



# Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG07-02

25 March 2025 – On-line

## Financial Statements – Final Guidance

Summary	This paper provides amendments to Sections 3 to 10 except for Section 9, their Implementation Guidance and the Basis for Conclusions following TAG's advice at its July 2024 meeting – see separate Annex.
Purpose/Objective of the paper	The purpose of this paper is to seek the views of TAG members on suggested approaches to the final guidance based on respondents' views and feedback on specific proposals.
Other supporting items	TAGFG02-04, TAGFG04-02
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Actions for this meeting	Comment and advise on: <ul style="list-style-type: none"><li>The approach to be taken in finalising sections 3-10 (apart from Section 9) of INPAS, covering the requirements for the financial statements.</li></ul>

# Technical Advisory Group

## Illustrative Financial Statements

### 1. Introduction and background

- 1.1 Sections 3–10 of INPAG cover the requirements for the financial statements and were included in ED 1. Section 9 *Consolidated and Separate Financial Statements* has already been considered separately by TAG.
- 1.2 This report provides amendments to:
- Section 3 *Financial statement presentation*
  - Section 4 *Statement of Financial Position*
  - Section 5 *Statement of Income and Expenses*
  - Section 6 *Statement of Changes in Net Assets*
  - Section 7 *Statement of Cash Flows*
  - Section 8 *Notes to the financial statements*
  - Section 10 *Accounting policies, estimates and errors*
- 1.3 It also includes amendments to the Implementation Guidance to Section 3 (which covers the financial statements more broadly) and the Basis for Conclusions for each of the above Sections. New Implementation Guidance Sections have also been provided for Sections 4 and 5.
- 1.4 TAG members considered the way forward on these sections following its deliberations on the SMCs from Exposure Draft 1 in July 2024. This report considers TAG members' advice and requests and matters arising through subsequent discussion of other INPAS sections. The requirements for individual financial statements are set out separately below in line with each of the INPAS sections.
- 1.5 This report also covers additional text proposed in Exposure Draft 3 (ED3) following the Addendum for the draft third edition of the *IFRS for SMEs* Accounting Standard issued by the International Accounting Standards Board on 28 March 2024 relating to the analysis of the responses to the SMC on Supplier Finance Arrangements.

## 2. Section 3 Financial Statement Presentation

- 2.1 Section 3 prescribes the way general purpose financial statements are to be presented, including specifying which financial statements are to be presented. The financial statements required, and the terminology used in INPAS, varied from the *IFRS for SMEs* Accounting Standard.
- 2.2 Respondents significantly supported the proposed changes to terminology from the *IFRS for SMEs* Accounting Standard. Concerns were raised in relation to the term “equity” and the terms “controlled entity” and “controlling entity”.
- 2.3 The issue of the term “equity” was addressed in Exposure Draft 3 (ED3) where “equity” was replaced by “net assets” as an element and equity claims were included as a component of net assets being defined as the financial interest in the net assets of an NPO.
- 2.4 Some respondents also commented on the terms “controlling entity” and “controlled entity” though the level of support for the proposals in the specific question on terminology in Section 9 *Consolidated and separate financial statements* means that the Secretariat has not proposed any changes to these terms.
- 2.5 Ninety per cent of respondents supported the inclusion of comparative information on the face of the financial statements (with more mixed comments on the now superseded proposals for the Statement of Income and Expenses which is considered in more detail in the following section).
- 2.6 Comments on the unintended consequences for the statement of compliance focused on issues relating to the combined assurance requirements for both the narrative report and the financial statements which the Secretariat considers is now addressed by Section 38 *Transition to INPAS* (TAGFG07-06) and issues relating to the assurance requirements which is outside the scope of these developments. Consequently, no further amendments are proposed.

### *Drafting Augmentations*

- 2.7 The Secretariat has removed the text relating to the objective of Section 3 from paragraph G3.1. This aligns the scope paragraph with the Third edition of the *IFRS for SMEs* Accounting Standard. The Secretariat had initially proposed this additional text to assist NPOs in understanding the purpose of the Section, particularly drawing on comparability. The Secretariat is now of the view that this text is not necessary because of the better understanding



developed through the consultation process and Implementation Guidance provided to other sections.

- 2.8 The paragraph on the accrual basis of accounting has been added as it appears to have been omitted from ED1.
- 2.9 Paragraph G3.22 allows an NPO to use alternative titles for the financial statements as long as they are not misleading. In the feedback to the SMCs there has often been requests to be able to change statement names, headings and other descriptions to allow the information being presented to be more meaningful. As a consequence, the Secretariat has proposed to expand the description of where an alternative name for headings and line items is more meaningful.

*Application Guidance*

- 2.10 The text in Section 3 has been updated. It is aligned with the Third edition of the *IFRS for SMEs* Accounting Standard. The Secretariat had originally proposed Application Guidance for this Section. However, rather than retaining this Application Guidance, in line with the approach now being adopted for application and implementation guidance, the Secretariat has proposed moving this additional guidance to the Implementation Guidance or has removed it in accordance with the following table.

<b>Paragraph(s)</b>	<b>Relocation</b>	<b>Rationale for location move or removal</b>
AG3.1	IG3.1	The objective of general purpose financial reports is already included in the core text of section 2 (see paragraph G2.3). The Secretariat has moved the paragraph to avoid confusion between authoritative sources.
AG3.2	IG3.2	This paragraph largely only provides context to the core text provisions on fair presentation.
AG3.3–AG3.5	IG3.3	These paragraphs bring together a discussion about the relationship with the transitional requirements for compliance.  Paragraphs AG3.4–AG3.5 which focused on different transitional arrangements to those of INPAS have been removed and relevant summarised commentary included to the Basis for Conclusions paragraphs



Paragraph(s)	Relocation	Rationale for location move or removal
		BC3.26-BC3.30 as these are instructions for approaches for using guidance outside the scope of INPAS.
AG3.6-AG3.8	IG4-IG5	These paragraphs provide guidance relating to the implementation of the going concern assumption and are not authoritative.  Paragraph AG3.6 includes duplication, so it has been removed
AG3.9-AG3.11	IG3.6-IG3.8	Removed the first sentence of AG3.9.  These are paragraphs that describe comparability and consistency are based on the IASB <i>Conceptual Framework for Financial Reporting</i> descriptions of comparability and consistency. It is therefore consistent with the enhancing characteristics of useful financial information in Section 2 <i>Concepts and pervasive principles</i> . These paragraphs do not, however, provide new authoritative guidance.
AG3.12-AG3.15	IG3.11-IG3.14	These paragraphs described the impact of materiality and presentation on NPOs financial statements but do not provide new authoritative guidance.
AG3.16	NA	Removed because this repeats the illustrative guidance already in paragraph IG3.15

### *Implementation Guidance*

2.11 There has been a significant increase in the Implementation Guidance for Section 3 following the comments in the table above. However, the Implementation Guidance has also been edited for the following:

- The headings relating to the moved Application Guidance have been changed to questions.
- The paragraphs relating to compliance with INPAG where an NPO either is not able or permitted to comply with transitional reporting requirements or only able to apply some aspects of INPAG have been moved to the basis for conclusions in summary form.



- The blank illustrative financial statements have been removed and will be replaced by the illustrative financial statements included at agenda item TAGFG07-03 and the introductory paragraphs have been updated.
- The table including the list of disclosure requirements has been removed – the updated Illustrative Financial Statements mean this is no longer needed.

**Question 1:** Do TAG members agree with the approach to drafting Section 3 and its Implementation Guidance, including the location of the guidance on the objective of Section 3 relating to comparability and consistency and expanding where alternative labels can be used?

### 3. Section 4 Statement of financial position

- 3.1 INPAG Section 4 sets out the requirements for the Statement of Financial Position. Respondents supported the approach to the current/non-current asset/liability split, except where a liquidity-based presentation has been adopted.
- 3.2 There were comments about the approach to the operating cycle, but the Secretariat considers that this is largely addressed by the rebuttable presumption that the operating cycle is 12 months, and no further amendments have been made.

#### *Drafting Augmentations*

- 3.3 The Secretariat has made some minor amendments to paragraph G4.2 to reflect the component of net assets described as equity claims and the description of restricted and unrestricted funds.
- 3.4 As a part of the review of the approach to disclosures the Secretariat considered that:
- it would be useful to locate the disclosures for fund accounting in one place. Reference to the requirement for the disclosure of movements on funds has therefore been removed.
  - a reference to movements in net assets has been added and the requirement for opening and closing balances removed from the paragraph included in the ED1 paragraph AG4.9.



### Application Guidance

3.5 As with Section 3, the Application Guidance has been moved to the Implementation Guidance or removed in accordance with the following table.

Paragraph(s)	Relocation/ Removal	Rationale for location move or removal
AG4.1-AG4.3	IG4.1-IG4.3	Information which is descriptive or provides context to the approach to net assets in the Statement of Financial Position. It is not authoritative.
AG4.4	Removed	Largely reiterates paragraph G4.4 and G4.9.
AG4.5-AG4.11	IG4.7-IG4.9	<p>Descriptive text on the approach to disclosures supporting the Statement of Financial Position. IG4.4 has been reduced and ED1 paragraph AG4.6 removed to reflect the edits in paragraph 3.4 of this report.</p> <p>ED1 paragraph AG4.7 has been removed as this didn't properly reflect the approach to items such movements in pensions reserves and revaluations of property, plant and equipment.</p> <p>AG4.5, A4.11 removed as these are no longer considered necessary.</p>
AG4.12	IG4.5-IG4.6	Descriptive text on the approach to the sequencing of items in the Statement of Financial Position. This has been enhanced to refer to the ability to use other labels for the headings and line items provided this is not misleading.

**Question 2:** Do TAG members have any further comments on the approach to drafting Section 4 *Statement of Financial Position* and its Implementation Guidance”?

#### 4. Section 5 – Statement of Income and Expenses

- 4.1 Section 5 of INPAS sets out the requirements for the Statement of Income and Expenses. ED1 SMCs sought views on the name of the statement and the use of the term surplus or deficit. These proposals were supported by the respondents and the Secretariat has therefore maintained the approach in ED1.
- 4.2 It also included a requirement that funds with restrictions and funds without restrictions were to be shown as separate columns on the face of the Statement. While the majority of respondents supported this proposal, concerns were raised by respondents. Also, at that point, the proposals for fund accounting had not been developed.
- 4.3 In ED3 it was subsequently proposed that each line of revenue and expenses is not required to be split between those with and those without restrictions on the face of the primary statement. Instead, this information is presented in the notes as part of the disclosure required by Section 36 *Fund accounting*. Revised drafting to reflect this decision has been included in the Annex to this paper.
- 4.4 At the TAG December 2024 meeting, TAG members advised that additional text should be included in the Implementation Guidance regarding the disclosure of restricted and unrestricted funds on the face of the Statement of Income and Expenses and considerations needed by NPOs to explain their financial performance. The Implementation Guidance now contains a Section which includes:
- Moved Application Guidance (from ED3 AG5.4) which sets out that an NPO can present amounts on each line of revenue and expenses split between those with and those without restrictions on the face of the primary statement (see paragraph IG5.4).
  - New guidance that reinforces that an NPO can consider the sequencing of the complete set of financial statements to prioritise the presentation of the movement of funds (see paragraph IG5.5).
  - New guidance which provides an example of summary information on funds that can be presented, potentially as an addendum to the Statement of Income and Expenses (see paragraph IG5.6).
- 4.5 At its December 2024 meeting TAG advised the Secretariat to consider the subheadings for the disclosure of revenue to support the identification of



restricted and unrestricted revenue. This suggestion has been added to the moved Application Guidance at paragraph IG5.9. This has been included in Implementation Guidance as it is an illustration of a possible approach to presenting restricted and unrestricted revenue.

- 4.6 One of the SMCs sought views on whether NPOs should be allowed the choice to present income or expenses first. The responses were evenly split on this issue. The Secretariat is of the view that there does not need to be specific core text on this. If an NPO wishes to present line items in the financial statements in an alternative format, then then INPAS Section 3 permits this.

*Application Guidance*

- 4.7 The Application Guidance in Section 5 has been moved to the Implementation Guidance in accordance with the following table:

<b>Paragraph(s)</b>	<b>Relocation/ Removal</b>	<b>Rationale for location move or removal</b>
AG5.1–AG5.3	IG5.1–IG5.3	This is information which is descriptive or provides context to the approach to net assets in the Statement of Income and Expenses. It is not authoritative.
AG5.4–AG5.6	IG5.4–IG5.7	AG5.5–AG5.6 were removed via the edits for ED3 on the presentation of restricted and unrestricted funds. IG5.4–IG5.7 provides the additional Implementation Guidance requested by TAG (see paragraph 4.4 of this report).
AG5.7	IG5.8–IG5.9	These paragraphs provide illustrative guidance relating to the presentation of revenue and its disaggregation as amended by TAG advice (see paragraph 4.3 above).
AG5.8	IG5.10	Commentary on classification of expenses – replaced with a cross reference to Section 24 Part II.
AG5.9	IG5.11	Description of possible items which might need to be presented or disclosed separately.

**Question 3:** Do TAG members agree with the approach to drafting Section 5 and its Implementation Guidance?

**Question 4:** Do TAG members agree with the additional Implementation Guidance relating to the presentation of restricted and unrestricted funds?

## 5. Statement of Changes in Net Assets

- 5.1 Section 6 of INPAG sets out the requirements for the Statement of Changes in Net Assets. ED1 included two specific matters for comment on this section.
- 5.2 ED1 asked whether respondents agreed with the proposal that there is no separate statement presenting 'Other Comprehensive Income' (OCI) and that an expanded Statement of Changes in Net Assets would allow OCI information to be presented. There was substantial support for this proposal. The Secretariat has not made substantial changes to the overall approach as it allows the accounting treatments permitted or required by INPAS to be reported in the relevant statement with one exception discussed in paragraphs 5.5–5.8 below.
- 5.3 ED 1 also asked whether respondents agreed that funds are split between those with and those without restrictions on the face of the primary statement. This again received substantial support with no respondents disagreeing. No further substantial changes have been made.
- 5.4 There were detailed comments. These have been responded to below:
- Other components of OCI (for example, revaluation reserves) should also be shown separately. The Secretariat is of the view that this was the intention of the reporting requirements for the Statement of Change in Net Assets, and the illustrative financial statements in ED 3 included this presentation. The Secretariat is of the view that there was already a cross reference to the relevant components at paragraph G6.3 but has also added one at paragraph G6.2 for the avoidance of doubt and stated that the presentation should be for each component of net assets;
  - The glossary includes a definition of "income statement" that refers to OCI as well as the Statement of Income and Expenses. The Secretariat will remove references for income statement from the glossary to avoid confusion.



- 5.5 The Secretariat would note that paragraph 5.5 of the third edition of the *IFRS for SMEs Accounting Standard* requires that items are grouped in OCI into those that will be reclassified into profit or loss when certain conditions are met and those that will not. An equivalent requirement is not included in either Sections 5 or 6 of INPAS.
- 5.6 Paragraph 6.2 states that the Statement of Changes in Net Assets presents an NPO's surplus or deficit for a reporting period and gains or losses that are not taken through the Statement of Income and Expenses.
- 5.7 This does not address any reclassifications relating to the changes in the fair value of hedging instruments which would be reclassified to surplus or deficit when certain conditions in Part II of Section 11 *Financial Instruments* are met.
- 5.8 The Secretariat has therefore amended Section 6 (paragraph G6.3) to allow for the treatment of items which may be reclassified to surplus or deficit. This treatment, which is included in Section 5 *Statement of Comprehensive Income and Income Statement* of the *IFRS for SMEs Accounting Standard* is included in Section 6 of INPAS because of the approach to OCI in the Statement of Changes in Net Assets.

**Question 5:** Do TAG members agree with the approach to Section 6?

**Question 6:** Do TAG members agree with the separate grouping of items that would be reclassified into surplus or deficit from those which would not, when an NPO has such transactions?

## 6. Statement of Cash Flows

- 6.1 Section 7 of INPAS includes the requirements for the Statement of Cash Flows. ED1 included three specific matters for comment on the statement.
- 6.2 One of the SMCs asked whether respondents agreed with the separate presentation of cash donations and grants on the face of the statement. This was substantially supported by respondents. Respondents also significantly supported that INPAS permits use of both the direct and the indirect method to produce the Statement of Cash Flows.
- 6.3 One of the SMCs sought views on the proposal that donations or grants received for the purchase or creation of property, plant and equipment should be treated as investing activities.

- 6.4 Views were more mixed (though overall respondents were supportive). TAG has previously discussed the responses to this question when considering the illustrative financial statements (see the 27 February 2024 meeting papers).
- 6.5 At that meeting, it was agreed that the inclusion of capital grants in investing activities would be removed, and replaced with guidance that such grants, where material, be disclosed separately. It has therefore been removed from paragraph G7.4 and G7.5 with additional commentary on its separate disclosure in paragraph G7.4. This change is explained in the Basis for Conclusions in new paragraph BC7.2 and reflected in the illustrative financial statements.

*Application Guidance*

- 6.6 The Secretariat is of the view that the short Application Guidance paragraph relating to donated items under the heading of indirect method should be included in the core text because it is an instruction about the treatment of non-cash items under that method. The Secretariat has therefore moved this text to paragraph G7.8.

**Question 7:** Do TAG members agree with the approach to Section 7 Statement of Cash Flows?

*Supplier finance arrangements*

- 6.7 ED3 proposed incorporating the addendum to the draft Third Edition of the IFRS for SMEs (2024) issued by the IASB in March 2024 into INPAG. The addendum provides guidance on supplier finance arrangements.
- 6.8 Supplier finance arrangements (SFAs) are defined as agreements that allow an entity to extend payment terms or enable suppliers to receive early payments through a finance provider.
- 6.9 The amendments to Section 7 in ED3 included proposals for new disclosure requirements for SFAs, including the terms and conditions of such arrangements, their impact on financial liabilities, and any non-cash changes affecting these liabilities.
- 6.10 SMC 11(a) sought feedback on the relevance and usefulness of the disclosures and the guidance to NPOs. Thirty-nine respondents provided

feedback, with 34 (87%) supporting the inclusion of this guidance, 4 (10%) opposing it, and 1 (3%) neither agreeing nor disagreeing. Twenty-four respondents did not answer this SMC (See Appendix A).

- 6.11 Most respondents who agreed indicated that guidance is useful and relevant for NPOs, emphasising that provisions in INPAS which secure transparency are critical for accountability to donors and regulators. One respondent noted that while SFAs are not common for all NPOs, the guidance remains useful in rare cases.
- 6.12 Among those who disagreed, one respondent stated that SFAs are extremely rare among NPOs and that their inclusion reduces INPAS's usefulness and credibility. Another respondent argued that financing costs may not be allowable for most donors, as they increase operational expenses.
- 6.13 Two respondents stressed that disclosure requirements should be proportionate, considering the size, significance, or materiality of transactions, with one highlighting cost/benefit implications for NPOs. One of these respondents proposed the removal of paragraph G7.20B(b)(ii), (now G7.22(b) (ii)) which requires the disclosure of amounts settled by finance providers with suppliers. They noted that having considered it for entities of a similar size for their national GAAP, while there was support for the disclosure, concerns were raised that obtaining the required information and having it audited would be onerous and costly.
- 6.14 The Secretariat acknowledges these concerns and considers that proportionality is particularly important in INPAS. It therefore proposes the removal of this disclosure requirement. This amendment is also reflected in the Basis for Conclusions for Section 7.
- 6.15 Two respondents recommended examples to clarify the application of SFAs in different NPO contexts. The Secretariat is of the view that the application of SFAs does not create unique issues for NPOs and therefore does not propose to include additional examples. Education materials will be considered post the publication of INPAS.

**Question 8:** Do TAG Members agree with the proposed removal of paragraph G7.22(b)(ii) based on proportionality?

## 7. Notes to the financial statements

- 7.1 Section 8 of INPAS includes the requirements for the notes to the financial statements. The section specifies the general principles that apply to the notes to the financial statements but does not include specific disclosure requirements as these are included in other sections of INPAS.
- 7.2 Respondents agreed that there are no NPO specific issues that need addressing and that the IFRS for SMEs Accounting Standard text could be adopted with appropriate terminology changes. The Secretariat has made no substantial changes to this section.

## 8. Accounting policies, estimates and errors

- 8.1 In developing the INPAS requirements for accounting policies, estimates, and errors, it was concluded that there are no NPO specific issues that need addressing and that the *IFRS for SMEs* Accounting Standard text could be adopted with appropriate terminology changes. The SMC sought respondents' views on this conclusion.
- 8.2 No respondents disagreed with the conclusion and no NPO-specific issues were identified.
- 8.3 One respondent suggested that Implementation Guidance could provide illustrative examples and gave the example of accounting for prior period errors.
- 8.4 The Secretariat consider that the illustrative financial statements generally provide appropriate examples (see TAGFG07-03). The Secretariat considers that such guidance would be useful.

## 9. Basis for conclusions

- 9.1 The Basis for Conclusions has been updated to confirm agreement with the proposals in the SMCs and to summarise the significant issues raised and decisions taken in response to the SMCs in ED1 and ED3. It has therefore been amended to include the issues reported at TAG's July 2024 and December 2025 meetings, including confirmation of the following:



- Sections 3 and 4 – the approach to the changes proposed in ED3 is the replacement of the element equity to that of net assets including the component “equity claims”.
- Section 3 – there was support from respondents for the new terminology particularly for each of the primary financial statements.
- Section 3 – the approach to compliance with INPAS based on the issues originally included in the Application Guidance where an NPO is required to apply different transitional arrangements or is not able or permitted to fully adopt INPAS (see the table at paragraph 2.9 of this report)
- Section 5 – the removal of the requirement for a columnar analysis of restricted and unrestricted funds and reference to the additional Implementation Guidance to assist with possible approaches to effective presentation of the split.
- Section 5 – clarification of the presentation approach for other comprehensive income.
- Section 6 – the additional specifications for the treatment of items which will be reclassified in surplus or deficit.
- Section 7 – removal of cash receipts from grants and donations whose use is restricted to the acquisition or construction of property, plant and equipment, intangible assets and other long-term assets from investing activities.
- Section 7 – added text from ED3 for supplier finance arrangements and the consultation outcomes.

9.2 The Basis for Conclusions has also been updated to reflect the ordering of the material in each section and to use common headings. This should also mean that it is easier to identify developments and decisions taken relating to each section.

## **10. Next steps**

- 10.1 Subject to the comments made by TAG members in response to this paper, the Secretariat intends to treat the drafts shared alongside this paper as final.
- 10.2 TAG members will next see the updated paragraphs in the full draft of the document that is planned to be circulated in April 2025. This draft will be used to collect final feedback ahead of the version that will be put forward for approval on 3 June 2025.

March 2025



## Appendix A – Analysis of responses to SMC 11(a)

ED3 SMC 11 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?	Response	Number	% of those who responded
	Agree	34	87%
	Disagree	4	10%
	Neither agree nor disagree	1	3%
	No Response	24	-
		63	100%