



## Practitioner Advisory Group

AGENDA ITEM: PAGFG05-01

16 January 2025 – Virtual

### Section 36 Fund Accounting

Summary	This paper provides a summary of the responses to Exposure Draft 3 and sets out initial approaches and responses from the Secretariat.
Purpose/objective of the paper	The purpose of this paper is to seek the views of PAG members on points raised in the feedback relating to the definition of funds, additional implementation guidance and illustrative examples for the content in Section 36 and the approach to materiality. It is also to seek feedback on the Secretariat's proposed approach to the responses.
Other supporting items	N/A
Prepared by	Karen Sanderson
Actions for this meeting	<b>Advise on:</b> <ul style="list-style-type: none"><li>i. Priorities for additional guidance and/or examples relating to the criteria for a fund;</li><li>ii. The updated proposals for the tracking of assets and liabilities associated with each fund;</li><li>iii. The approach to providing guidance on materiality for Section 36;</li><li>iv. Guidance to assist the navigation of fund related terminology;</li><li>v. Disclosure of support costs as part of the movement in fund note; and</li><li>vi. The development of additional Implementation Guidance and Illustrative Examples.</li></ul>

# Practitioner Advisory Group

## Section 36 Fund accounting

### 1. Introduction

- 1.1 This paper:
- provides a summary of the consultation responses to the Specific Matters for Comment (SMCs) relating to Section 36 *Fund accounting* – see also Appendix A.
  - sets out the options and proposals to address the feedback relating to additional guidance and illustrative examples.
  - seeks PAG members' advice on the issues raised in the feedback in order to input to the TAG.

### 2. Background

- 2.1 Section 36 *Fund Accounting* specifies the requirements for fund accounting. This is a new section that establishes criteria for any funds separate to the general fund. It requires that the income, expenses, assets and liabilities for a fund can be identified and tracked. Section 36 also proposes criteria to identify when a fund should be presented as a fund with restrictions and when it should be presented as a fund without restrictions.
- 2.2 Exposure Draft 3 included a Specific Matter for Comment (SMC) with 7 sub questions that related to the proposals for fund accounting. The ED3 survey also included questions relevant to fund accounting.
- 2.3 The response to SMC 1a) relating to the presentation of information about funds with and without restrictions on the face of the Statement of Income and Expenses was considered at the last PAG meeting. The full analysis of the responses to SMC1 are in TAGFG04-02 *Section 36 Fund Accounting (Way Forward)*.

### 3. Fund criteria

- 3.1 Forty-five respondents (83%) to SMC 1 b) agreed that the guidance in Section 36 will ensure that material funds can be identified. Three respondents (6%) disagreed and six respondents (11%) neither agreed nor disagreed.
- 3.2 Forty-eight respondents (88%) to SMC 1 d) agreed with the criteria for a fund to be a fund with restrictions. Three respondents (5%) neither agreed nor disagreed and a further four respondents (7%) disagreed. Survey respondents were asked whether they agreed with the criteria for a fund to be a fund with restrictions and how easy it will be to identify them. 90% agreed with the criteria, with 3% disagreeing. 90% of respondents said it would be easy or manageable to identify funds with restrictions, with 9% saying it would be difficult or very difficult.

- 3.3 Respondents made supportive comments, including that Section 36 is clear, robust, practical and well-designed and would promote consistency, which enhances comparability and transparency. The majority of respondents that commented on the definition of the criteria of a fund were of the view that the guidance would ensure that material funds can be identified. The decision tree was found to be helpful.
- 3.4 One respondent was of the view that the first criterion for a restricted fund is too ambiguous, as it arguably includes trading income from externally imposed legal or equivalent arrangements. This could be argued as restricted. The Secretariat agrees that this needs to be clarified and proposes the following paragraph:
- Generally, revenue from contracts with customers will be part of unrestricted funds and on their own not sufficient to create a fund with restrictions. However, a fund with restrictions may include multiple sources of finance including revenue from contracts with customers. Revenue from contracts with customers is not expected to be material source of funding in a restricted fund.*
- 3.5 Respondents commented on whether the first criterion for a fund to be a restricted fund was broad enough to include any formal agreement that creates binding restrictions even if not strictly legal restrictions, such as regulatory expectations or quasi-legal arrangements with enforceability linked to reputational damage. A respondent that neither agreed nor disagreed requested clarification of how equivalent arrangements apply to religious norms such as Zakat funds. The Secretariat proposes to add examples of 'equivalent arrangements' to the Implementation Guidance to illustrate these points.
- 3.6 One respondent that neither agreed nor disagreed raised a concern that the use of reasonable expectations poses a risk that funds will be identified where the cost/benefit associated may be inappropriate. The Implementation Guidance provides support to NPOs in making a judgement about reasonable expectations, but this does not currently include the significance of reasonable expectations in relation to an NPO's activity. In response to SMC 1g), one respondent proposed to add financial dependency on a specific stakeholder as a factor that would potentially create a 'reasonable expectation'. The Secretariat can see that this might create a reasonable expectation because of the relationship between the NPO and this stakeholder. The Secretariat proposes to add text about constructive obligations as another factor to consider in terms of reasonable expectations.
- 3.7 A respondent requested clarification of public commitment in criterion 2. In particular they queried the status of informal channels like social media or verbal commitments made in a public forum. The Secretariat agrees that an NPO will need to consider the reliance that the public places on these channels and will add implementation guidance to clarify this.

**Question 1:** Do PAG members have any comments or advice on the additional guidance proposed to support the application of the criteria for a fund and/or a fund with restrictions?

#### 4. Tracking of income, expenses, assets and liabilities for each fund

- 4.1 Fifty-three respondents (93%) to SMC 1 c) agreed that income, expenses, assets and liabilities should be tracked for each fund. Four respondents (7%) disagreed. Survey respondents were asked how easy it would be to track assets and liabilities for each fund with restrictions. 81% of respondents said it was easy or manageable, with 18% saying it would be difficult or very difficult and 1% not sure.
- 4.2 Almost 75% of respondents to this question commented on benefits including:
- enhancing transparency, accountability, stewardship and promoting trust;
  - more informed decision making, more effective allocation of resources to align with NPO goals and objectives supporting, better fundraising strategies;
  - giving confidence that there is a sound financial management system, and supports value for money;
  - compliance with donor and legal requirements, promotes relationships with donors;
  - improved external reporting, simplify auditing, mitigation against money laundering.
- 4.3 There were also a significant number of comments about the cost/benefit of tracking assets and liabilities. While several respondents noted that donors require their assets to be tracked, and so would not result in significant burdens, this viewpoint was not shared by all. Concerns were raised about the administrative burden, complexity and time required to track individual funds, particularly for smaller NPOs. One donor respondent noted that the donor community needs to appreciate the administrative costs associated with tracking systems and that this will be key to facilitate NPOs' compliance with the guidance.
- 4.4 A respondent that disagreed and three respondents that agreed commented on the practical ability to separate some current assets and liabilities by fund. They cited examples such as payroll control accounts, pooled bank accounts, vendor accounts, cash advances (where the staff member might be working on multiple activities) and prepayments of fuel for pool cars. One respondent noted practical considerations where NPOs have many funding partners. There was support to track non-current assets or only property, plant and equipment.
- 4.5 In response to this feedback the Secretariat proposes to require only non-financial assets, assets and liabilities associated with enforceable grant obligations (delivery obligations) and non-current liabilities to be tracked. Other assets and liabilities can be tracked where this information is available. TAG members broadly supported this more nuanced approach.

**Question 2:** What are PAG members' views on the Secretariat's proposals for the tracking of assets and liabilities for each fund?

## 5. Materiality

- 5.1 A number of respondents raised materiality and this appeared in responses to all of the SMCs. This included requests for additional guidance and illustrative examples to better explain how to apply materiality, aggregation and disaggregation principles, as well as undue cost and effort.
- 5.2 An auditor respondent noted that an NPO's interpretation of what constitutes 'a material fund' could vary. This was illustrated in the responses with one respondent suggesting that a fund is material if it is more than 10% of an NPO's prior year income and another that a fund is material if it is more than 5% of an NPO's cashflow.
- 5.3 Three respondents proposed simplified reporting for smaller NPOs by allowing the aggregation of immaterial funds. However, a concern was raised by another respondent that aggregation would obscure important restrictions tied to smaller funds. One respondent suggested that smaller funds be disclosed if they present a significant amount of fund activity. One respondent suggested a threshold for aggregation of smaller funds.
- 5.4 INPAG allows the aggregate disclosure of immaterial funds and does not preclude detailed disclosure of smaller funds. As noted in previous discussions introducing a threshold is problematic. TAG and PAG advice has been to apply materiality rather than setting a threshold. As a consequence, the Secretariat does not support the introduction of a threshold for immaterial funds, but instead to illustrate the concept through illustrative examples.
- 5.5 The Secretariat considers materiality to be a pervasive issue. The Secretariat proposes to add general guidance on the application of materiality to Section 2 *Concepts and pervasive principles*, drawing on the IASB's Practice Statement 2 on making materiality judgements. This will be supported by specific application guidance where needed. For example, specific guidance is being developed to support NPOs in making judgements about low value donated inventory items. The Secretariat will consider whether there is specific materiality guidance needed for fund accounting.

**Question 3:** Do PAG members have any comments on the proposed approach to materiality and immaterial funds? Do PAG members have advice on the need for materiality guidance specific to fund accounting?

## 6. Charging of expenses to a fund with restrictions

- 6.1 Forty-four respondents (80%) to SMC 1 e) agreed that all expenses should be charged against a fund with restrictions even if there are currently insufficient resources to cover the costs, or specific costs are not eligible. Three respondents (5%) neither agreed nor disagreed. Eight respondents (15%) disagreed. Survey respondents were asked if they agreed that all relevant and legitimate expenses should be charged against a fund even if they are not eligible against a grant. 74% agreed or conditionally agreed, with 23% disagreeing and 3% unsure.
- 6.2 Almost half of the respondents referred to matters relating to transparency or the completeness of information. Respondents' feedback included that charging all costs:
- provides a clear, complete and transparent view of the costs associated with the fund's specific purpose or activity for stakeholders and grantors;
  - provides for proper accountability and allocation of expenses;
  - provides clarity on cross subsidisation and direct financial support by the NPO;
  - means stakeholders are aware of the total cost of implementing the activity;
  - enables comparison of NPOs' efficiency; and
  - would alert management to any shortfalls so that they can look at remediating.
- 6.3 Respondents that disagreed proposed that expenses that are not eligible or that exceed available resources should be charged to the general or unrestricted fund, with a detailed explanation of these adjustments provided in the notes to the financial statements. A respondent that disagreed was concerned that the balance on a fund does not accurately reflect the terms of an agreement. Two respondents noted that NPOs can [voluntarily] make their own contributions to funds in addition to grants and supported the recording of all expenses.
- 6.4 Some respondents acknowledged that what is reported against a grant is different to what might be reported against a fund. However, it appears from responses that there is potential confusion between grants, funds, programmes, projects and activities, with one respondent recognising that these terms can be used interchangeably.
- 6.5 One respondent requested clarity on 'all the legitimate expenses'. The Secretariat noted that there is potential confusion about what is meant by 'ineligible costs' and 'legitimate costs'. The Secretariat intends to clarify that 'legitimate expenses' includes all of the cost that relate directly or indirectly to the delivery of the activities carried out for the purposes of the fund and that this will include direct costs, shared costs and support costs as defined in Section 24 Part II.
- 6.6 A donor respondent agreed with the proposals as this aligns to the 'fair share' principle where each funder should cover their fair share of expenses related to their funding. Another donor respondent was of the view that separate tracking of 'allowable' and 'unallowable' costs under the agreement would facilitate audits initiated by donors. A donor respondent that disagreed was concerned about the creation of discrepancies between the amounts recorded in the fund and the amounts reported to the donor, which would decrease the value of the information recorded in the financial statements to the donor. This respondent proposed either allowing an allocation of support costs only if permitted by the grant agreement or



requiring support costs to be disclosed on a separate line or a separate expense category. Separating support costs was supported by other respondents.

**Question 4:** What advice to PAG members have on the terms used to describe activities including the use of funds, grants, projects and programmes and what would help assist the navigation of these terms?

**Question 5:** What are PAG members' views on the separation of support costs as a mandated disclosure requirement in the movement of funds note?

## 7. Additional guidance and illustrative examples

- 7.1 Forty-nine respondents (94%) to SMC 1 g) agreed that the illustrative examples demonstrated the key concepts in fund accounting. Two respondents (4%) neither agreed nor disagreed and a further respondent (2%) disagreed. Eleven respondents did not answer this question.
- 7.2 While a number of respondents were of the view that the illustrative examples were easy to follow and did a commendable job in demonstrating the key concepts, there was a request for more.
- 7.3 Five respondents wanted examples with more complex scenarios and two respondents simpler scenarios more appropriate to smaller NPOs. There were numerous requests for additional guidance or illustrative examples. Appendix B lists the specific additional guidance and illustrative examples requested and the Secretariat's proposed response.
- 7.4 The Secretariat proposes to include additional examples where it illustrates a fundamental concept or principle and to consider the remaining suggestions for potential inclusion in education materials. The TAG noted recent research about bias in choosing an example that most closely fits an entity's fact pattern rather than use of judgement based on the concepts and principles and supported the Secretariat's approach. The Secretariat is supportive of a technical group to support the development of educational materials to accompany INPAG once published.

**Question 6:** Which of the potential additional illustrative examples listed in Annex B would PAG members prioritise to illustrate a fundamental concept or principle?

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## Appendix A - Summary of Feedback Responses to SMCs for Fund accounting

ED3 SMC 1 a) Do you agree that the ED1 requirement to present funds with restrictions and funds without restrictions on the face of the Income and Expenses Statement should be removed? If not, why not?	Response	Number	% of those who responded
	Agree	35	64%
	Disagree	19	34%
	Neither agree nor disagree	1	2%
	No Response	8	
		63	100%

ED3 SMC 1 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?	Response	Number	% of those who responded
	Agree	45	83%
	Disagree	3	6%
	Neither agree nor disagree	6	11%
	No Response	9	
		63	100%

ED3 NSMC 1 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?	Response	Number	% of those who responded
	Agree	53	93%
	Disagree	4	7%
	Neither agree nor disagree	-	-
	No Response	6	
		63	100%





ED3 SMC 1 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?	Response	Number	% of those who responded
	Agree	48	88%
	Disagree	3	5%
	Neither agree nor disagree	4	7%
	No Response	8	
		63	100%

ED3 SMC 1 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?	Response	Number	% of those who responded
	Agree	44	80%
	Disagree	8	15%
	Neither agree nor disagree	3	5%
	No Response	8	
		63	100%

ED3 NSMC 1 f) Do you agree with the NPO funds disclosures requirements? If not, what would you change and why?	Response	Number	% of those who responded
	Agree	51	94%
	Disagree	2	4%
	Neither agree nor disagree	1	2%
	No Response	9	

ED3 NSMC 1 g) Do the Illustrative examples demonstrate the key concepts in fund accounting? If not, what would you change and why?	Response	Number	% of those who responded
	Agree	49	94%
	Disagree	2	4%
	Neither agree nor disagree	1	2%
	No Response	11	



## Survey responses

	<b>Very important</b>	<b>Somewhat important</b>	<b>Not important</b>	<b>Not sure</b>
How important is it that INPAG requires disclosures about restricted funds, and the movements on each fund in the financial year?	82%	15%	3%	-
How important is it to disclose unrestricted net current assets as a measure of financial sustainability?	69%	25%	4%	3%

	<b>Yes</b>	<b>Yes, but...</b>	<b>No</b>	<b>Not sure</b>
Do you agree with the criteria for a fund to be a fund with restrictions?	68%	22%	3%	7%
Do you agree that all relevant and legitimate expenses (eg support costs and FX losses) should be charged against a fund, even if they are not eligible against a grant?	56%	18%	23%	3%

	<b>Easy</b>	<b>Manage-able</b>	<b>Difficult</b>	<b>Very difficult</b>	<b>Not sure</b>
How easy will it be to identify funds with restrictions?	33%	57%	7%	2%	1%
How easy will it be to track assets and liabilities for each fund with restrictions?	24%	57%	16%	2%	1%



## Appendix B – Requests for additional guidance or illustrative examples

### Classification of funds

<b>Request for Guidance</b>	<b>Secretariat Response</b>
<i>we recommend that the application guidance and illustrative examples better explain how applying materiality, aggregation and disaggregation principles, undue cost and effort and the need to maintain consistency over the years should be balanced against user needs in identifying these “reasonable expectations”.</i>	The Secretariat agrees with this suggestion and will consider illustrative examples that show the application of the guidance to classify different funds and how they are presented.
<i>Classification and Disclosure of Restrictions: Current Illustration: Must clarify the process of determining whether a fund is classified as restricted or unrestricted and how NPOs should present them in financial statements. Improvement: If this isn't clear, the examples should add specific scenarios where an NPO must assess whether public communication during a fundraising campaign creates restrictions. Examples should also demonstrate how restricted and unrestricted funds are disclosed separately in the notes to financial statements.</i>	The Secretariat agrees to consider illustrative examples that shows the application of the guidance on the classification of different funds.
<i>However, we suggest that further examples [of restricted funds] and clarifications be provided in the guidance to avoid ambiguity, especially for organizations that may be working with various types of funding sources and restrictions. This would help ensure uniformity in application across different organizations.</i>	The Secretariat agrees to consider illustrative examples that show the application of the guidance on the classification of different funds.
<i>Separation of Funds: Current Illustration: Should provide scenarios where a non-profit organization (NPO) holds both restricted and unrestricted funds, illustrating the requirement to maintain separate accounting records for each. Improvement: If not adequately shown, more detailed examples should present cases where funds are legally restricted (due to grant agreements) versus internally designated unrestricted funds (like savings for a future project).</i>	The Secretariat agrees to consider illustrative examples that show the application of the guidance on the classification of different funds.
<i>While the criteria are clear, I would suggest providing additional practical guidance on identifying situations where public commitments might not be formal but still create a valid stakeholder expectation. This would help NPOs avoid ambiguity in borderline cases where stakeholders might reasonably expect certain funds to be restricted, even if no explicit public commitment was made.</i>	The Secretariat agrees to consider illustrative examples that show the application of the guidance on the classification of different funds.

### Shortfalls and transfers between funds

<b>Request</b>	<b>Secretariat Response</b>
<i>The use of unrestricted funds to cover underfunded costs (eg support costs or salaries) or ineligible project expenses (eg FX</i>	The Secretariat agrees to consider implementation guidance on the use of



<p><i>losses or procurements where compliance procedures were not followed)</i></p>	<p>unrestricted funds to cover unfunded costs, including an illustrative example.</p>
<p><i>Transfers Between Funds. Current Illustration: Should explain the legal and operational reasons for transfers between restricted and unrestricted funds and how to disclose them in financial statements. Improvement: If this is weak, examples should include situations where a non-current asset purchased using restricted funds is reclassified as unrestricted due to changes in usage. The disclosure of these transfers in notes should be clear.</i></p>	<p>The illustrative examples specifically address grants provided for the purchase of capital assets and their availability for general use after the activity is completed. Paragraph G36.22(c) requires the disclosure of details for any transfers between funds with restrictions and funds without restrictions. The Secretariat does not propose any further action.</p>
<p><i>Fund with Temporary Negative Balances. Current Illustration: Should include cases where a fund with restrictions shows a negative balance and illustrates the required steps and disclosure until the shortfall is addressed. Improvement: If this is not covered well, examples should clarify whether the shortfall is temporary or permanent and how NPOs deal with negative balances.</i></p>	<p>The Secretariat agrees to consider implementation guidance on the use of unrestricted funds to cover unfunded costs, and the managing and reporting of negative balances including illustrative examples.</p>
<p><i>Response: The fund disclosure requirements are important for transparency, but can be improved with some examples and clarifications. Additional examples:- The guidance could include additional examples showing how the disclosure requirements apply in different contexts.- More information on restricted funds: Additional examples could be added on restricted funds, such as the reason for negative fund balances, and how these balances are managed.</i></p>	<p>The Secretariat agrees to consider implementation guidance on the use of unrestricted funds to cover unfunded costs, and the managing and reporting of negative balances including illustrative examples.</p>
<p><i>Yes, the disclosure requirements are comprehensive and enhance transparency. However, the inclusion of illustrative examples specific to different types of NPOs (e.g., small vs. large) would enhance understanding. These disclosures help users of financial statements understand how restricted and unrestricted funds are utilized. For instance, showing transfers between funds, the purpose of each fund, and any deficits or surpluses ensures there's no confusion regarding the financial health and accountability of the NPO. Transparency is crucial, especially for donor-funded organizations, where restricted funds are legally or contractually tied to specific activities. In case of more illustrations, for example, a small community-based NPO that receives grants for a specific project may need simpler examples of how to track restricted funds, whereas a large international NPO with multiple donors and projects could benefit from more complex illustrations that cover scenarios like multi-year projects or different funding periods.</i></p>	<p>The Secretariat proposes that illustrative guidance specific to different types of NPO is considered as part of education materials.</p>



### Alternative (more complex) scenarios

<b>Request</b>	<b>Secretariat Response</b>
<i>While the examples are helpful, more complex scenarios involving smaller funds or funds with overlapping restrictions could be included to provide additional clarity</i>	The Secretariat proposes that this is considered as part of education materials.
<i>The implementation guidance of section 36 (about the truck for outreach program) is too simplistic. In the real world, the truck would be used for several type of activities programs. How should entity allocate cost of the truck to each fund in accordance with G 36-11 and G 36-12? INPAG need to have examples which relates with the real world problem. For example, examples could be added on: Transfers from restricted funds to unrestricted funds: How these transfers are accounted for and the different reasons for making them. Handling funds with negative balances: How funds with negative balances are managed and how they are reported in the financial statements. Examples of funds with different restrictions: How funds with different restrictions are classified and presented.</i>	<p>It is expected that a truck financed by a donor would only be used for the activities specified by the donor. Should the donor allow the truck to be used for other purposes, the NPO will need to consider whether it is appropriate to make an internal cross charge, which may be to another fund with restrictions or to funds without restrictions. The Secretariat will add this to the examples.</p> <p>The Secretariat agrees to consider the Implementation Guidance on the use of unrestricted funds to cover unfunded costs, and the managing and reporting of negative balances including illustrative examples.</p> <p>The Secretariat agrees to consider illustrative examples that show the application of the guidance to classify different funds.</p>
<i>Yes, the examples provided are useful and demonstrate key concepts effectively. Adding more examples for NPOs with complex fund structures, such as multi-donor funded organizations, would further enhance the practical application of the guidance.</i>	The Secretariat proposes that this is considered as part of education materials.
<i>These examples could be improved by including more complex scenarios, such as handling multi-year grants or dealing with foreign currency funds, to cover a wider range of NPO activities.</i>	The Secretariat proposes that this is considered as part of education materials.

### Transaction examples

<b>Request</b>	<b>Response</b>
<i>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.</i>	The Secretariat proposes that type of transaction is considered as part of education materials.
<i>Accounting for grants given for capital assets, which should be recognized directly fund on initial recognition and released to statement of income and expenditure over the useful [life] as opposed to flowing through statement of income and expenses</i>	The illustrative examples specifically address grants provided for the purchase of capital assets and the impact on the financial statements. The Secretariat proposes no further action.





<p><i>However, it would have been good to use the fund to procure PPE to be restricted for specific activity and when the activity is over the PPE can be used for general purpose. Such kind of instances should be disclosed in detail for the user of financial statements to get more clarity and applicability</i></p>	<p>The illustrative examples specifically address grants provided for the purchase of capital assets and their availability for general use after the activity is completed. Paragraph G36.22(c) requires the disclosure of details for any transfers between funds with restrictions and funds without restrictions. The Secretariat does not propose any further action.</p>
<p><i>Closing a Fund with Restrictions. Current Illustration: Should show the steps to close a fund once its purpose is complete, including any remaining balance transfers. Improvement: If missing, include examples of how NPOs manage and report the closure of restricted funds in compliance with legal or donor requirements</i></p>	<p>The steps required to close a fund are going to be dependent on local legal and regulatory requirements and/or donor requirements. The Secretariat does not propose to add any further implementation guidance or illustrative example, but will consider whether education materials are needed in the future.</p>
<p><i>It would also be helpful if the standards clarified how to track or account for the flexible component of restricted funding. For example, indirect costs accrued as a fixed percentage of direct costs and reported to donors as a cost, but where the manner and timing of their spending are at the NPO's discretion.</i></p>	<p>The Secretariat proposes that this is considered as part of education materials.</p>
<p><i>My proposal: More clarification may be given with example about General Fund, Endowment Fund, Assets acquisition fund. While revenue is recognized as per expense then surplus is not shown in income expenditure account; only unspent fund is shown in the balance sheet,</i></p>	<p>The Secretariat will consider this feedback in the development of further implementation Guidance and illustrative examples.</p>

## Other

<b>Request</b>	<b>Response</b>
<p><i>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. 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.</i></p>	<p>The Secretariat agrees that adding examples that show both the purpose and funding source or a restricted fund to the Implementation Guidance will be helpful.</p> <p>The Secretariat proposes that the clarifications requested are addressed in educational materials.</p>
<p><i>Addition to that concept for accounting treatment against grant in kinds and its valuation should be demonstrated.</i></p>	<p>The accounting for in-kind transactions is dealt with in Section 23 Part I. The Secretariat will feed this response into wider work to look at the illustrative examples for Section 23 and Section 36.</p>
<p><i>Allocation of Shared and Support Costs: Current Illustration: It should demonstrate the allocation of shared and support costs between funds (as per Section 24 Part II) and include guidance on charging legitimate costs even when grant arrangements restrict fund usage. Improvement: If lacking,</i></p>	<p>Section 24 Part II provides implementation Guidance to support cost allocation judgements. It is not proposed to repeat this in Section 36 but a cross section could be added.</p>





<p><i>examples should detail how these costs are allocated and reported across different funds, particularly if one fund has a shortfall.</i></p>	
<p><i>They are generally helpful – the example Note 4 is particularly important, though it would be much clearer with the unrestricted funds appearing first – and I would also prefer to see the General Fund prior to listing Designated Funds. However, the examples seem to be lacking a clear explanation of the purpose of each fund as required by G36.22(a). Although the names of the funds give some idea of their purpose, the names are not sufficient to enable a reader to appreciate the overall purpose of each fund</i></p>	<p>The Secretariat proposes to clarify that the ordering of the rows in the disclosure table is a matter for the NPO to decide.</p> <p>The remaining feedback will be considered alongside the other feedback to the SMC on the illustrative financial statements.</p>