



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG07 - 02
25 March 2025 – Online

Section 36 Fund accounting – Final Guidance

Summary	This paper provides TAG Members with the amendments to the final guidance for Section 36 Fund accounting.
Purpose/objective of the paper	The paper provides the approach to the proposed amendments to Section 36, the Implementation Guidance and the Basis for Conclusions following TAG's advice at its December 2024 meeting. It seeks TAG members' views on the amendments required to finalise the guidance.
Other supporting items	TAGFG04-02; TAGFG07-02
Prepared by	Karen Sanderson
Actions for this meeting	Advise on: The proposed proposals for: <ul style="list-style-type: none">i. the new defined terms to clarify fund accounting;ii. minor amendments to the criteria for a fund to exist including their classification as a restricted fund or unrestricted fund and materiality, when taken with the additional implementation guidance;iii. the charging of expenses to a fund when taken with the new defined terms;iv. no changes to fund disclosures, when taken with additional guidance.

Technical Advisory Group

Fund accounting - Final guidance

1. Introduction

- 1.1 This paper provides:
- amendments to Section 36 *Fund accounting*, its Implementation Guidance and the Basis for Conclusions following TAG member's advice at its December 2024 meeting – see TAGFG07- 07 Annex;
 - tables of concordance that map the changes to Section 36 and the associated Implementation Guidance – see Appendices A and B respectively.

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 restricted fund and when it should be presented as an unrestricted fund and what transactions should be recorded against a fund.
- 2.2 At its 3 December 2024 meeting TAG members considered the feedback from responses to ED3 for Section 36. TAG members deliberated on the report containing the responses to the SMCs for ED3 and the approach to the drafting suggestions to Authoritative Guidance and the Implementation Guidance.
- 2.3 A Focus Group was held on 3 March to consider proposals around terminology relevant to fund accounting, the charging of expenses to funds and examples for the classification of funds.
- 2.4 This paper sets out the main changes now proposed to Section 36. Amendments to the draft final guidance are included in a separate Annex to this paper.

3. Funds criteria

Criteria for a fund

- 3.1 There were a number of supportive comments about the drafting of the paragraphs on the criteria for fund, including that Section 36 was robust and well-designed. Respondents found the decision tree helpful, but there were comments on certain aspects of the criteria.

- 3.2 One respondent noted the superficial similarities between the descriptions in G36.3, which describes the situations when a fund might be necessary, G36.4 which sets out the criteria for a fund to exist and G36.9 which sets out the criteria for a fund to be restricted. Their concern was that this might cause confusion. In the analysis of the responses to ED3, the Secretariat proposed not to make a change as this concern was not raised by other respondents. The Secretariat has considered this again, particularly in connection with a review of the decision tree as set out in 4.4.
- 3.3 The Secretariat is of the view that the 'legal and equivalent arrangements' in G36.9a) could be amended to 'legal and equivalent requirement' as set out in G36.4a) to provide consistency. Also paragraph G36.3 could be moved to the implementation guidance, but given the newness of this Section, the Secretariat is of the view that on balance it is better to retain it in the main guidance.
- 3.4 Some suggestions were made about the decision tree, in particular the lack of reference to internally designated funds. The Secretariat has reflected on the decision tree and also whether it could be simplified including for the criteria in G36.4 a) and G36.9 a), which both refer to a fund needed for a legal or equivalent requirement. An updated decision tree has been developed. This is included in the Implementation Guidance (see Appendix A).
- 3.5 As noted in the previous analysis of the responses to ED3, suggestions were made about the practical application of 'reasonable expectations' in relation to funds. There were suggestions for additional factors that should be included in the guidance to assist NPOs in applying the guidance. The Secretariat agreed with this view and has drafted additional factors that have been included in the Implementation Guidance. This is included in Appendix C to this paper.

Question 1: What are TAG Members' views on the updated decision tree?

Question 2: Do TAG Members agree with the additional guidance on 'reasonable expectations'?

Legal and equivalent requirements

- 3.6 The criteria for a separate fund to exist includes the existence of a legal or equivalent requirement. Respondents to ED3 requested additional guidance or examples on equivalent requirements. The Secretariat has reviewed the material relating to equivalent requirements that has been developed and noted that this is contained across more than one INPAS section. To ensure consistency the Secretariat is of the view that this guidance should appear in one place.
- 3.7 As a consequence, the main guidance on equivalent arrangements will appear in the Implementation Guidance for Section 36, unless it relates to the application of the guidance for other sections. This material has been augmented to reflect feedback from respondents.



- 3.8 The authoritative material on enforceability is consequentially being reviewed. The main guidance will now be included in Section 23, with appropriate cross references unless there is a particular application of the guidance that needs to be described. This material has been reviewed and updated where needed for consistency and is included in the TAGFG07- Annex.

Question 3: Do TAG members agree with the approach to the location of the guidance on enforceability and equivalent arrangements?

Question 4: Do TAG members agree with the updated guidance on reasonable expectations?

Tracking of income, expenses, assets and liabilities

- 3.9 There was strong support from respondents to ED3 on the requirement that income, expenses, assets and liabilities are tracked for all funds. Respondents cited benefits around improved reporting, decision making, controls and compliance with donor requirements.
- 3.10 One respondent notes that the criteria for a fund depends on the tracking and use of resources and that it isn't clear whether separate accounting records is intended to be the same as tracking the use of resources. The Secretariat is of the view that separate accounting records allows the tracking of resources and their use. This will be made clear in a redraft of the paragraph.
- 3.11 There were, however, concerns about cost/benefit of tracking all assets and liabilities and in particular current assets and liabilities, which may be practically difficult to separately identify. As a consequence, the Secretariat proposed at the December TAG meeting that the requirement to track assets and liabilities is repositioned to require non-financial assets, non-current liabilities and assets and liabilities associated with delivery obligations to be tracked. G36.5 has been updated in the Authoritative Guidance with other current assets and current liabilities required to be tracked where the information is available without undue cost or effort as follows:

An NPO shall keep ~~s~~Separate accounting records ~~shall be kept~~ for sets of activities identified in paragraph G36.4, comprising each fund's income, expenses, non-financial assets, ~~and non-current~~ liabilities and any assets or liabilities relating to delivery obligations. An NPO shall track other current assets and current liabilities where the information is available without undue cost or effort. Maintaining separate accounting records allows an NPO to track resources.

This has also been reflected in the Implementation Guidance and Basis for Conclusions.

Question 5: Do TAG members agree with the updated drafting relating to the tracking of income, expenses, assets and liabilities?

Restricted funds

- 3.12 As noted in the feedback to ED3, one respondent was of the view that G36.9 a) is too ambiguous if it is only intended to capture grant arrangements, as it arguably includes trading income. This is because trading income arises from externally imposed legal or equivalent arrangements and this could be argued as restricted. This has been clarified with an additional paragraph (slightly modified from the proposal to the December TAG meeting):

Generally, revenue from contracts with customers will be part of an unrestricted fund and the transaction on its own will not be sufficient to create a restricted fund. However, a restricted fund may include multiple sources of funds including revenue from contracts with customers.

Amendments have also been made to the Implementation Guidance and the Basis for Conclusions.

- 3.13 Respondents also provided feedback that criteria G36.9 a) needs to be clear that it includes 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. These types of examples are intended to be covered by 'equivalent arrangements'. As noted in paragraph 4.5 additional Implementation Guidance has been added.
- 3.14 As noted in TAGFG04-02 an amendment has been made to the authoritative guidance for internally designated funds. This change was to make clear that it is an internal designation that can be made for any purpose rather than a designation for an internal purpose. As a consequence G36.x has been updated as follows:

An NPO's governing body can internally designate funds for a specific ~~internal~~ purposes.

Question 6: Do TAG members agree with the additional text on revenue from contracts with customers?

Illustrative examples

- 3.15 More generally respondents requested additional examples relating to the classification of funds. The Secretariat has agreed to add examples where this illustrates a fundamental principle. Other requests for examples will be considered as part of education materials to be developed post the publication of the first edition of INPAS.

- 3.16 As a consequence the Secretariat has included the scenarios set out in Appendix C to assist NPOs with the classification of funds. The classification examples in Appendix C were shared with attendees at the Focus Group. They were of the view that the examples would be helpful.
- 3.17 Examples have been updated to reflect the revised terminology and to reflect feedback from respondents. Example 1 includes new text to address the possibility of the asset in the example being able to be used for other purposes. Example 5 has also been expanded to address the need to review the balances on the fund at each reporting date. A new example has been added (example 6), similar to example 5, but with a fact pattern that results in negative balances on the fund. The example explains the review steps and consequential action. An error in example 6 (now example 7) in the Implementation Guidance has been corrected. The new text and additional example is shown in Appendix C.

Question 7: What are TAG Members's views on the classification examples and the updates to the examples on the presentation of funds, including the new example?

4. Materiality

- 4.1 A number of respondents commented on the application of materiality to fund accounting, with these respondents proposing that the funding accounting requirements only apply to material funds. There were also requests for additional guidance and illustrative examples to explain, aggregation and disaggregation principles, how to apply materiality and undue cost and effort.
- 4.2 As previously discussed with TAG members, the Secretariat considers materiality to be a pervasive issue and has therefore referred in the Section 36 Implementation Guidance to the additional guidance provided in Section 2 *Concepts and pervasive principles*. In addition, in the Implementation Guidance, the Secretariat has drawn attention to the possibility of an NPO setting a threshold for materiality that could ease implementation. This additional guidance therefore does not introduce a threshold in line with previous TAG discussions, but refers to the application of materiality by an NPO to set a threshold. The added scenarios that have been added to illustrate the classification of funds reference materiality as a factor to consider.
- 4.3 The Basis for Conclusions has been updated to reflect the discussion on materiality and the Secretariat's intention that clearly trivial amounts are not expected to be recorded as separate funds.

Question 8: Do TAG Members have any concerns with this approach to materiality?



5. Terminology

- 5.1 The feedback to ED3 identified potential issues relating to some of the terminology being used. This was particularly evident in the question about what should be charged to a fund. At least some respondents appeared to be of the view that a grant is a fund.
- 5.2 These respondents raised concerns that the proposals for the inclusion of expenses in a fund might not be consistent with the expenses that are eligible for a grant agreement, and that by including these, this would have implications for reporting to donors. Some donor respondents were, however, of the view that including all legitimate expenses provides important information that is relevant for the ongoing dialogue between donors and grant recipients.
- 5.3 The Secretariat had not intended that a grant is always a fund in framing the proposals. To address potential confusion the Secretariat therefore proposes to add implementation guidance that makes clear that funds, grants and projects are different and that on occasion these can overlap in part or in full. A Venn diagram has been developed to assist users.
- 5.4 The Secretariat recognises that these proposals may provide practical challenges for NPOs, particularly if software limitations prevent the tagging of information for multiple purposes. Nevertheless, the Secretariat is of the view that being able to report against funds is necessary.
- 5.5 There were additional concerns with terminology of costs, particularly the sometimes interchangeable use of allowable costs, eligible costs, ineligible costs and legitimate costs. Proposals for the definition of these terms has also been made. The authoritative guidance uses ineligible costs in the context of a grant agreement and legitimate costs in the context of a fund. One member of the Focus Group raised a concern that the allowing all legitimate costs may result in inappropriate (eg inflated salaries) being included in a Fund. The Secretariat accepts that this is possible, but notes that this could be a useful mechanism to bring transparency to this situation.
- 5.6 The attendees at the Focus Group generally expressed support for the inclusion of the descriptions of the terms and their relationship with each other. They were particularly supportive of the inclusion of the Venn diagram. There were still questions of clarification on the terms themselves and as a consequence these have been further developed as set out in Appendix B.

Question 9: Do TAG Members agree with the definitions that have been included in the Implementation Guidance and the Venn diagram?

6. Transactions recognised in a fund

- 6.1 The vast majority of respondents (80%) agreed that all expenses should be charged to a fund even if there are currently insufficient resources to cover the costs or specific costs are not eligible. However, 15% disagreed and as noted in Section 5 of this paper, the Secretariat is of the view that many of these concerns were driven by concerns about the differences between a fund and a grant.
- 6.2 The Secretariat did not propose any changes to the substance of the drafting as it remains of the view that costs should be presented as part of a fund when they have been legitimately incurred for the purposes of the fund. This is for the reasons highlighted by many respondents to ED3, such as.
- 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.
- 6.3 There were a number of responses relating to disclosures about shortfall on a fund. There were differing comments about whether more or less information is disclosed and whether there were any differences in the requirements if the fund had a negative or positive balance. As previously discussed with the TAG, the Secretariat does not propose to mandate additional disclosures, but to describe in Implementation Guidance why such explanations might be useful. Amendments to the drafting and new drafting is included in Appendix C.
- 6.4 Respondents also queried whether the references in the draft guidance to 'charging a fund' meant that costs did not form part of the Statement of Income and Expenses. Income and expenses are expected to be recorded in the Statement of Income and Expenses (unless they are required to be recorded directly in the Statement of Changes and Net Assets), and fund accounting fundamentally relates to the presentation of those transactions between restricted funds and unrestricted funds. The intent is not that expenses do not pass through the Statement of Income and Expenses. As a consequence G36.1 has been updated as follows:
- Fund accounting is one of the key concepts in this Guidance. All **income and expenses are recorded against a fund to allow balances on a fund to be presented.** As such, NPOs will have at least one fund. This fund can be known by a variety of terms, such as the general fund, accumulated fund or general reserve. INPASG uses the term general fund. Unless other funds exist, the general fund will contain all **of the historic surpluses and deficits of an NPO.***
- 6.5 Revisions have been made to the drafting to reflect the terminology now proposed, to remove ambiguities and to add additional implementation guidance, including to the names of funds. The Secretariat has not proposed that the principle that costs legitimately incurred in relation to the activities in a fund should be charged to that fund. The minor amendments proposed are in Appendix C.

Question 10: Do TAG Members agree with the approach to the costs to be presented as part of a fund? Do TAG members agree with the revised drafting relating to shortfalls on funds?

7. Disclosures

- 7.1 ED3 proposed removal of the requirement set out in Exposure Draft 1 that NPOs must present income and expenses split between restricted funds and unrestricted funds on the face of the Statement of Income and Expenses. This proposal was made as a consequence of a new disclosure requirement proposed for Section 36 that requires information about funds. This attracted a range of responses and this is further considered in TAGFG07-02 Financial Statements.
- 7.2 Respondents to ED3 also commented on matters related to the disclosure of immaterial funds. This included whether aggregation would obscure important information. The Implementation Guidance on immaterial funds has been updated, particularly focusing on the need to consider the needs of the users of its general purpose financial reports.
- 7.3 In response to various comments about additional disclosures that could be provided, the Secretariat proposed additional implementation guidance on the role of narrative reporting. A new paragraph has been added at IG36.53 as set out in Appendix C
- 7.4 The Basis for Conclusions has been updated to reflect the approach to disclosures.

Question 11: Do TAG Members have any comments on the final text relating to disclosures ?

8. Basis for Conclusions

- 8.1 The Basis for Conclusions has been updated to reflect the feedback from ED3, summarising the significant issues raised and decisions taken in response to the SMCs in ED 3. It has therefore been amended to include confirmation of the issues reported at TAG's December meeting including:
- the criteria for restricted and unrestricted funds
 - the approach to materiality;
 - potential confusion of terminology around funds and grants
 - which costs can be charged to a fund;
 - disclosure of information including immaterial funds and the potential use of the narrative report.

Question 12: Do TAG Members have any comments on the Basis for Conclusions?

9. Next steps

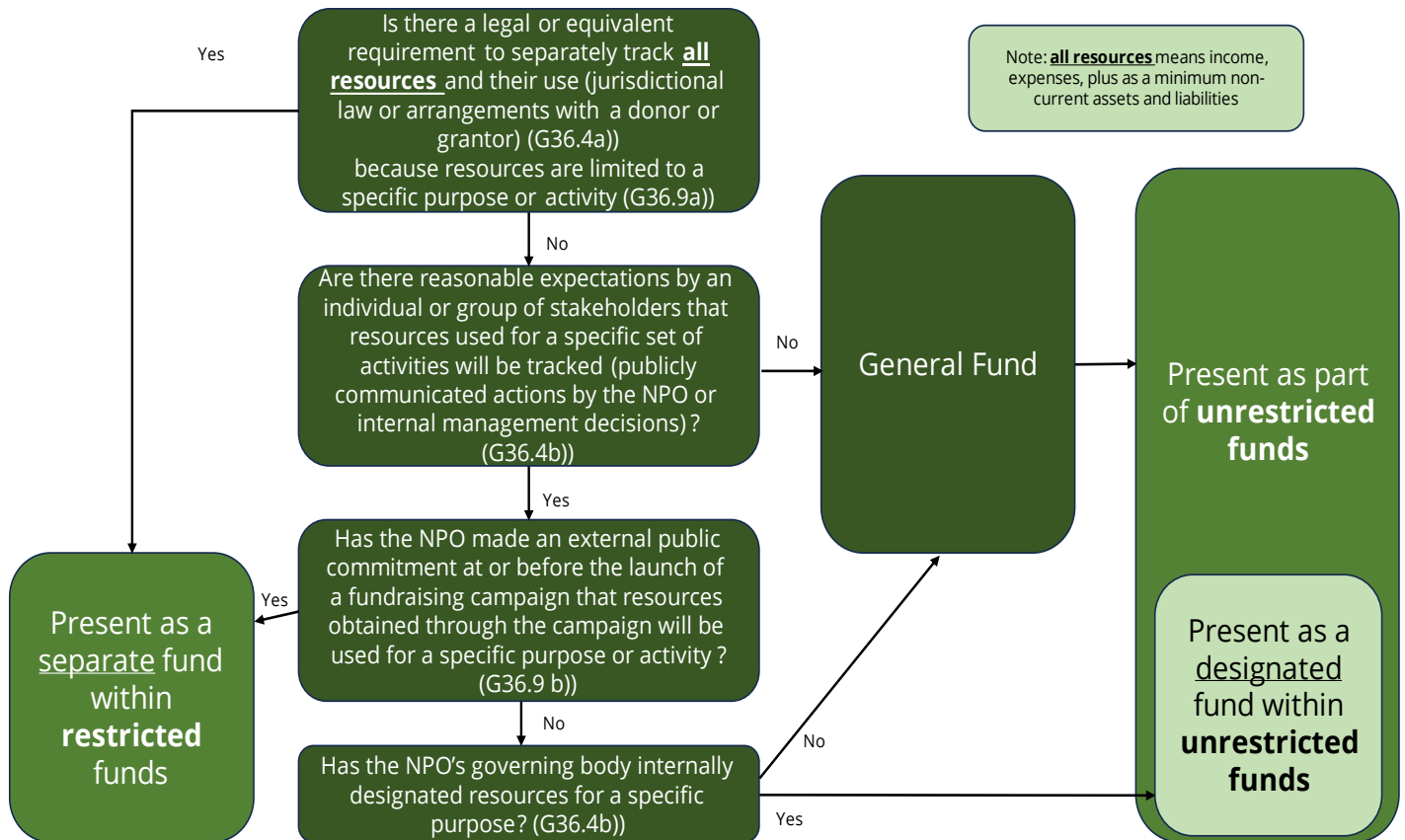
- 9.1 Subject to the comments made by TAG members in response to this paper, the Secretariat intends to treat the drafts shared alongside this paper as final.
- 9.2 TAG members will next see the updated paragraphs in the full draft of the document that is planned to be circulated in April 2025. This 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 – Decision tree

Fig IG36.1 – Decision tree for the identification and classification of funds



Appendix B – Terminology

Is there a difference between funds, grants and projects?

IG36.6 NPOs can be asked for reports for a fund, a grant or a project. In INPAS there is only a requirement to report on a fund. However, to meet the requirements of INPAS, NPOs will need to record grants, and determine when and how to recognise grant revenue and grant expenses. INPAS Practice Guide 1: Supplementary information for donor reporting (Practice Guide 1) can be used to report on an individual grant or grouping of grants to an individual stakeholder. Use of Practice Guide 1 can provide transparency about the use of a grant and use of other resources needed to meet the purposes of a fund. A grant is not the same as a fund.

IG36.7 In INPAS these terms are used as follows:

Fund – all NPO transactions are recorded against a fund. A fund separate to the general fund exists where the criteria in G36.4 have been met. **A fund is used to present accounting information.**

Grant – a grant arises where a grantor provides, or is obliged to provide, resources to a grant recipient (which may be an entity or individual) by transferring cash or a service, good or other asset to that grant recipient without directly receiving any cash, service, good or other asset in return. These requirements are often documented in a grant agreement that requires past or future compliance with specified terms. This can include requirements relating to activities or deliverables. **A grant results in one or more accounting transactions.**

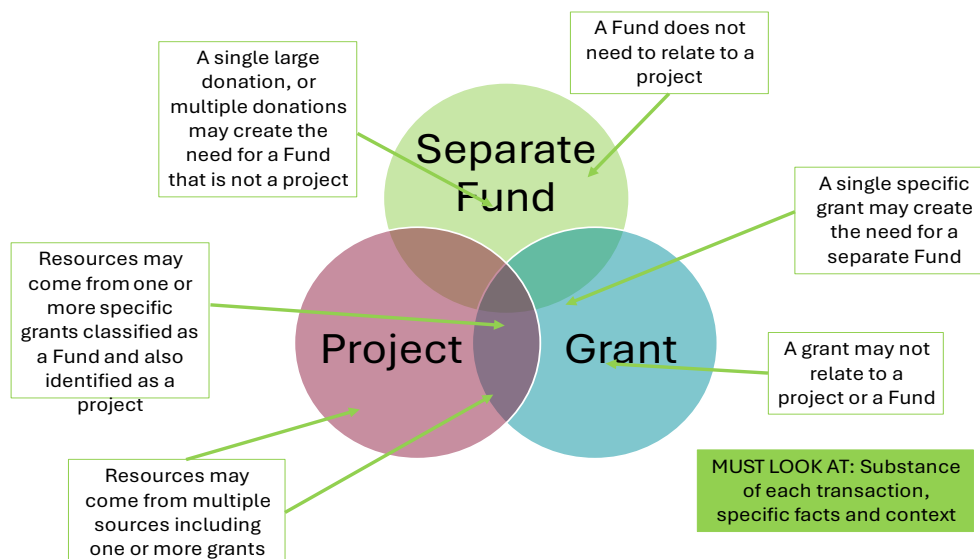
Project – a project is a time-bound endeavour that comprises a set of tasks or activities to arrive at a deliverable or to achieve specific goals. **A project is an internal reporting mechanism to report to an NPO's management.**

IG36.8 With these terms used for a specific purpose it is possible that:

- a single transaction may only need to be presented as a fund, recorded as a grant, or included in a project report
- a single transaction is a grant that is also part of a fund
- a single transaction is a grant that is part of a project
- transactions in a fund are being reported as part of a project
- a single transaction is a grant that is part of a fund that is being reported as a project.

The Venn diagram in Fig IG36.2 describes these relationships.

Fig IG36.2 – Relationship with funds, grants and projects



What expenses can be recorded against an individual fund?

IG36.38 The costs recorded against each fund can include direct, shared and support costs associated with the activities undertaken. The allocation of shared costs and support costs follows the principles set out in Section 24 Part II *Classification of expenses*. As set out in G36.13 legitimate costs need to be allocated even where grant agreements define certain costs as ineligible. Including all legitimate costs provides transparency about the total costs of the activities in a fund.

IG36.39 Different terms can be used to describe expenses. This can include allowable costs, eligible costs, ineligible costs and legitimate costs. In INPAS these terms are used as follows:

Allowable costs: Permitted, eligible and allocable expenses for the purposes of delivering the requirements in the contract or grant.

Eligible costs: Costs that qualify for funding under a specific grant, contract, or funding agreement. Eligibility is determined by the grantor or donor and is usually outlined in funding guidelines. However, even if a cost is eligible, it must still meet allowability rules to be reimbursed.

Ineligible costs: Expenses that have been incurred that are specifically excluded from being claimed under a grant or other funding agreement.

Legitimate costs: Costs properly (lawfully) and reasonably incurred in connection with a project or a fund. Legitimate costs include the direct, shared and support costs associated with a project or fund.

IG36.40 Allowable costs, eligible costs and legitimate costs that relate to a fund’s purpose are expected to be included in the transactions for that fund. Costs that are ineligible for the purposes of a grant agreement may be a legitimate cost for presentation and inclusion as part of a fund. Ineligible costs that are not legitimate costs cannot be included in a fund.

Appendix C – Key amendments to the drafting

Key amendments relating to funds criteria

Reasonable expectations

IG36.24 Factors to consider in assessing whether a stakeholder has a reasonable expectation in relation to a grant or donation made will include:

- a) the extent of the commitments or intention by the NPO to act in a particular way and the way in which it is communicated, **including whether these actions have resulted in the recognition of a constructive obligation;**
- b) whether external communication of commitments or intentions to act occur before or after resources have been provided or promised by a stakeholder;
- c) the nature of any preferences expressed by a grantor and previous experience of working with specific grantors;
- d) past practice by an NPO for similar transactions;
- e) the level of discretion that the NPO has about the use of the resources;
- f) **NPO's practice in communicating with the public including its use of social media and verbal commitments made in public;**
- g) **financial dependency on a specific stakeholder (taking account of past practice or the nature of the relationship).**

IG36.25 For example, in certain circumstances a grantor may express a form of non-binding preference as to the use of the funds. As these are preferences rather than requirements, they are not likely to create a reasonable expectation on the use of the resources by the stakeholder. In this case the funds shall be included as part of **unrestricted funds** ~~without restrictions~~. The NPO's governing body may **internally** designate the funds **internally** to reflect the donor's preferences. If, however, previous experience with this grantor is such that in substance the preferences are requirements, it may be appropriate to separately track the resources and show them as part of **restricted funds** ~~with restriction~~.

IG36.26 An NPO may use social media to promote its mission. An NPO will need to assess whether announcements or messages on social media create reasonable expectations by those using the social media channel. Whether a reasonable expectation is created will depend on how social media is used by the NPO and the reliance place on it. For example, does social media form a connection to the majority of the NPO's key stakeholders, does the NPO normally use social media for making its announcements, who has made the social media post and their position in the NPO. Social media is frequently used to amplify announcements made through other channels but may not in all cases be sufficient on its own to create reasonable expectations. This will need to be assessed on a case by case basis.

IG36.27 The same is true of verbal commitments made in a public forum. It is the ability to rely on such announcements that is key. If an NPO regularly uses public forums to announce its intentions, but this frequently does not result in a follow up action, stakeholders are less likely to be able to rely on these. However, if a public forum is used to launch a campaign and this is followed up by additional activities, such as a 'sign up' page on a website, this may be sufficient.

IG36.28 Whether stakeholders could have formed a reasonable expectation on the use of resources requires professional judgement. It needs to be assessed on a case-by-case basis reflecting the stakeholders involved and the specific context/fact pattern.

Key amendments relating to transactions recognised in a fund

Charging expenses to a fund

G36.12 A reasonable allocation of support costs associated with managing ~~the~~ a fund shall be presented as part of ~~charge to~~ a fund, even if inclusion of such costs is ~~not permitted~~ ineligible under the terms of any ~~grant agreement arrangement~~ that has resulted in the creation of a fund, ~~or where such a grant agreement is part of a fund.~~

G36.13 A restricted fund shall show all ~~of~~ the transactions related to its specific purpose. The legitimate expenses attributable to a restricted fund shall be presented as part of ~~charged to~~ the fund even if there is an insufficient balance on that fund at that time to fund all the expenses. ~~Such expenses~~ An NPO shall only ~~be charged~~ such expenses to the fund if the specific purpose for which the fund was created is not yet complete.

Describing shortfalls on a fund

IG36.50 Although explanations are not required of all restricted fund balances at the financial reporting date, providing explanations might be useful. Disclosures related to restricted funds will enable an explanation of **timing differences** between the recognition of income and expenses. NPOs are encouraged to use these disclosures to explain an NPO's **surplus or deficit** for the period.

IG36.51 Explanations of how an NPO plans to address a shortfall on a fund, including how additional funds might be sought or proposals to reallocated resources can be useful. This can provide assurance to stakeholders such as donors that the NPO has good financial management processes in place.

Key amendment relating to disclosures

Link to narrative reporting

IG36.53 The disclosure set out the minimum information that an NPO needs to provide in relation to funds, the movements on funds and the balances on funds at the financial reporting date. NPOs can go beyond these disclosures where this provides information that the NPO has assessed as being useful to the users of its general purpose financial report. Disclosures can be made in the financial statements or can form part of the narrative report. An NPO will need to consider how any additional information is presented to maximise its value to the users of its general purpose financial report.

Key amendments to illustrative examples

Classification of funds examples

Context: NPO A has averaged income and expenses of CU 8 million over the last 5 years. Amounts vary by year but have never been lower than CU 6 million or higher than CU 10 million. It provides support to impoverished communities including through education, food aid and water security.

The NPO has identified several transactions where a separate fund may be required. The NPO first assesses whether the transaction is material. For any transactions assessed as immaterial, no further analysis is required, however, an NPO may choose to establish a fund. For material funds the NPO assesses whether there is a legal or equivalent requirement or whether there are reasonable expectations. Based on this assessment the NPO determines if there is a fund and if so whether it is restricted. The assessment may depend on other factors, which need to be considered before a final assessment is made.

	Scenario	Material	Legal or equivalent requirement	Reasonable expectations	Possible classification
1	A grant agreement for CU250,00 with a requirement to deliver a distinct service. A report is required by the donor of expenses incurred.	Probable	Probable		Restricted
2	The NPO receives 10% of its income through zakat, mandatory funds provided annually by adult Muslims to help those less fortunate than themselves. Use of the funds is governed by Islamic law.	Probable	Yes		Restricted
3	The government has introduced a new law that all resources provided for water security must be separately tracked.	Yes	Yes		Restricted
4	Grants from several stakeholders plus a contribution of the NPO's own resources are being made for a project to develop an education programme for mental health. This is one of many projects being carried out.	Possible	Possible	Possible	Depends on the fact pattern
5	A grant agreement for CU30,000 with a requirement to achieve a specified outcome. A report is required by the donor of expenses incurred	Unlikely			Unrestricted (a separate fund is not required if not material)
6	The NPO's governing body decides to put aside CU3 million for the redevelopment of its estate to be spent over the next 5 years. The governing body has asked for	Probable		Yes	Internally designated fund (unrestricted)



	quarterly updates on progress and the resources used.				
7	A donation of shares and cash is estimated to be worth CU750,000 by a donor that is actively involved in the NPO's network. The donor expressed a preference for their donation to be used to renovate facilities owned by the NPO.	Probable	No	Possible	Unrestricted if there are no reasonable expectations
8	a) A fundraising campaign announced with the purpose of raising funds for a specified natural disaster raised funds of CU2million. Funds not used for the natural disaster can be used by the NPO for any of the NPO's purposes.	Yes	No	No	Unrestricted
	b) As above except the NPO has specified that the funds can only be used for the specified natural disaster.	Yes	No	Yes	Restricted

Presentation of funds examples

Example 5 – Operating grant for outreach programme (no shortfall)

.....

NPO A has a positive balance on the fund in years 1-4. The NPO reviews the balance at the end of the financial reporting period and carries it forward to the next financial reporting period as the purpose for the Fund is ongoing and the activities of the Fund are not yet complete.

Example 6 – Operating grant for outreach programme (shortfall)

NPO A enters into a grant agreement to provide an outreach programme. The NPO receives an operating grant of CU100,000 in each year to fund the programme. Expenses have a profile of CU120,000, CU 80,000, CU80,000, CU110,000 and CU120,000 across the financial years. There are no donor imposed conditions other than the funds are to be spent on the outreach programme. Unspent funds in one year are eligible to be spent in subsequent years. This is a grant agreement without a delivery obligation for the grant recipient.

Accounting

	Revenue	Expenses
On acquisition	(10,000)	
Year 1	(100,000)	120,000
Year 2	(100,000)	80,000
Year 3	(100,000)	80,000
Year 4	(100,000)	110,000
Year 5	(100,000)	120,000



Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Restricted funds – Outreach Programme Fund						
Year 0						
Year 1		100,000	(120,000)			(20,000)
Year 2	(20,000)	100,000	(80,000)			-
Year 3	-	100,000	(80,000)			20,000
Year 4	20,000	100,000	(110,000)			10,000
Year 5	10,000	100,000	(120,000)			(10,000)

NPO A has a negative balance on the fund at the end of year 1. The NPO reviews the balance at the end of the financial reporting period and concludes that the balance is because of start-up costs and the grants to be paid in future financial periods will be sufficient to cover the shortfall. At this point the NPO assesses that the total amount of the grant will cover all its costs. Therefore, it determines that the shortfall is temporary and therefore the negative balance can be carried forward.

At the end of years 2-4 NPO has either nil balance or a positive balance. It carries this balance forward to the next financial reporting period as the purpose of the Fund is ongoing and the activities of the Fund are not yet complete.

At the end of the outreach programme in year 5, NPO A has a negative balance, with overall costs exceeding the grant paid. NPO A has approached the grantor to provide additional funds to cover the additional costs. The grantor has declined to pay the additional costs. NPO A has no realistic possibility of getting an alternative grant to cover these costs. If NPO A could have obtained an additional grant it could assess the shortfall as temporary and carry the balance forward. However, as no alternative source of funding is likely, NPO A determines that this is a permanent shortfall and transfers funds from its unrestricted funds to make up the difference.

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Restricted funds – Outreach Programme Fund						
Year 0						
Year 1		100,000	(120,000)			(20,000)
Year 2	(20,000)	100,000	(80,000)			-
Year 3	-	100,000	(80,000)			20,000
Year 4	20,000	100,000	(110,000)			10,000
Year 5	10,000	100,000	(120,000)		10,000	(10,000)
Unrestricted funds – General fund						
Year 5	1,000,000				(10,000)	900,000

Appendix D – Summary of main changes to Section 36

Amendments to Section 36 Fund accounting

Paragraph Number	Secretariat Response
G36.1	Amended to clarify that all income and expenses will be recorded against a fund.
G36.2	INPAG changed to INPAS
G36.3	Plain English amendments
G36.4	INPAG changed to INPAS and plain English amendments
G36.5	Updated requirement of the separate accounting records to be kept. Introduction of undue cost or effort for current assets and current liabilities not linked to delivery obligations. Clarification that maintain separate records will allow resources to be tracked. Plain English amendments.
G36.8	Updated terminology
G36.9	Updated terminology and plain English amendments.
G36.10	New paragraph to confirm that revenue from contracts with customers will not create a funds with restrictions.
G36.10 (now G36.11)	Reference to the decision tree amended
G36.11 (now G36.12)	Drafting changes for internal consistency within the paragraph, updated terminology and references to costs being presented as part of a fund rather than being charged to a fund.
G36.12 (now G36.13)	References to costs being presented as part of a fund rather than being charged to a fund. Part of the paragraph moved to (new) G36.14.
G36.14	Split of paragraph out of former G36.12. Deletion of the last line.
G36.15	Former paragraph AG36.14 updated to expand on the requirements in assessing a shortfall.
G36.13 (now G36.16)	Updated terminology and plain English amendments.
G36.14 (now G36.17)	Updated terminology and plain English amendments.
G36.15 (now G36.18)	Redrafted to reflect internally designated funds that can be used for any purpose that than designated funds for an internal purpose. Updated terminology and plain English amendments.
G36.16 (now G36.19)	Updated terminology and plain English amendments.



Paragraph Number	Secretariat Response
G36.20	Former paragraph AG36.17. Updated to include equivalent restriction and for terminology and plain English amendments
G36.17 (now G36.21)	Updated for terminology and plain English amendments
G36.19 (now G36.23)	Updated for terminology and plain English amendments
G36.20 (now G36.24)	Updated for terminology
G36.21 (now G36.25)	Plain English amendments
G36.22 (now G26.26)	Updated for terminology
G36.23 (now G36.27)	Plain English amendments
AG36.1	Moved to IG
Fig AG36.1	Moved to IG and updated
AG36.2	Moved to IG
AG36.3	Moved to IG
AG36.4	Moved to IG
AG36.5	Moved to IG
AG36.6	Moved to IG and updated to refer to delivery obligations rather than EGAs. Paragraph split to separate grant agreements with delivery obligations from those that don't have delivery obligations
AG36.7	Moved to IG and updated to refer to delivery obligations and restricted and unrestricted funds. Drafting clarifications to reinforce the substance of the transaction
AG36.8	Moved to IG
AG36.9	Moved to IG
AG36.10	Moved to IG
AG36.11	Moved to IG
AG36.12	Moved to IG
AG36.13	Moved to IG
AG36.14	Moved to para G36.15
AG36.15	Moved to IG
AG36.16	Removed as duplicated existing content
AG36.17	Moved to para G36.20 Amended legal restrictions to legal and equivalent restrictions



Paragraph Number	Secretariat Response
AG36.18	Moved to IG
AG36.19	Moved to IG
AG36.20	Moved to IG
AG36.21	Moved to IG

Amendments to Section 36 Implementation Guidance

Paragraph Number	Secretariat Response
IG36.1	Moved from AG36.1 and updated to clarify that all income and expenses must be recorded against a fund.
Fig IG36.1	Moved from AG and updated
IG36.2	New paragraph – reference to Section 2 to apply materiality
IG36.3	New paragraph – materiality can be applied to set a threshold for clearly trivial funds
IG36.4	New paragraph – materiality of smaller funds
IG36.5	New paragraph – a fund is not needed for each grant
IG36.6	New paragraph – funds, grants and projects and Practice Guide 1
IG36.7	New paragraph – definition of funds, grants and projects
IG36.8	New paragraph – relationship between funds, grants and projects
Fig IG36.2	New diagram setting out the relationship between funds, grant and projects
IG36.9	New paragraph – what is meant by equivalent requirements
IG36.10	New paragraph – equivalent requirements and grant agreements
IG36.11	New paragraph – equivalent requirements and enforceability
IG36.12	New paragraph – equivalent requirements and regulators
IG36.13	New paragraph – equivalent requirements and regulators
IG36.14	New paragraph – equivalent requirements and the public sector
IG36.15	New paragraph – equivalent requirements and the public sector
IG36.16	New paragraph – equivalent requirements and oral agreements



Paragraph Number	Secretariat Response
IG36.17	Moved from AG36.2
IG36.18	Moved from AG36.3
IG36.19	New paragraph – tracking current assets and current liabilities
IG36.20	New paragraph – undue cost or effort of tracking current assets and liabilities
IG36.21	Moved from AG36.4
IG36.22	New paragraph – reasonable expectations of internal stakeholders
IG36.23 (was IG36.1)	Updated for terminology
IG36.24 (was IG36.2)	Updated for additional factors or reasonable expectations
IG36.25 (was IG36.3)	Updated for terminology and additional factors
IG36.26	New paragraph – reasonable expectations (social media)
IG36.27	New paragraph – reasonable expectations (verbal commitments)
IG36.28	New paragraph – reasonable expectations assessment
IG36.29	Moved from AG36.5
IG36.30	Moved from AG36.6
IG36.31	New paragraph – nature of restrictions
IG36.32	Moved from AG36.7 and updated for terminology and minor drafting
IG36.33	Moved from AG36.8 and updated for terminology
IG36.34	Moved from AG36.9
IG36.35	Moved from AG36.15 and updated for terminology
IG36.36	New paragraph – revenue from contracts with customers
IG36.37	New paragraph – revenue from contracts with customers
IG36.38	Moved from AG36.10
IG36.39	New paragraph – definition of cost terms
IG36.40	New paragraph – costs recorded against a restricted fund
IG36.41	Moved from AG36.11 and updated for terminology
IG36.42	Moved from AG36.12



Paragraph Number	Secretariat Response
IG36.43	Moved from AG36.13
IG36.44	New paragraph – fund with a positive balance
IG36.45	New paragraph – closure of a fund and communication with the grantor
IG36.46	New paragraph – excess on a fund and alternative uses
IG36.47	New paragraph – shortfall on a fund temporary and permanent
IG36.48	Moved from AG36.18
IG36.49	New paragraph – usefulness of fund information
IG36.50	Moved from AG36.21 and updated for terminology
IG36.51	New paragraph – explanations of shortfalls
IG36.52	New paragraph – unrestricted funds and financial resilience
IG36.53	New paragraph – voluntary disclosures and narrative reporting
IG36.54 (was IG36.4)	Updated for terminology
IG36.55	Moved from AG36.19 and updated for terminology
IG36.56	Moved from AG20
IG36.57	New paragraph – aggregation of immaterial funds
IG36.58	New paragraph – aggregation of funds and useful information
IG36.59	New paragraph – aggregation of funds and individual significant restrictions
Illustrative Examples	
Classification of funds	New examples of different transactions that could be a fund
Presentation of funds	All examples updated for terminology
Example 1	Additional narrative where the asset is used for more than one purpose
Example 5	Clarified that unspent funds are eligible for spending in subsequent years. Additional assessment on fund balances at each reporting date.
Example 6	New example based on example 5 except there are negative balances in Year 1 and at the completion of activities. Assessment of fund balances and actions to address the negative balance.



Paragraph Number	Secretariat Response
Example 7 (was example 6)	Correction for an error on the presentation of the unrestricted fund.

Amendments to Section 36 Basis for Conclusions

Paragraph Number	Secretariat Response
BC36.1	
BC36.2	Updated for terminology
BC36.3	New paragraph – fund accounting purpose
BC36.4 (was BC36.3)	Updated for terminology
BC36.5	New paragraph – principles based
BC36.6 (was BC36.11)	
BC36.7 (was BC36.14)	Updated to reflect ED3 closed
BC36.8	New paragraph – tracking of assets and liabilities
BC36.9	New paragraph – tracking of assets and liabilities
BC36.10	New paragraph – equivalent requirement and reasonable expectations
BC36.11	New paragraph – equivalent requirement and reasonable expectations
BC36.12	New paragraph – equivalent requirement and reasonable expectations
BC36.13	New paragraph – property, plant and equipment
BC36.14	New paragraph - materiality
BC36.15	New paragraph - materiality
BC36.16	Updated for terminology
BC36.17 (was BC36.4)	Updated for terminology
BC36.18 (was BC36.5)	Updated for terminology
BC36.19 (was BC36.6)	Updated for terminology
BC36.20 (was BC36.7)	
BC36.21 (was BC36.8)	Updated for terminology
BC36.22 (was BC36.9)	Updated for terminology



Paragraph Number	Secretariat Response
BC36.23 (was BC36.12)	Updated for terminology
BC36.24 (was BC36.13)	Updated for terminology
BC36.25	New paragraph – revenue from contracts with customers
BC36.26	New paragraph – revenue from contracts with customers
BC36.27	New paragraph – costs in a fund
BC36.28	New paragraph – costs in a fund
BC36.29	New paragraph - terminology
BC36.30 (was BC36.15)	Updated for terminology
BC36.31	New paragraph – internally designated funds
BC36.32 (was BC36.18)	Minor drafting change
BC36.33 (was BC36.19)	Minor drafting change
BC36.34 (was BC36.20)	
BC36.35	New paragraph – additional disclosures
BC36.36	New paragraph – immaterial funds
BC36.37 (was BC36.21)	Redrafted post ED3