



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG06-04

25 February 2025 – Online

Illustrative financial statements

Summary	This paper provides a summary of stakeholders' responses to the illustrative financial statements provided in Exposure Draft 3 and proposes a way forward for the finalisation of the illustrative statements
Purpose/Objective of the paper	This paper seeks TAG members' advice on the finalisation of the illustrative financial statements, taking into account the comments provided by stakeholders in response to ED 3, and on how to respond to comments outside the illustrative financial statements.
Other supporting items	
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Actions for this meeting	Advise on the Secretariat's proposals in respect of: <ul style="list-style-type: none">• Finalising the illustrative financial statements, responding to stakeholders' comments;• Additional disclosures to be included in the illustrative financial statements; and• Approach to suggested disclosures not recommended for inclusion in the illustrative financial statements.

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Illustrative financial statements

1. Introduction

- 1.1 Exposure Draft (ED) 3 included a set of illustrative financial statements, and sought feedback from respondents as to whether these financial statements covered the transactions that are prevalent for NPOs.
- 1.2 This paper summarises the feedback on the illustrative financial statements and seeks TAG members' views on the way forward for finalising the financial statement sections of INPAG.

2. Responses to Exposure Draft 3

- 2.1 ED 3 asked for respondents' comments on the illustrative financial statements. SMC 4 asked the following question:

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?

- 2.2 Respondents generally agreed that the illustrative financial statements covered those transactions that are prevalent for NPOs. Of the 48 respondents who answered this question, 35 (73%) agreed and only 3 (6%) disagreed. Another 10 respondents (21%) neither agreed or disagreed. This group of respondents includes, for example, those who stated they generally agreed with SMC 4, but suggested one or two additional disclosures, and those who suggested additional disclosures that could be addressed in the narrative report rather than the financial statements. The summary of the responses is provided in [Appendix A](#).
- 2.3 Some respondents indicated they disagreed with the illustrative financial statements because they disagreed with the proposal to remove the requirement to present funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses set out in ED3. However, this was not a significant number of responses as can be seen from the analysis in [Appendix B](#). It is also worth noting that many respondents that disagreed with the removal of funds with and without restrictions from the face of the Statement of Income and Expenses, agreed with the Illustrative Financial Statements.

3. Comments by respondents

- 3.1 Some respondents commented that no single example could cover all types of NPO. These respondents considered that the illustrative financial statements covered the key transactions, and provided a basis for comparability, while allowing NPOs sufficient flexibility to reflect their own circumstances and transactions.
- 3.2 In addition to suggesting some additional disclosures, discussed in the next section of this paper, respondents to ED 3 also made a number of other comments. These are summarised, along with the Secretariat response, in the table below.

Respondent comment	Secretariat response
Some respondents identified potential inconsistencies in the illustrative financial statements.	The items identified will be reviewed when finalising the illustrative financial statements, and relevant sections of INPAG.
Some respondents suggested the illustrative financial statements could include cross-references to the relevant section or paragraphs in INPAG.	The Secretariat agree that this would be helpful, and propose adding cross-references at section level in the published version of INPAG.
One respondent considered that there was a risk that the illustrative financial statements could be used as a template, resulting in boilerplate disclosure of information. This respondent questioned whether INPAG should include illustrative financial statements.	The Secretariat acknowledge that this is a risk, but consider that NPOs, particularly those adopting accrual accounting for the first time, will find the illustrative financial statements useful. The <i>IFRS for SMEs Accounting Standard</i> includes illustrative financial statements, and the Secretariat therefore proposes to retain them.
Some respondents questioned the use of some terminology in the illustrative financial statements.	Some of the terminology has been amended following changes to other INPAG sections. NPOs have the flexibility to revise the terminology in their financial statements. The Secretariat will also review the terminology used to ensure it is clear.
One respondent considered that the level of detail in the cash flow statements was more than is required, particularly regarding the expenses.	The Secretariat will review the level of detail in finalising the illustrative financial statements.

One respondent considered that the note on the financial statements being authorised for issue was unnecessary and could be linked to the date the statement of financial position was signed.

The Secretariat notes that the *IFRS for SMEs Accounting Standard* includes a separate note, and the Secretariat will consider whether to replace the note with a date and signature on the face of the statement of financial position.

Question 1: Do TAG members support the Secretariat's proposed responses to the comments from stakeholders?

4. Additional disclosures suggested by respondents

- 4.1 A large number of additional disclosures were suggested by respondents, although the number of respondents proposing each disclosure was small.
- 4.2 The Secretariat has considered the proposed additional disclosures. The Secretariat's response to each proposed disclosure falls into one of the following categories:
- Consider including in the illustrative financial statements
 - Can be addressed in other reports
 - Consider including in education material
 - Already addressed in illustrative financial statements
 - No action required
- 4.3 The Secretariat's recommendations for those disclosures it considers could be in the illustrative financial statements are shown in the table below:

Proposed additional disclosure	Secretariat recommendation
The Statement of Financial Position should include a total assets line.	The Secretariat agrees, and considers a total liabilities line should also be included.
An income tax line should be included in the Statement of Income and Expenses as many NPOs are liable for income tax.	The Secretariat considers that an income tax line could be included, along with the related payable line in the Statement of Financial Position.
An example of the impairment of property, plant and equipment should be included as this is more important to NPOs than the impairment of inventories example included.	The Secretariat agrees that it would be helpful to include an example of the impairment of property, plant and equipment alongside the existing

	example of the impairment of inventories.
Respondents suggested that the net book value of assets for restricted and unrestricted funds be disclosed separately.	At the January 2025 TAG meeting it was agreed that the net book value of restricted assets would be disclosed, which will address this issue. This will be incorporated into the illustrative financial statements,

4.4 The Secretariat's recommendations for the other proposed disclosures are included in [Appendix C](#).

- Question 2:** Which disclosures that the Secretariat considers could be included in the illustrative financial statements do TAG members considered should be included?
- Question 3:** If TAG members consider that some of the proposed disclosures should not be included in the illustrative financial statements, how do TAG members consider they should be addressed?
- Question 4:** Do TAG members agree with the Secretariat's recommendations for the disclosures proposed by respondents shown in Appendix C?

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Appendix A – Summary of Feedback Responses to SMC

SMC 4(a):	Aggregate Response	Number	% of those who responded (48)
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?	Agree	35	73%
	Disagree	3	6%
	Neither agree nor disagree	10	21%
	No Response	15	–
			63

Appendix B – Comparison with responses to presentation of funds in the Statement of Income and Expenses

		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?				
		Agree	Disagree	Neither Agree or Disagree	No Response	Total
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?	Agree	20	14	0	1	35
	Disagree	1	2	0	0	3
	Neither Agree or Disagree	7	2	0	1	10
	No Response	6	2	1	6	15
	Total	34	20	1	8	63

The numbers reported for SMC 1(a) differ slightly from those previously reported to the TAG as a result of a further review of the responses.

Appendix C – Additional disclosures proposed by respondents

Can be addressed in other reports

Disclosures proposed by respondents	Secretariat comments
A respondent proposed that an analysis of surplus or deficit should be disclosed.	The Secretariat consider that such an analysis will be provided in the narrative report, and it should not be included in the illustrative financial statements.
A respondent proposed that performance measures and indicators should be disclosed.	The Secretariat consider that performance information is a requirement of the narrative report, and should not be included in the illustrative financial statements.
A respondent proposed that specific donor requirements be disclosed.	These requirements are expected to be covered by the existing disclosures, for example in relation to material grants with delivery obligations, where there are relevant to the general purpose financial report. Specific donor information can be disclosed in accordance with INPAG Practice Guide 1: supplementary statements, where a new illustrative example is being developed.

Consider including in education material

Disclosures proposed by respondents	Secretariat comments
A respondent suggested that 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.	An example will be prepared to accompany Practice Guide 1. The supplementary statements are not appropriate for the illustrative financial statements as they are not prepared in accordance with INPAG.
A respondent suggested that additional examples from different types of NPOs—ranging from small community-based organizations to large international entities—could improve the practical utility of the guidance. For example, scenarios involving multi-donor projects, or NPOs operating in multiple countries, would add depth.	The illustrative financial statements focus on prevalent NPO-specific transactions. Additional statements could be considered when developing the education material.



<p>Respondents requested additional examples covering a range of topics:</p> <ul style="list-style-type: none"> • Further examples on volunteers; • Complex grant agreements; • NPOs with commercial activities (particularly with marketing or manufacturing of goods); • NPOs with multiple significant donors (minimum two major donors and other minor donors); • Donations in multiple currencies; • Consolidated financial statements; • Joint ventures; • Inter-fund borrowing; • Pension retirement obligations; • Membership contributions for membership organisations; • Advances to staff and NPOs • Advance to subgrantees and work advances; • Severance pay / long term employee benefit payables; and • Reserve policies and guidance on general reserves. 	<p>The Secretariat will consider these topics when developing the education material. Some requests relate to sections that have not been reviewed in this phase of INPAG.</p>
<p>One respondent suggested that going concern information (level of confidence in the proposal submission process or projection of next year operation) should be included.</p>	<p>Going concern information is only required to be disclosed where there are concerns that the NPO may not be a going concern. Including such a disclosure would undermine the illustrative financial statements. The Secretariat will consider this issue when developing the education material.</p>
<p>Some respondents suggested additional guidance on accounting for and presenting grants with and without delivery obligations.</p>	<p>Guidance on accounting for grants is included in Section 23, and the illustrative financial statements cover the presentation issues. Additional guidance could be provided in the education material, and the Secretariat will consider this.</p>
<p>One respondent raised concerns over the accounting and presentation of grant revenue: Remove the requirement to show expenses incurred while meeting a present obligation</p>	<p>The Secretariat do not support this approach, which is not consistent with the approach in Section 23, IPSAS and the IFRS Accounting Standards, nor with the concepts and pervasive principles in Section 2.</p>



<p>as work in progress (ie reducing expenses and showing a balance sheet asset). We recommend that 'present obligations' associated with grant arrangements should be communicated to readers as restricted fund balances rather than as liabilities.</p>	<p>Practical guidance on how to comply with the revenue recognition requirements will be considered when the education material is being developed.</p>
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Already addressed illustrative financial statements

Disclosures proposed by respondents	Secretariat comments
<p>A respondent considered the illustrative financial statements should include an example of grant income recognised based on the level of expenditure.</p>	<p>Revenue from grants with delivery obligations is already covered by Note 5 in the illustrative financial statements, and the grant towards staffing costs specifically relates to the issue raised.</p>
<p>A respondent considered that guidance on reporting volunteer time not recognised in the financial statements should be included.</p>	<p>An example disclosure is included at the end of Note 7 in the illustrative financial statements.</p>
<p>A respondent considered that the NPO for whom the illustrative financial statements are prepared would likely have long term contracts, and this should be included.</p>	<p>Disclosure of revenue from goods and services is included in Note 8. While this does not specifically mention long-term contracts, the disclosures shown are the relevant disclosures.</p>
<p>A respondent considered that contingent liabilities should be disclosed, noting that the NPO's operating model could result in contingent liabilities for adverse reactions to medication.</p>	<p>Contingent liabilities is covered in Note 20, and the scenario presented is similar to the one suggested by the respondent.</p>

No action required

Disclosures proposed by respondents	Secretariat comments
<p>One respondent proposed that a budget comparison should be included.</p>	<p>This issue has been previously considered by the TAG, and it was agreed that INPAG should not require a budget comparison. As previously noted this could be included in the narrative report. Consideration is being given to illustrative examples to support this section.</p>
<p>Some respondents suggested more detailed disclosures of staff costs, with one suggesting</p>	<p>The Secretariat considers the level of detail included in the note to be a matter for the</p>



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an additional line for pension contributions, and another suggesting that staff costs should be analysed into permanent staff, temporary staff and consultants.

NPO's judgment. NPOs are free to present additional detail if this will be of use to the users of their financial statements, but it is not required for the illustrative financial statements.