational complexity. Small community-based organizations face different financial challenges compared to large international entities. Including more diverse examples in INPAG would make the guidance more relatable and easier to implement. NPOs often deal with complex financial situations, such as multi-donor projects and operations in multiple countries. Illustrative examples reflecting these scenarios would help clarify how INPAG applies in such contexts.</p> <p>In summary, INPAG ED3 sets a strong foundation for global non-profit accounting, but further considerations for smaller NPOs, capacity building, and donor engagement will be critical to its success.</p>