



**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>	Moulaye	<b>Country:</b> (this should be the country in which you are based)	South Africa
<b>Last name:</b>	Camara	<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>	Ecosystem organisation
<b>Email:</b>	moulaye.camara@humentum.org		
<b>Position:</b>	Technical Director, Funding & Financial Systems		
<b>Organisation:</b> (who do you work for)	<b>Humentum</b>		
<b>Response submitted:</b>	<ul style="list-style-type: none"> <li>• on behalf of my organisation or</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
<p>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?</p>	<p>G5.3, AG5.4</p>	<p><b>Yes</b></p> <p>The multi-column presentation was problematic because it results in so many numbers on the face of the Statement of Income &amp; Expenses. The Movement in funds note provides a lot of this information. However, with the Statement of Income and Expenses now ending with a single figure for surplus or deficit, there is risk of misinterpretation by users. (I.e deficit = mismanagement, and surplus = don't need more funds / or taxable).</p> <p>The single column approach makes it harder to present the (multi-column) statement of changes in net assets directly underneath the statement of income and expenses.</p> <p><b>INPAG should require that the Statement of Changes in Net Assets be the first primary statement to be presented, before the Statement of Income and Expenses and Balance Sheet.</b></p> <p>The language in G5.3 that the multi-column approach MAY be used, is good.</p>
<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?</p>	<p>G36.3–G36.4, Figure AG36.1</p>	<p><b>Yes, but..</b></p> <p>The requirements to do fund accounting in INPAG also imply project accounting. For example, when project costs that are not directly covered by grant income need to be charged to a restricted fund. It's essential that NPOs clearly distinguish between funds</p>

1 Fund accounting	References	Response
		<p>(which are linked to fiduciary responsibility and donor restrictions) and projects (which relate to activities or purposes).</p> <p><b>Implementation guidance should explicitly address how to handle situations where unrestricted funds are used to cover project funding gaps, ensuring clarity in accounting systems.</b></p> <p>Implementing both fund and project accounting requires accounting systems that can code expenses in multiple dimensions—nature of expense, project/purpose, activity/function, and funding source. This is beyond the capacity of many accounting systems available to smaller NPOs.</p> <p><b>We recommend that INPAG clarify the distinction between fund accounting and project accounting, acknowledging that both are necessary.</b></p> <p><b>Additionally, provide training or advice on how NPOs can make use of current functionality in commonly used software packages to achieve the same outcome.</b></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><b>No</b></p> <p>It is important that assets and liabilities are allocated to funds. But there are some current assets and liabilities where it is not possible to know the fund allocation at the time of recording:</p> <p>Eg</p> <ol style="list-style-type: none"> <li>1) Cash advance to a programme officer to cover a range of expected expenses on different projects or funds. Allocation to expenses and funds is only possible when accountability is given</li> <li>2) Prepayment of fuel for a pool car – allocation to funds will be done after analysis of journeys.</li> <li>3) Payroll control accounts, including amounts for net pay, taxes, social security, and advances. It is practical to allocate gross pay and employers pension contributions to funds using the payroll journal. It is not practical to do this for each control account.</li> </ol>

1 Fund accounting	References	Response
		<p>4) Pooled bank accounts – where the funds of many donors or projects are kept in a single bank account, it may not be possible to know the amount attributable to each fund at any moment in time. Eg funds are kept in foreign currency accounts when sent from the donor, but transferred to a single pooled local currency account monthly, on the basis of expected cashflow needs.</p> <p>We propose that it be essential to track use restrictions associated with non-current assets, but that the requirement to track all current assets and liabilities be removed.</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?	G36.9	<b>Yes</b>
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	<p><b>Yes</b> See comments on Question 1b) above.</p> <p>If a donation is for a specific purpose, it has to be put within a fund. But that donation may be just a contribution towards the full costs of that purpose. Unrestricted funds could also be spent on that same purpose. In certain cases, the name of the fund will need to include both the income source and its intended purpose.</p> <p>Further clarity is needed to identify ‘all the legitimate expenses’ that must be charged to a fund. We agree that it should include direct costs incurred that are expected to be funded by current or future income to that fund. It should <i>also</i> include the full amount of valid support costs associated with the direct costs, and exchange gains and losses, even if these are not covered by the donor. This is important to understand and communicate the true costs, and provide information that supports better quality of funding.</p> <p>We recommend that the Implementation Guidance be updated to include guidance or examples, such as fund names that include both the purpose and funding source (‘Project A – Donor X’, ‘Project A – unrestricted’, and / or use of sub-funds.</p>

1 Fund accounting	References	Response
		It would also be helpful to have clarity about when to charge a cost to its expenditure line code, and when to post a transfer between funds, and how the transaction level accounting interacts with the financial statement presentation.
f) Do you agree with the NPO funds disclosures requirements? If not, what would you change and why?	G36.21–G36.23	<b>Yes</b> It is useful to require disclosures when funds have negative balances.
g) Do the Illustrative examples demonstrate the key concepts in fund accounting? If not, what would you change and why?	Implementation Guidance – Section 36	<b>Yes, but</b> There are two types of transaction that it would be useful to see modelled 1) inter-fund borrowing, eg using cash from a grant with restrictions, to pay for unfunded costs such as support staff salaries. Much as this is not recommended or best practice, it is common, and it would be good to understand how to do transparent accounting. 2) The use of unrestricted funds to cover underfunded costs (eg support costs or salaries) or ineligible project expenses (eg FX losses or procurements where compliance procedures were not followed).

## 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	<b>Yes</b> That said, the inclusion of 'research and development' as an example of a natural cost in the illustrative financial statements is potentially confusing, as it seems to be an activity or function rather than an input.
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	<b>Yes</b>
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	<b>Yes</b>
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	<b>Yes</b>
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	<b>Yes the descriptions are fine at a principles level.</b> But they are not specific enough to create consistency. <ol style="list-style-type: none"> <li>1) <b>There is a cost benefit trade off</b> (eg tracking each photocopy made at a shared photo copier and allocating the cost of the paper, toner, maintenance and floor space to direct costs, vs considering photocopy costs as a support cost). This means that better resourced organisations can afford to do more tracking, allocating and cost recovery than under-resourced ones.</li> <li>2) When considering an international entity, costs which are indirect / support costs from a national viewpoint (eg country head office in the capital, country director and CFO), and often counted as direct costs from the HQ viewpoint. This is not addressed in INPAG.</li> </ol>

2 Presentation of expenses	References	Response
		<p>One of the key reasons for disclosing support costs is to enable the calculation (and disclosure) of an indirect cost rate. For this to be done consistently it requires</p> <ol style="list-style-type: none"> <li>1) A requirement or example of such a disclosure in INPAG</li> <li>2) Clearer guidance about what should or should not be included in support costs and the direct cost base (eg should it include capital expenditure and grants made?).</li> </ol> <p><b>We recommend the development of a more rules based INPAG Practice Guide to harmonise the calculation and disclosure of indirect cost rates by NPOs.</b></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?	G24.64–G24.66	<p><b>Yes</b></p> <p>But recommend the term ‘fundraising costs’ be replaced with ‘cost of generating funds’ to reduce the confusion. For many readers, fundraising costs is synonymous with generating gifts, donations and grants only.</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?	G24.72	<p><b>Yes</b></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?	G24.74	<p><b>Yes</b></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	G33.18 a)–G33.18 b)	<p><b>Yes</b></p> <p>For example, a person with disabilities, who is on the board of an NPO that represents people with those types of disabilities, should not be compelled to disclose that they have benefited from the NPO’s services, in the same way that any other eligible beneficiary might.</p>



2 Presentation of expenses	References	Response
not be disclosed as a related party transaction? If not, why not?		That said, if governing body members do not object to the disclosure of such benefits, it is helpful for building transparency and trust.

### 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	<b>Yes</b> For NPOs that do not receive grant funding, the format may not be relevant.
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	<b>No</b> We think that the statement presentation is much more user friendly, and the sub-totals and balances are important for reconciliation purposes.  It would be good to clarify whether or not movements relating to revaluation reserves and equity claims, which do not relate to funds, need to be included in the whole of entity supplementary information.
c) Do you agree with the format of the Supplementary statement? If not, what would you change and why?	SS.5	<b>Yes</b> The standardized expenditure headings are particularly helpful. We look forward to feedback from funders, especially members of the Donor Reference Group, as to whether the expenditure headings are suitable for their needs.

3 INPAG Practice Guide 1	References	Response						
		<p><b>But..</b>  Many donors require regular (eg monthly) 'liquidation' reports that show the amount of cash spent, and the amount remaining, as a basis for calculating the next remittance. These are usually on a cash basis, while the Supplementary Statements in INPAG Practice Guide 1 are on an accrual basis.</p> <p><b>The implementation guidance should spell out these differences and the implications, such that:</b></p> <ul style="list-style-type: none"> <li>• <b>NPOs appreciate the importance and significance of maintaining accrual-based records, even if their regular reporting to donors is on a cash basis.</b></li> <li>• <b>Donors appreciate the distinction between end of year (audited) project financial reports (accrual basis) for accountability / reconciliation, and periodic liquidation reports (cash basis) for remittance purposes.</b></li> </ul>						
<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?</p>	<p>SS.18–SS.21</p>	<p><b>Yes</b>  It would be good to clarify whether the depreciation being removed is the charge that year for all project related assets, or only the depreciation relating to the additions. In the illustrated financial statements, whole of NPO supplementary information, there is a reference from the supplementary information note to the fixed assets note, but the figure is not matching.</p> <p>It would be helpful to have more guidance on how to calculate the figure for 'opening balance including inventory and capital costs'. For the organisation as a whole, this would presumably be total net assets, less the Net Book Value of non-current assets and the value of inventory? In the illustrative financial statements, it is not clear how the figure 1,313 is derived from the balance sheet.</p> <table data-bbox="1025 1252 2016 1316"> <tr> <td>Opening balance including inventory and capital costs</td> <td>1,313</td> <td>959</td> </tr> <tr> <td>Closing balance including inventory and capital costs</td> <td>1,220</td> <td>1,313</td> </tr> </table> <p>This will be important when first adopting INPAG, but also as a 'proof in total' accuracy check on an ongoing basis</p>	Opening balance including inventory and capital costs	1,313	959	Closing balance including inventory and capital costs	1,220	1,313
Opening balance including inventory and capital costs	1,313	959						
Closing balance including inventory and capital costs	1,220	1,313						

3 INPAG Practice Guide 1	References	Response
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	<b>Yes</b>

#### 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	<p><b>Yes, but</b>  <b>There should be examples of grant reports (supplementary statements), and accompanying notes, including the different column options, prepared in accordance with INPAG Practice Guide 1.</b></p> <p>A common transaction that it would be useful to see is <b>inter-fund borrowing</b>, eg from an OFA with restrictions, to pay for unfunded costs such as support staff salaries.</p> <p>Many NPOs are subject to <b>income tax</b>, and it would be helpful to see how that would be shown on the Income and Expenditure statement.</p> <p>The staff costs note includes a line for 'taxes'. It is more common for <b>salaries to be shown gross</b>, with a separate line for employer's pension contribution.</p> <p>See comments in the general section below about the overall impact of grant accounting proposals (from ED2) on the illustrative financial statements.</p>

#### 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><b>No</b> Using the term 'net assets' (which implies debit) to describe a section of the financial statements that includes fund balances, equity claims and revaluation reserves (all credits) is confusing.</p> <p>In the illustrative financial statements, the top and bottom of the balance sheet both have the same label: 'Net assets', and revaluation reserve comes under the heading 'funds' even though it is not a fund.</p> <table border="1" data-bbox="1041 718 1982 1013"> <tr> <td><b>Net assets</b></td> <td></td> <td style="text-align: right;"><b>1,314</b></td> <td style="text-align: right;"><b>1,358</b></td> </tr> <tr> <td><b>Funds</b></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Unrestricted funds</td> <td style="text-align: right;">4</td> <td style="text-align: right;">692</td> <td style="text-align: right;">973</td> </tr> <tr> <td>Restricted funds</td> <td style="text-align: right;">4</td> <td style="text-align: right;">614</td> <td style="text-align: right;">385</td> </tr> <tr> <td>Revaluation reserve</td> <td></td> <td style="text-align: right;">8</td> <td style="text-align: right;">-</td> </tr> <tr> <td><b>Net assets</b></td> <td></td> <td style="text-align: right;"><b>1,314</b></td> <td style="text-align: right;"><b>1,358</b></td> </tr> </table> <p>In IFRS for SME, the financial statement element 'equity' includes retained earnings (akin to fund balances), share capital (akin to equity claims) and revaluation reserves (no change). A better name for the element could be <b>'Funds, reserves and equity claims'</b>. Since equity claims are known to be very rare, and revaluation reserves likely to be quite rare in the non-profit sector, in a majority of cases, this could be reduced simply to 'Funds'.</p> <p>The technical name of the financial statement element is of less consequence to users than the labels and heading on the financial statements themselves. <b>We recommend that the heading for this section of the balance sheet be 'Source of net assets', with sub-headings for 'funds', 'reserves' and 'equity claims' as needed.</b></p>	<b>Net assets</b>		<b>1,314</b>	<b>1,358</b>	<b>Funds</b>				Unrestricted funds	4	692	973	Restricted funds	4	614	385	Revaluation reserve		8	-	<b>Net assets</b>		<b>1,314</b>	<b>1,358</b>
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5 Equity	References	Response
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	<b>Yes</b>
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	<b>Yes</b>

### 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	<b>Yes</b>
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	<b>Yes</b>

## 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	<p><b>Yes</b></p> <p>It could be improved by removing any reference to present value as it relates to time value of money, or discount rates from future cashflows, which are not relevant for NPOs and excessively complicated. (G12.15, G17.14, G20.5, G20.9, G20.10, G20.21, G20.23, G22.9, G27.9, G27.15, G27.20).</p> <p>The requirement in G12.28 to disclose the hierarchy level (1,2, or 3) used to arrive at fair value of donated assets will likely lack meaning for the majority of users.</p>
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	<p><b>Yes</b></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	<b>Yes</b>
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	<b>Yes</b> The term 'operating unit' is more relevant than the term 'cash generating unit' used in IFRS for SMEs, and is consistent with NPOs holding assets for their service potential rather than cash flows
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	<b>Yes</b> This is important, otherwise impairment could be on the basis that as asset does not generate cashflows.

### 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	<b>Yes</b>
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,	G19.24	<b>Yes</b>

9 Combinations of entities	References	Responses
describe the practical and accounting issues that arise?		

### 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	<b>Yes</b>
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><b>Yes</b></p> <p>With respect to <b>extractive industries</b>, NPOs in this space are more likely to be advocating for rights and compensation for people affected by the big oil companies. But an NPO might for example own or operate a quarry, ensuring eco friendly community friendly operations, with the economic benefits invested in missional activities that benefit the environmental sustainability of the area and community around the quarry.</p> <p>With respect to <b>agriculture</b>, it is possible for NPOs to use land for agricultural purposes to generate revenues for their mission, to carry out eco-friendly or community-friendly agricultural methods as part of their mission, or carry out farming for research or demonstration purposes to support farmers.</p> <p>We have struggled to imagine a case where an NPO would give a <b>service concession</b> or be granted one.</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,	<b>No</b> While it is hard to argue that it should NOT apply to NPOs, supplier finance arrangements are extremely rare among NPOs, especially for small and medium sized ones. Guidance is therefore not likely to be relevant or useful. The inclusion of unnecessary guidance in INPAG reduces its usefulness and credibility.
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	<b>Yes</b>

### 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
Reserves	<p>The term ‘reserves’ in INPAG refers only to revaluation reserves. The term ‘reserves’ in the non-profit context is a crucial measure of financial sustainability. It is usually calculated as undesignated, unrestricted funds not tied up in fixed assets, (or unrestricted net current assets). Such reserves should be available to support the NPO to continue to operate, or responsibly wind down in the event of a shock, such as drop in funding. This is an essential part of good financial governance of NPOs.</p> <p>The concept of an appropriate level of reserves is essential in explaining why NPOs need to generate surpluses on unrestricted funds. A well-articulated reserves policy provides a framework for justifying such surpluses without jeopardizing tax status or fundraising efforts.</p> <p><b>INPAG should introduce and define the concept of a ‘general reserve’ or ‘sustainability reserve’. It is discrete from a revaluation reserve and is a subset of unrestricted funds.</b></p>

Reference	Comment
Financial sustainability	<p>One of the key information needs of readers of NPO financial statements is to be able to assess financial sustainability. A commonly used measure is the days worth of reserves, compared to the desired level as set out in the policy. This is NOT easily able to be calculated from the illustrated financial statements. This means that an NPO can be INPAG-compliant but users are not able to assess financial sustainability.</p> <p><b>We recommend:</b></p> <ul style="list-style-type: none"> <li>➤ <b>Require disclosure of Net Book Value of fixed assets according to whether they are restricted or unrestricted</b></li> <li>➤ <b>Require or recommend and model (in examples) disclosure of a reserves policy, together with the actual days or % held at the balance sheet date in the narrative report.</b></li> </ul> <p>For example  <i>The target level of general reserves according to our policy is 20% of annual expenditure (2,241) which is 448.  Our actual level of general reserves is 248 (342 general fund minus 94 unrestricted fixed assets).  The shortfall on our desired general reserve level is 200. We therefore plan to generate unrestricted surpluses over the next 2 years.'</i></p>

Reference	Comment
Indirect cost rate	<p>One of the high-level strategic goals that Humentum and the IFR4NPO funders had in embarking on this project was consistent calculation and transparency of indirect costs, as a step to fairer funding. This is a chronic problem in the sector that acts as a barrier to shifting power and locally-led development.</p> <p>INPAG ED3 goes some way in solving this by:</p> <ol style="list-style-type: none"> <li>1) Providing a principles-based definition of support costs in Section 23</li> <li>2) Including support costs as a line in the standard grant reporting format in INPAG Practice Guide 1: Supplementary statements</li> <li>3) Requiring disclosure of support costs for the entire entity, IF an NPO presents supplementary statements.</li> <li>4) Including optional disclosure of support costs in the illustrative financial statements</li> </ol> <p><b>However, we recommend that INPAG go further by:</b></p> <ol style="list-style-type: none"> <li>1) <b>Requiring disclosure of support costs, if the NPO prepares supplementary statements</b> in accordance with INPAG Practice Guide 1 (and shares them with donors), even if they are not <i>presented</i> in an Annex to the General Purpose Financial Statements</li> <li>2) <b>Developing a rules-based 'Practice Guide 2' for the calculation and disclosure of an indirect cost rate</b> (see Q2e above)</li> <li>3) <b>Amending the illustrative financial statements.</b> The implied indirect cost rate in the illustrative financial statements is 6.7%. Humentum's <a href="#">administrative cost rate research</a> in 2022 found the average rate among NPOs to be 27%. Given the negative perceptions around indirect costs, there is a risk that such a low rate could be seen as 'normal' or representative. It would therefore be better if the illustrative financial statements showed a higher rate.</li> </ol>
Grant accounting (ED2)	<p>Much as grant accounting was covered in ED2, it is in ED3 that we can visualize the outcome of the proposals in the illustrative financial statements for the first time, hence this comment. The information in the illustrative financial statements relating to grants is difficult to digest, (eg note 5), with considerable grant related assets and liabilities that require complex accounting, and considerable narrative explanations in the financial statements, even for an NPO with just 3 enforceable grant agreements.</p> <p>In terms of the trade-off between the complexity for preparers and value of information to the users, this seems like a lose/lose. The considerable complexity adds burden and cost to preparers, and in our view, it <i>reduces</i> rather than enhances the readability and usefulness of the financial statements.</p>

Reference	Comment
	<p>We recommend the following pragmatic simplifications:</p> <ul style="list-style-type: none"> <li data-bbox="573 288 2056 427">• <b>Remove the requirement to show expenses incurred while meeting a present obligation as work in progress (ie reducing expenses and showing a balance sheet asset).</b> This requirement in ED2 was not highlighted in the explainer videos, or included as an Significant Matter for Comment in ED2, yet the implications for reducing expenditure are profound and complex.</li> <li data-bbox="573 435 2056 499">• <b>We recommend that 'present obligations' associated with grant arrangements should be communicated to readers as restricted fund balances rather than as liabilities.</b></li> </ul>