



October 1, 2024

Ms. Samantha Musoke
Project Director, IFR4NPO

Dear Madam,

Namaste!

Sub: Comments of the Institute of Chartered Accountants of India (ICAI) on the Exposure Draft International Non-Profit Accounting Guidance (INPAG)- Part 3

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) acknowledges the opportunity to comment on the Exposure Draft *International Non-Profit Accounting Guidance (INPAG)- Part 3* issued by Chartered Institute of Public Finance and Accountancy (CIPFA) and Humentum.

We are thankful to you for accommodating our request to submit comments after the last date of submission of comments.

We may mention that in order to formulate comments on the aforesaid Exposure draft, following activities were undertaken by the ASB of ICAI:

- Exposure Draft hosted on ICAI website inviting comments from Indian stakeholders.
- Constituted and conducted meetings of the Study Group to consider the proposals given in the Exposure Draft and formulated views.
- ASB considered the proposals of the Exposure Draft and comments formulated by the Study group

On the basis of above, it may be noted that our comments on specific proposals of the Exposure Draft are included as responses/comments to the relevant questions in **Annexure 'A'**.

Yours sincerely,

CA. Pramod Jain
Chairman,
Accounting Standards Board

Annexure A

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>We do not agree with the removal of ED1 requirement to present funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses. We understand that such requirement has been proposed to be removed in ED3 since it is expected to simplify the information presented in the Statement of Income and Expenses. However, we are of the view that fund-wise information is useful for the users and ensures accountability.</p> <p>Moreover, Note-4 of the Illustrative Financial Statements pertaining to 'movement in funds' classifies funds with restrictions and funds without restrictions. We understand that illustrative financial statements are not the requirements of presentation, however, we are of the view that such fund-wise presentation provides more useful information to the users and providing this information on the face of Statement of Income and Expenses will not burden the NPOs since the exercise of providing the same is already undertaken by NPOs by way of providing such information in the notes.</p> <p>Therefore, we recommend that funds with restrictions and funds without restrictions should also be presented on the face of the Statement of Income and Expenses.</p>

1 Fund accounting	References	Response
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	We agree that the guidance in Section 36 will ensure that material funds can be identified.
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 are tracked for each fund. This information is useful and sometimes donor requires this information.
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	We agree with the two criteria for a fund to be a fund with restrictions.
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	<ol style="list-style-type: none"> 1. We do not agree that all expenses should be charged against a fund even if costs are not eligible under the terms of a grant arrangement. Charging ineligible expenses as per the grant arrangements to a fund would breach the terms of the grant and result in inappropriate allocation of costs which an NPO is not permitted to charge to the fund. Such an allocation is not fundamental to the grant's terms. Accounting treatment should also consider the specific contractual arrangements with the donor. Additionally, full cost of the project, including ineligible expenses, can be provided to the donors by disclosing this information in the notes, rather than directly charging those costs to the fund. This approach ensures transparency while maintaining compliance with the grant terms. 2. From the reading of paragraph G36.12, it can be interpreted that a fund can have negative balance. We do not agree that a fund can have negative balance because once the expenses are incurred out of a particular fund, an NPO must recognise a receivable/financial asset in accordance with the terms of arrangement with the grantor if there is a realistic expectation that future income will be received. Shortfall of expenses, i.e., expenses not expected to be recoverable will be compensated through general fund. Therefore, language of paragraph G36.12 may be made clear in this regard.

1 Fund accounting	References	Response
		3. Paragraph G36.12 states that the legitimate expenses attributable to a restricted fund shall be charged to the fund even if there is an insufficient balance on that fund at that time to fund all the expenses. From the reading of same, it can be interpreted that legitimate expenses attributable to a restricted fund shall only be charged to the fund and not recognised in the Statement of Income and Expenses, which is not appropriate. Therefore, this paragraph may be amended to clarify that legitimate expenses attributable to a restricted fund must be recognised in the Statement of Income and Expenses and a detailed fund-wise breakdown showing the movement of restricted funds shall be included in the notes to the financial statements.
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 NPO funds disclosures requirements.
g) Do the Illustrative examples demonstrate the key concepts in fund accounting? If not, what would you change and why?	Implementation Guidance – Section 36	We agree that the Illustrative examples demonstrate the key concepts in fund accounting.

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	We 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.
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	We agree that the rationale for using a classification of expenses other than by nature should be disclosed.
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	Where a functional or mixed presentation of expenses is used, we are of the view that only the narrative description will not suffice and disclosure of amounts of nature-wise expenses incurred on each function line item should also be made mandatory.
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	We agree with the expense disclosure requirements. However, with respect to Example 2 of Implementation Guidance on Section 24 (Part II), <i>Classification of Expenses</i> , pertaining to ex-gratia payment, it may be clarified in the example whether revenue received of CU50000 and costs of CU40000 are to be presented gross or net income of CU10,000 is to be presented.
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	We 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.
f) Do you agree that commercial and trading activities that are for the purposes of fundraising and investment management	G24.64–G24.66	We agree that commercial and trading activities that are for the purposes of fundraising are included as fundraising activities.

2 Presentation of expenses	References	Response
costs associated with a fund whose purpose is to generate future returns are included as fundraising activities? If not, why not?		With respect to the investment management costs, we are of the view that the investment management costs should not be considered part of fundraising costs because investment management involves the ongoing administration and oversight of funds, whether managed internally or by a third party. This activity continues regardless of the fundraising process. Once funds are raised, their management becomes a regular operational activity rather than a direct fundraising expense. Management of corpus built using funds raised in previous years do not imply that the associated investment management costs should be categorized as fundraising costs each year. Including investment management costs as part of fundraising expenses could misrepresent the nature of these costs.
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	We 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. However, it is suggested that a narrative description of own assets used for fund-raising purposes should also be disclosed in the financial statements.
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	We agree that the costs for each of the three categories of fundraising activity should be separately disclosed and presented gross.

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 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.
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	We agree that a whole of NPO supplementary statement need not be presented if the additional information is already there in the financial statements and/or notes.
c) Do you agree with the format of the Supplementary statement? If not, what would you change and why?	SS.5	We agree with the format of the Supplementary statement.
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 the disclosure of capital and inventory related costs.
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	We agree that the Supplementary statements are not part of the general purpose financial report but can be published as an annex.

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 proposed for the first time adoption of INPAG.
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	<p>We agree that compliance with INPAG can be expressed in relation to the financial statements only for a two-year transitional period.</p> <p>However, with respect to paragraph G38.2, we have following comments:</p> <p>Paragraph G38.2 is applicable in cases where NPO had applied INPAG in a previous reporting period but has stopped applying the same or was unable to meet the full requirements of INPAG. In such cases, an NPO must either apply Section 38 or apply INPAG retrospectively in accordance with Section 10, <i>Accounting policies, estimates and errors</i>; as if the NPO had never stopped applying INPAG.</p> <p>To ensure that the threshold for availability of the option to apply this section again is sufficiently tight, the circumstances in which INPAG requirements can be applied afresh by the NPOs shall be laid down.</p> <p>Paragraph G38.6 states that if the full requirements are not met within the two years following the date of adoption of INPAG, the NPO shall explain that it has not met the full requirements of INPAG and is unable to make an explicit and unreserved statement of compliance. This shall be the case even if the financial statements comply with INPAG. In these circumstances the NPO shall follow the requirements of paragraph G38.2. For better understanding, reference of paragraph G38.6 may also be added in paragraph G38.2, which will avoid confusion regarding situations in which paragraph G38.2 is applicable.</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 data-bbox="367 395 2069 464">As suggested in our comment letter on Exposure Draft of INPAG- Part 1, since smaller NPOs are large in number, additional exemptions and relaxations as may be considered appropriate may be provided to them. For example:</p> <ul data-bbox="421 507 2069 1377" style="list-style-type: none"><li data-bbox="421 507 2069 576">• Smaller NPOs may be allowed to measure the ‘value in use’ under Section 27, <i>Impairment of Assets</i>; on the basis of reasonable estimate thereof instead of computing the same by present value technique.<li data-bbox="421 619 2069 727">• Smaller NPOs may be permitted to calculate and account for the accrued liability under the defined benefit plans and other long-term employee benefits by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year; instead of Projected Unit Credit Method.<li data-bbox="421 770 2069 879">• Transition period for smaller NPOs from 2 years to three years, recognizing their limited resources and capacity for rapid implementation may be considered. Additionally, a simplified compliance option during the transition may be considered focused on financial statements only, without the immediate requirement for full narrative reporting.<li data-bbox="421 922 2069 991">• Smaller NPOs may be allowed to recognise donated assets at historical cost rather than fair value, where it is impracticable to measure fair value.<li data-bbox="421 1034 2069 1102">• Section 29, <i>Income Taxes</i>, may be made applicable for smaller NPOs for current tax requirements only. Deferred tax related provisions may be made optional for smaller NPOs.<li data-bbox="421 1145 2069 1214">• More guidance and illustrative examples may be provided for smaller NPOs with respect to criteria for distinguishing between restricted and unrestricted funds and usage of mixed or functional analysis of expenses.<li data-bbox="421 1257 2069 1294">• Section 33, <i>Related Party Disclosures</i>; and Section 7, <i>Statement of Cash Flows</i> may be made optional for smaller NPOs.<li data-bbox="421 1337 2069 1374">• A simplified method for tracking and disclosing immaterial funds may be considered.

Reference	Comment
	<ul style="list-style-type: none"><li data-bbox="421 252 2067 323">• A simplified cost allocation approach for smaller NPOs, focusing on direct costs with optional disclosure of shared and support costs may be considered. <p data-bbox="371 363 1563 394">We also suggest that smaller NPOs may be determined using criteria, such as, receipts, net-worth, etc.</p>