



**INTERNATIONAL FINANCIAL REPORTING**  
FOR NON PROFIT ORGANISATIONS

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

### **Response template**

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

Comments are most helpful if they:

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

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

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

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

**Respondent information:**

<b>First name:</b>	David	<b>Country:</b> (this should be the country in which you are based)	Australia
<b>Last name:</b>	Hardidge	<b>Professional interest:</b> please choose from: <ul style="list-style-type: none"> <li>• NPO, ie preparer of financial statements,</li> <li>• auditor,</li> <li>• accounting standard setter,</li> <li>• professional accounting organisation,</li> <li>• regulator of NPOs,</li> <li>• donor,</li> <li>• academic,</li> <li>• civil society,</li> <li>• user of NPO services,</li> <li>• other (please state)</li> </ul>	Auditor
<b>Email:</b>			
<b>Position:</b>	Individual		
<b>Organisation:</b> (who do you work for)	<b>Individual</b>		
<b>Response submitted:</b>	<ul style="list-style-type: none"> <li>• as an individual</li> </ul>		
Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.			Agree

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

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## Specific Matters for Comment

### Question 1: Fund accounting

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

1 Fund accounting	References	Response
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>Australia does not have mandated fund accounting or mandated disclosure on the income statement for restricted vs unrestricted funds. Though Australia has some disclosures around restricted cash held.</p> <p>I do not agree with the mandated requirement to present funds with restrictions and funds without restrictions, given the extra costs that will be involved, the likely disputes with auditors on classification (as restrictions are not linked only to enforceable grant obligations), and issues in relation to reduced information when funds are combined.</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	Refer response 1(a).
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	<p>No, I do not.</p> <p>Refer response 1(a).</p>

1 Fund accounting	References	Response
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	Refer response 1(a).
e) In order to provide transparency about the finances of an individual fund, do you agree that all the expenses should be charged against a fund with restrictions even if there are currently insufficient resources to cover these, or specific costs are not eligible under a grant arrangement? If not, what alternative would you propose and why?	G36.11–G36.12	No comment. Refer response 1(a).
f) Do you agree with the NPO funds disclosures requirements? If not, what would you change and why?	G36.21–G36.23	Refer response 1(a).
g) Do the Illustrative examples demonstrate the key concepts in fund accounting? If not, what would you change and why?	Implementation Guidance – Section 36	No comment

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

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

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

2 Presentation of expenses	References	Response
a) Do you agree that there is a rebuttable presumption that a by nature classification of expenses is used unless this doesn't provide the most relevant and reliable information to the users of the financial statements? If not, why not?	G24.43–G24.47, AG24.45–AG24.47	I agree.
b) Do you agree that the rationale for using a classification of expenses other than by nature should be disclosed? If not, why not?	G24.44	While I agree, and that maybe in some circumstances there will be useful information, in reality I expect that the disclosures published are going to be boiler plate – i.e. along the lines that expenses have been classified by function because it will provide more useful information.
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	<p>No, I do not agree. For most NPOs, the expenses will be (as noted in paragraph AG24.48) “employee benefits, supplies and materials and depreciation”.</p> <p>I suggest that there be a requirement to include the disclosure of those expenses:</p> <ul style="list-style-type: none"> <li>• employee benefits</li> <li>• supplies and materials</li> <li>• depreciation</li> </ul> <p>I suggest that regard be made to the recently issued IFRS 18, and provide simplifications or not requiring compliance with technicalities of those expenses being included in inventory, and therefore movements in inventory affecting the amount of those items being recognised in net surplus.</p>
d) Do you agree with the expense disclosure requirements? If not, what would you change and why?	G24.50–G24.57, G33.7–G33.11, G28.38	<p>I suggest clarifying that disclosures for volunteers (paragraph G24.52) are related to volunteers who are not employees.</p> <p>I also suggest that the requirements be clarified in relation to whether losses, write-offs and special payments can be included as a single line item, or needs to be disclosed as 3 items. I suggest that at least special payments are separately disclosed.</p>

2 Presentation of expenses	References	Response
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	I agree with the categories.
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	I agree, though the concept is likely to be new to many NPOS.
g) Do you agree with the pragmatic exception that fundraising costs do not need to be split from other costs where the cost of doing so would exceed the information benefit to stakeholders? If not, what would you change and why?	G24.72	I agree.
h) Do you agree that the costs for each of the three categories of fundraising activity should be separately disclosed and presented gross? If not, what should be disclosed and why?	G24.74	<p>I do not agree with the mandated disclosure of fundraising costs. While I understand that users have been requesting these disclosures, the misuse of focusing on fundraising costs can be harmful to NPOS.</p> <p>The Australian Charities regulator, the ACNC, was some guidance on the issue, emphasising that it costs money to run a charity:  <a href="https://www.acnc.gov.au/for-public/understanding-charities/charities-and-administration-costs">https://www.acnc.gov.au/for-public/understanding-charities/charities-and-administration-costs</a></p> <p>I suggest that the IFR4NPO project not be an enabler of harm to NPOs, and instead focus on the communication and education about the misuse of the disclosure.</p> <p>I also believe that the disclosure will be misleading given that support costs do not have to be allocated (paragraph 24.49(c)), essentially creating an option. I agree with not having to apportion support costs, as such an allocation would be arbitrary.</p>

2 Presentation of expenses	References	Response
		<p>Arbitrary is defined as “based on whim or personal preference, without reason or pattern”.</p> <p><a href="https://www.dictionary.com/browse/arbitrary">https://www.dictionary.com/browse/arbitrary</a> Viewed 16 September 2024</p> <p>On the basis that arbitrary is based on whim or personal preference, then there is no logical reason in being able to determine how much is allocated.</p> <p>The consequence of allowing an option to allocate (or not) costs on an arbitrary basis means a wide variety of amounts disclosed for similar facts and circumstances, resulting in the disclosures not being meaningful – despite users having a penchant for requesting these disclosures.</p>
<p>i) Do you agree that grants or donations made in arm’s-length transactions with governing body members and any services they receive on the same terms as other eligible service recipients need not be disclosed as a related party transaction? If not, why not?</p>	<p>G33.18 a)- G33.18 b)</p>	<p>No, I do not agree.</p> <p>The Australian Accounting Standards Board has issued guidance on applying IAS 24 (AASB 124) in the not-for-profit sector, including guidance on what really is arm’s length.</p> <p>It is located at: <a href="https://www.aasb.gov.au/pronouncements/board-agenda-decisions/">Board Agenda Decisions (aasb.gov.au)</a> <a href="https://www.aasb.gov.au/pronouncements/board-agenda-decisions/">https://www.aasb.gov.au/pronouncements/board-agenda-decisions/</a> and the specific Agenda Decision (that includes the guidance) is at: AASB Board Agenda Decision - AASB 124 Materiality of Key Management Personnel Related Party Transactions of Non-for-Profit Public Sector Entities - April 2017 <a href="https://www.aasb.gov.au/admin/file/content105/c9/Agenda_Decision_AASB124_KMP_Related_Transactions_Public_Sector.pdf">https://www.aasb.gov.au/admin/file/content105/c9/Agenda_Decision_AASB124_KMP_Related_Transactions_Public_Sector.pdf</a></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	No comment
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	No comment
c) Do you agree with the format of the Supplementary statement? If not, what would you change and why?	SS.5	No comment
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	No comment
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	No comment

#### 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
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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 cash flow statement having separate line items for many expense lines is too much – essentially requiring (as many entities follow illustrative examples line for line) working capital cash flow adjustments for each such line item.
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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
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	I understand the reasoning. However, it can be a bit confusing when there are two net assets on the balance sheet (refer illustrative financial statements).  Overall, I agree with the proposal.
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	I understand the reasoning, and essentially renaming share capital as equity claims. However, for some NPOs, the equity holders / members are entitled to the entire net assets – even if only part is represented by “share capital”.  Overall, I agree with the proposal.
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	G22.12–G22.15	I agree. This reflects the likelihood (or lack of) of the particular items issued by NFPs.

5 Equity	References	Response
and share splits and convertible debt or similar compound financial instruments are retained? If not, why not?		

### 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	No comment
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	No comment

### 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>No, I do not agree. The guidance on restrictions appears to be inconsistent with paragraph G12.5. That is, the restriction needs to go with the asset, and that the restriction is not voluntarily imposed within the control of the reporting entity.</p> <p>I did not understand what paragraph AG12.6 “the location or technical specifications” meant in the context of the paragraph. For example, I would have expected that the location of a property (e.g. CBD or outside CBD) would be taken into account in the valuation. Similarly, in relation to the technical specifications, whether the building is 5 levels or 3 levels.</p> <p>Paragraph AG 12.9 that refers to not taking into account restrictions does not appear consistent with paragraph G12.5</p> <p>While I agree with the reasoning of paragraph AG 12.10 in referring to the value to the donor – I believe that it would be more appropriate to use the carrying value to the donor, not cost (which could be historical original cost).</p>
<p>b) Do you agree with the additional guidance provided for donated:</p> <ul style="list-style-type: none"> <li>i) investment property (Section 16)?</li> <li>ii) property, plant and equipment (Section 17)?</li> <li>iii) intangible assets (Section 18)?</li> </ul> <p>If not, why not?</p>	<p>G16.7 G17.10 G18.14</p>	<p>I agree</p>

### Question 8: Impairments

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

8 Impairments	References	Responses
a) Do you agree that inventory held for distribution is measured for impairment using cost adjusted for any loss of service potential? If not, what would you change and why?	G27.2-G27.4	I believe the requirement can be improved by reference to something along the lines of Australian AASB 102 paragraph Aus 9.2:  For many inventories held for distribution, a loss of service potential would be identified and measured based on the existence of a current replacement cost that is lower than the original acquisition cost or other subsequent carrying amount.
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	I agree
c) Do you agree that impairments to assets that form an operating unit can take account of other economic benefits and service potential? If not, what would you change and why?	G27.15	I agree

### Question 9: Combinations of entities

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

9 Combinations of entities	References	Responses
a) Do you agree that the term 'business' can be applied by NPOs when taken alongside the amendments proposed, (including the expansion of examples of control)? If not, why not? What practical issues are experienced?	G19.4, G19.5, AG19.1-AG19.2	I agree the term business can be used (as it is in Australia when applied to NPOs under AASB 3.  NPOs often have issues in relation to how power is exercised (often via agreements rather than shares). The Australian AASB 3 has additional NFP guidance for NPOs.
b) Do you agree with the proposed exemption for two NPOs that have net	G19.24	No, I do not agree. I regard paragraph G19.25 as requiring, in a situation of a bargain purchase, that the amounts are double-checked. I believe that such double-checking

9 Combinations of entities	References	Responses
assets and that it should not apply where one NPO has net liabilities? If not, describe the practical and accounting issues that arise?		should occur in all cases of a bargain purchase, even if both entities have positive net assets – whether there is a bargain purchase should be double-checked.

### 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: <ul style="list-style-type: none"> <li>i) Section 14 Investment in associates?</li> <li>ii) Section 15 Joint arrangements?</li> <li>iii) Section 20 Leases?</li> </ul> If not, why not?	Section 14 Section 15 Section 20	<p>I agree for Section 14 Investment in associates and Section 15 Joint arrangements.</p> <p>In Australia, under AASB 16 we have included an option for NPOs to measure leased assets and liabilities (by class) for concessionary leases (significantly below-market terms and conditions principally to enable the entity to further its objectives).</p> <p>Many NPOs wish to retain the cost method. AASB 16 has extra disclosures for NPOs using leases under concessionary leases. I offer this for your information, and am not recommending such disclosures.</p>
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	<p>Agriculture – I do not agree that NPOs should be forced to use fair value for agricultural activities. It is very unusual to have such situations. The examples I have come across include agricultural training colleges. While bearer plants are exempted from using fair value, bearer animals (e.g. cattle) are not. Fair value is often very difficult to determine for partly-owned crops and for animals. Given that many crops etc. are short-term, there seems to be little need for fair value at end of the year, when the crop is sold the next financial year. I believe that the section should be removed, and NPOs use cost.</p> <p>Exploration for and evaluation of mineral resources. I believe that this section should be removed, and NPOs use the usual asset recognition criteria. I cannot recall any</p>

10 Other topics in ED3	References	Response
		<p>NPOs being involved in mining activities. Also, I do not agree with NPOs being given the ability to override the general capitalisation criteria, merely because the costs relate to mining activity.</p> <p>Service concession arrangements. The possibility that an arrangement might be a service concession arrangement often causes problems as auditors often ask for position papers etc., for what is often a complex topic. In the end, there are very few arrangements where the NPO is an operator. Areas most likely subject to the extra work include social housing. I believe that this section should be removed. In my experience the substantive provisions of the service concession arrangement standard is dealing with what the operator has paid for – which is often legally constructing an asset (such as toll road), when for accounting purposes the operator does not have control – so the accounting asset is a right to receive future cash flows from the grantor / government) (the financial asset model), or the right to access the asset (intangible asset model). I cannot recall any service concession arrangements where a private-sector NPO has constructed the asset.</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
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,	No comment
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	No comment

**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