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:

<table>
<tr><td>First name:</td><td>Diro Tafa</td><td>Country: (this should be the country in which you are based)</td><td>Ethiopia</td></tr>
<tr><td>Last name:</td><td>Birri</td><td rowspan="5">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 state)</td><td rowspan="5">NPO, i,e preparer of financial statements</td></tr>
<tr><td>Email:</td><td></td></tr>
<tr><td>Position:</td><td>Director, Finance and administration</td></tr>
<tr><td>Organisation: (who do you work for)</td><td>Cure blindness project</td></tr>
<tr><td>Response submitted:</td><td>• on behalf of my organisation or
• as an individual
[as Individual]</td></tr>
<tr><td colspan="3">Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.</td><td>Agree</td></tr>
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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	We agree with the removal of the requirement to present funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses (G5.3, AG5.4). This will simplify the financial presentation without compromising clarity, as the fund movement disclosures will still ensure transparency.
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	Yes, the guidance in Section 36 should ensure that material funds are identified (G36.3–G36.4, Figure AG36.1). The inclusion of clear criteria for fund designation and the required disclosure of fund balances provide the necessary safeguards against misidentification.
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	We agree that income, expenses, assets, and liabilities should be tracked for each fund (G36.5, G36.7, AG36.3). This increases accountability and enables better financial monitoring, though the added administrative burden could be a drawback for smaller NPOs.
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	Yes, the two criteria for determining a fund as restricted are sufficient (G36.9). This aligns with standard donor restrictions and fundraising commitments.
e)	In order to provide transparency about the finances of an individual fund, do you agree that all the expenses should	G36.11–G36.12	We agree that all expenses should be charged against a restricted fund, even in cases where there are insufficient resources or eligibility issues (G36.11–G36.12).

1 Fund accounting	References	Response
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?		This will provide a complete view of fund activity and facilitate more accurate financial reporting.
f) Do you agree with the NPO funds disclosures requirements? If not, what would you change and why?	G36.21–G36.23	We agree with the fund disclosure requirements (G36.21–G36.23). Transparency on fund movement and balances will help users understand fund performance better.
g) Do the Illustrative examples demonstrate the key concepts in fund accounting? If not, what would you change and why?	Implementation Guidance – Section 36	The illustrative examples demonstrate the key concepts well. They are straightforward and help clarify how to apply fund accounting in practice.

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	G24.43–G24.47, AG24.45–AG24.47	We agree with the rebuttable presumption that a by-nature classification of expenses is used unless another classification provides more relevant and reliable information (G24.43–G24.47). This approach reduces complexity and provides flexibility.

2 Presentation of expenses	References	Response
and reliable information to the users of the financial statements? If not, why not?		
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	Yes, the rationale for using a classification other than by nature should be disclosed (G24.44). This provides clarity for the users of financial statements.
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	We agree that a narrative description of expenses is sufficient when a functional or mixed presentation is used (G24.46, AG24.48). Quantification would add complexity without substantial benefit to users.
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	Yes, We agree with the expense disclosure requirements (G24.50–G24.57). They provide clarity on cost structure without overwhelming users with unnecessary details.
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	The definitions of direct costs, shared costs, and support costs are clear and enable full cost identification (G24.48–G24.49). This will be useful for internal and external stakeholders.
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	We agree that fundraising and investment management costs should be included as fundraising activities (G24.64–G24.66). These costs directly contribute to the overall financial health of the NPO.
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	G24.72	We agree with the pragmatic exception regarding splitting fundraising costs from other costs (G24.72). This is a cost-efficient solution that balances practicality and the benefit of detailed information to stakeholders.

2 Presentation of expenses	References	Response
information benefit to stakeholders? If not, what would you change and why?		
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	Yes, the costs for each fundraising category should be disclosed separately and presented gross (G24.74). This will aid transparency and provide clearer insights into NPO activities.
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)	We agree that related party transactions need not be disclosed when governing body members and other key personnel receive arm's-length benefits (G33.18 a)–G33.18 b)). This avoids unnecessary complexity in reporting.

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	We agree that Section 37 requirements only apply if supplementary statements are prepared (G37.1–G37.2). This ensures flexibility without overburdening NPOs that do not produce such statements.

3 INPAG Practice Guide 1	References	Response
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	Yes, there is no need for a whole-of-NPO supplementary statement if the information is already disclosed in the financial statements (G37.3, G37.10–G37.12).
c) Do you agree with the format of the Supplementary statement? If not, what would you change and why?	SS.5	The format of the supplementary statement is clear and provides relevant details. It could benefit from minor adjustments for complex or multi-donor projects.
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	We agree with the options for capital and inventory-related cost disclosures (SS.18–SS.21). This provides flexibility in reporting capital-related expenses.
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	Yes, it is appropriate for supplementary statements to be published as an annex to general purpose financial reports (SS.25–SS.26). This maintains the distinction between general and specific reporting.

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	The illustrative financial statements cover most prevalent NPO transactions. However, more examples related to specific donor-reporting requirements or joint ventures could enhance practical application.

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	We agree with the revised description of net assets as an element (G2.73). This aligns with the overall framework and provides a clear basis for measuring financial health.
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	The use of the term "equity claims" is appropriate (G2.74, AG2.6, AG2.7, Section 22). This concept clarifies how certain financial instruments fit within the NPO context.
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	We agree with the removal of paragraphs related to options, rights, and warrants and the retention of convertible debt and other similar instruments (G22.12–G22.15).

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	We agree with the pragmatic approaches for INPAG first-time adoption (G38.11–G38.12). They reduce the implementation burden while ensuring a reasonable transition.
b) Do you agree that compliance with INPAG can be expressed in relation to the financial statements only for a two-year transitional period? If not, why not?	G38.5–G38.6	Yes, expressing compliance with INPAG for the financial statements during a two-year period is a reasonable transitional approach (G38.5–G38.6).

Question 7: Application of fair value

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

7 Application of fair value	References	Responses
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	The guidance on fair value hierarchy for NPO assets and liabilities is useful (AG12.1–AG12.11). However, it could benefit from more examples relevant to small NPOs.
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	Yes, The additional guidance on donated assets (investment property, property, plant, and equipment, intangible assets) is comprehensive (G16.7, G17.10, G18.14).

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	Yes, inventory impairment using cost adjusted for loss of service potential is appropriate (G27.2–G27.4).
b) Do you agree that the term operating unit better reflects the nature of an NPO’s operations and with its proposed definition? If not, what alternative term would you use and why?	G27.8	The term "operating unit" better reflects NPO operations (G27.8).
c) Do you agree that impairments to assets that form an operating unit can take account of other economic benefits and service potential? If not, what would you change and why?	G27.15	We agree that impairments can consider both economic benefits and service potential (G27.15).

Question 9: Combinations of entities

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

9 Combinations of entities	References	Responses
a) Do you agree that the term ‘business’ can be applied by NPOs when taken alongside the amendments proposed,	G19.4, G19.5, AG19.1–AG19.2	The broader definition of "business" to include NPO activities is suitable (G19.4, G19.5, AG19.1–AG19.2). It reflects the diverse nature of NPO operations.

9 Combinations of entities	References	Responses
(including the expansion of examples of control)? If not, why not? What practical issues are experienced?		
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	We agree with the exemption for NPOs with positive net assets, as it simplifies the accounting process (G19.24)

Question 10: Other topics in Exposure Draft 3

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

10 Other topics in ED3	References	Response
a) Do you agree that no further alignment changes are needed to: i) Section 14 Investment in associates? ii) Section 15 Joint arrangements? iii) Section 20 Leases? If not, why not?	Section 14 Section 15 Section 20	No further alignment changes are needed for Sections 14, 15, and 20. The guidance is adequate for NPOs.
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	Section 34 guidance on specialized activities like agriculture, extractive activities, and service concessions is helpful but may not be relevant for all NPOs.

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,	The guidance on supplier finance arrangements is relevant and useful (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	The guidance on lack of exchangeability is well-aligned with NPO operations (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
Reference: G5.3, AG5.4 (Fund Accounting)	**Comment:** The removal of the requirement to disclose funds with and without restrictions on the face of the Statement of Income and Expenses is a practical adjustment that simplifies the financial statement presentation. However, there should be clearer guidance on how this adjustment impacts donor transparency, as many donors rely on these distinctions. Additional illustrative examples would be useful to show how the new reporting model impacts various types of donors.
Reference: G24.43–G24.47 (Expense Presentation)	**Comment:** The rebuttable presumption that expenses should be classified by nature is helpful in reducing reporting complexity for smaller NPOs. However, it may not align with how many large NPOs operate, where a functional classification better reflects programmatic and support activities. Therefore, the rationale for using functional or mixed classification should include stronger guidance for larger or multi-program NPOs, ensuring consistency and transparency.
Reference: G27.2–G27.4 (Impairments of Inventory Held for Distribution)	**Comment:** The guidance to measure impairments on inventory using cost adjusted for loss of service potential is appropriate for many NPOs. However, clearer examples of how to apply this in practice, particularly for intangible service-oriented programs, would assist users in effectively implementing the guidance.
Reference: G37.1–G37.2	**Comment:** While the optional preparation of Supplementary Statements is helpful, there should be additional guidance on the circumstances in which it becomes essential to prepare such statements, particularly for NPOs managing multi-

Reference	Comment
(Supplementary Statements)	year or multi-donor grants. Offering more illustrative examples of how to consolidate project-level reporting into these supplementary statements would be useful.
Reference: G38.5–G38.6 (Transition to INPAG)	**Comment:** The two-year transition period for narrative reporting is a reasonable concession, but it would be beneficial to clarify what kinds of narrative reports are necessary to ensure a smooth transition. Offering step-by-step transition guidance, particularly for smaller or resource-limited NPOs, would help in reducing the compliance burden.
Reference: AG16.7, G17.10, G18.14 (Application of Fair Value)	**Comment:** The additional guidance on donated assets is welcomed, but it could benefit from clearer, sector-specific examples on fair value adjustments. For instance, donations of medical supplies, volunteer time, or large fixed assets such as land should be illustrated more comprehensively to show fair value determination in real-world settings.
Reference: G19.24 (Combinations of Entities)	**Comment:** The proposed exemptions for combinations of NPOs with net liabilities should be examined further. There may be practical challenges in determining net assets, particularly in humanitarian or crisis-driven contexts, where NPO mergers are critical to sustaining services. A more flexible approach may be warranted here to account for such situations.
Reference: G2.73, G2.74 (Equity and Net Assets)	**Comment:** The definition of "net assets" and the use of the term "equity claims" are sound adjustments for NPO contexts. However, these terms should be further explained in relation to complex multi-donor projects or endowment funds, which may create difficulties in distinguishing between liabilities and residual assets. More detailed guidance on these issues is needed.
Reference: G24.72 (Fundraising Costs and Related Disclosures)	**Comment:** The pragmatic exception that allows fundraising costs to not be split if the benefit to stakeholders does not outweigh the effort is beneficial for smaller NPOs. Nevertheless, there should be further criteria or thresholds provided to avoid inconsistent applications across organizations.