

## TAGFG07 Annex

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# Authoritative Guidance

## Section 2 – Concepts and pervasive principles

### Scope of this Section

- G2.1 This Section describes the objective of general purpose financial reports of non-profit organisations (NPOs). It also sets out the concepts and basic principles underlying the general purpose financial reports of NPOs.
- G2.2 ~~In some circumstances, there may be inconsistencies between~~ The concepts and principles in this Section ~~might not always align with and~~ the requirements ~~of in~~ other Sections of the **Guidance Standard**. In ~~these circumstances those cases,~~ the requirements in the other Sections take precedence over ~~this the concepts and principles in this Section.~~

### The objective of non-profit organisations' general purpose financial reports

#### Objective, usefulness and limitations of general purpose financial reports

- G2.3 The objective of general purpose financial reports of an NPO is to provide **financial and non-financial** information about the NPO that is **useful to existing and potential users of their financial reports** ~~useful~~ for accountability and decision making ~~by users of the financial reports.~~

~~G2.4 General purpose financial reports include financial and non-financial information which complements and enhances the information provided in the financial statements. Non-financial information will include the information specified by the requirements in Section 35 Narrative reporting.~~

#### Users of general purpose financial reports

- G2.45 ~~NPOs are responsible for the stewardship of the resources entrusted to them. NPOs are accountable for the management and use of these resources. They are~~ NPOs are accountable **for their management and use of resources** to **existing and potential** resource providers and to the public that ~~depend on~~ **benefit from** the goods and services provided by NPOs ~~or the activities that they carry out.~~
- ~~G2.6 The legislative body of a country, state or region (or similar) or members of parliaments or assemblies in a state or region (or similar bodies) will be primary users when acting in. The~~ ~~the~~ interests of resource providers and the public may be served by those ~~that benefit from the goods and services provided by NPOs or on the activities that they carry out~~ ~~fulfilling oversight functions on their behalf. Therefore, f~~ For the purposes of INPAS the primary users of the NPO general purpose financial reports are existing and potential:
- a) ~~resource providers – see paragraph G2.7;~~

- b) the public that benefit from the goods and services provided by NPOs – see paragraph G2.8; and  
c) those acting as representatives of the interests of resource providers and the public that benefit from the goods and services provided by NPOs – see paragraph G2.9  
These primary users will be described as resource providers and the public that benefit from the goods and services provided by NPOs.

G2.5 — General purpose financial reports are not developed specifically to respond to any individual information needs.

G2.6 — Users that have rights to demand information tailored to meet their particular information needs, for example, some donors as part of funding arrangements, are not considered to be primary users of general purpose financial reports. Similarly, information tailored to a user's individual needs would typically not be included in general purpose financial reports.  
G2.7 — NPOs are provided with resources from numerous sources including, for example, donors and other funders, governments, banks, lenders, and creditors. These resource providers (as described in paragraphs G2.5–G2.6), will be primary users when they do not have rights to demand information tailored to meet their particular information needs.

G2.8 — The public that benefit from the goods and services provided by the NPO or the activities that they carry out are those that benefit either directly or indirectly from an NPO's activities. They may be referred to as service users or recipients, or clients and can range from an entire population either within a jurisdiction or wider, to a small subset of a community.

G2.9 — The legislative body of a country, state or region (or similar) or members of parliaments or assemblies in a state or region (or similar bodies) will be primary users when acting in the interests of resource providers and the public that benefit from the goods and services provided by NPOs or on the activities that they carry out. Primary users also include those acting in the interests of resource providers and the public that benefit from the goods and services provided by NPOs or on the activities that they carry out. This will include individual elected representatives and public officials who have a duty to represent the interests of members of the public who are provided with services and goods by the NPO, or benefit from its activities or who provide it with financial and other resources.

G2.10 — General purpose financial reports are not developed specifically to respond to any individual user's information needs.

G2.11 — When users exercise their rights to demand information tailored to meet their particular information needs, they are not considered to be primary users of general purpose financial reports. For example, some donors or other funders will have the authority to request special purpose financial reports as part of funding arrangements. Information tailored to a user's individual needs would not be included in general purpose financial reports. However, donors and other funders will be primary users when they are not requesting such information.

G2.12 — General purpose financial reports do not and cannot provide all the information that existing and potential users need when making decisions. These users need to also

consider pertinent information from other sources – for example, general economic conditions and expectations, political events and political climate, and sector and individual NPO focused outlooks.

### Information needs of users for accountability and decision making

G2.713 The discharge of accountability obligations requires the provision of information about the NPO's management of its resources in meeting its purposes, its capacity to continue to operate in future periods, and its compliance with any regulations that govern its operations.

G2.814 Information provided in general purpose financial reports for accountability purposes will also contribute to and inform economic and other decision making (for further discussion on the information needs of users see IG2.3).

### Information provided by general purpose financial reports to meet the needs of users

~~G2.9~~ ~~Core G2.15~~ Financial information that is presented in the **financial statements** on an NPO's financial position, its contribution to the surplus or deficit and cashflows will need to be ~~supported~~ enhanced by financial and non-financial information in general purpose financial reports. ~~The~~ is supporting information enhances, in general purpose financial reports complements and supplements the ~~core~~ financial information presented in the financial statements to fully describe an NPO's performance.

G2.106- General purpose financial reports include financial statements that provide information about ~~the an NPO's~~ financial position of a reporting NPO, which is information about the NPO's economic resources and the claims against the NPO. ~~They~~ Financial statements also provide information about the effects of transactions and other events that change a reporting NPO's **economic resources** and claims. They allow users to make decisions and develop expectations based on their assessment of the amount, timing and uncertainty of the NPO's future net cash inflows ~~to the NPO~~.

G2.17 Financial statements also show how efficiently and effectively the reporting NPO's management has met its responsibility to use its economic resources. This information helps users assess management's stewardship of those resources

~~G2.11 Non-financial information should include those items covered in Section 35 Narrative reporting.~~

~~G2.12 General purpose financial reports do not and cannot provide all the information that users need. Those users need to consider pertinent information from other sources – for example, general economic conditions and expectations, political events and political climate, and sector and individual NPO focused outlooks.~~

### Qualitative characteristics of information in general purpose financial Reports

G2.138 ~~The qualitative characteristics of useful financial and non-financial information described in paragraphs G2.14–G2.29 identify the types of information that are likely to be the most useful to users in making decisions about the NPO on the basis of~~

~~information in its financial reports.~~ An NPO uses the qualitative characteristics of useful financial information described in paragraphs ~~G2.1819–G2.3334~~ to identify the types of information likely to be most useful for users when making decisions about the NPO.

## Qualitative characteristics of useful financial and non-financial information

G2.149 Financial information is useful only if it is relevant and faithfully represents what it purports to represent. ~~If financial and non-financial information is to be useful, it must be relevant and faithfully represent what it purports to represent.~~ The usefulness of financial and non-financial information is enhanced if it is comparable, verifiable, timely and understandable.

### Fundamental qualitative characteristics

G2.1520 The fundamental qualitative characteristics are relevance and faithful representation.

#### Relevance

G2.1621 ~~Relevant financial and non-financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources.~~ Financial information is relevant if it can influence users' decisions. Information might be relevant even if some users choose not to make use of it or are already aware of it from other sources.

G2.1722 ~~Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.~~ Financial information can affect users' decisions by having predictive value, confirmatory value or both.

#### Materiality

G2.1823 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those financial reports, which provide financial and non-financial information about a specific reporting NPO. ~~In other words, m~~Materiality is an NPO entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual NPO's financial reports. Consequently, it is not possible to specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

#### Faithful representation

G2.1924 Financial reports represent economic or other phenomena in words and numbers. Useful financial information not only represents relevant phenomena, but also faithfully represents the substance of the phenomena that it purports to represent. ~~To be useful, financial and non-financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent.~~ In many circumstances, the substance of an economic or other phenomenon and its legal form are the same. If they are not the same, ~~providing~~ information only about the legal form would not, ~~by itself,~~ faithfully represent the economic or other phenomenon.

- G2.205 To be a perfectly faithful representation, a depiction of an economic or other phenomenon would have three characteristics. It would be complete, neutral and free from error. Perfection is rarely, if ever, achievable. Instead, the objective of INPAS is to maximise those qualities to the extent possible. ~~Of course, perfection is seldom, if ever, achievable. The objective is to maximise those qualities to the extent possible.~~
- G2.246 To be complete, a depiction of an economic or other phenomenon includes all information necessary for a user to understand the phenomenon, including all necessary descriptions and explanations. ~~A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.~~
- G2.227 ~~A neutral depiction is without bias in the selection or presentation of financial and non-financial information. Neutrality is supported by the exercise of **prudence**. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses. Such misstatements can lead to the overstatement or understatement of income or expenses in future periods. The exercise of prudence does not imply a need for asymmetry, although particular Sections may contain asymmetric requirements if these are a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.~~ To be neutral, a depiction of an economic or other phenomenon is without bias in the selection or presentation of financial information. Neutrality is supported by **prudence**, which is the exercise of caution when an NPO makes judgements under conditions of uncertainty. The exercise of prudence means that **assets** and **income** are not overstated and **liabilities** and **expenses** are not understated. Equally, prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses. Such misstatements can lead to the overstatement or understatement of income or expenses in future periods. Consequently, some sections of this Standard might contain asymmetric requirements if necessary to help an NPO select the most relevant information that faithfully represents what it purports to represent.
- G2.2328 ~~Faithful representation does not mean accurate in all respects. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects.~~ Faithful representation does not mean the depiction of an economic or other phenomenon is accurate in all respects. To be free from error, a depiction of the phenomenon contains no errors or omissions, and an NPO has selected and applied, without errors, a process to produce the information in the financial statements.

### Applying the fundamental qualitative characteristics

- G2.249 The most efficient and effective process by which an NPO applies the fundamental qualitative characteristics of financial information, subject to the effects of enhancing characteristics (see paragraph G2.30) and the cost constraint (see paragraphs G2.35–G2.37), is usually: ~~The most efficient and effective process for~~

~~applying the fundamental qualitative characteristics would usually be as follows (subject to the effects of enhancing characteristics and the cost constraint, which are not considered in this example). First, identify an economic or other phenomenon, information about which is capable of being useful to users of the reporting NPO's financial information. Second, identify the type of information about that phenomenon that would be most relevant. Third, determine whether that information is available and whether it can provide a faithful representation of the economic or other phenomenon. If so, the process of satisfying the fundamental qualitative characteristics ends at that point. If not, the process is repeated with the next most relevant type of information. In some cases, a trade-off between the fundamental qualitative characteristics may need to be made to meet the objective of general purpose financial reports (see paragraph G2.37).~~

- a) first, to identify an economic or other phenomenon, about which information can be useful to users.
- b) second, to identify the type of information about the phenomenon in (a) that would be most relevant.
- c) third, to assess whether the relevant information in (b) is available and whether it can provide a faithful representation of the economic or other phenomenon. If so, the process of satisfying the fundamental qualitative characteristics ends at that point. If not, the NPO repeats the process with the next most relevant type of information. In some cases, the NPO might have to prioritise one or more of the fundamental qualitative characteristics over others to meet the objective of general purpose financial reports (see paragraph G2.4142).

## Enhancing qualitative characteristics

~~G2.2530 Comparability, verifiability, timeliness, and understandability are qualitative characteristics that enhance the usefulness of information that both is relevant and provides a faithful representation of what it purports to represent. The enhancing qualitative characteristics may also help determine which of two ways should be used to depict a phenomenon if both are considered to provide equally relevant information and an equally faithful representation of that phenomenon. Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of relevant information that provides a faithful representation of what it purports to represent. These enhancing qualitative characteristics might also help an NPO decide how it depicts an economic or other phenomenon if the NPO judges that more than one way provides equally relevant information and an equally faithful representation of that phenomenon.~~

### Comparability

~~G2.2631 Information about a reporting NPO is more useful if it can be compared with similar information about other NPOs and with similar information about the same NPO for another period or another date. Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. It is diminished where alternative accounting methods are permitted for the same economic phenomenon. Information about an NPO is more useful if users can compare that information with similar information about other NPOs and with similar information about the same NPO for another period or another date. Comparability is~~

the qualitative characteristic that enables users to identify and understand similarities in, and differences between, items. Comparability is reduced if NPOs are permitted to use alternative accounting methods for the same phenomenon.

### Verifiability

G2.2732 ~~Verifiability helps assure users that information faithfully represents the economic or other phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single-point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.~~ Verifiability helps assure users that information faithfully represents the phenomenon it purports to represent. Verifiability means that knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is faithful. Quantified information does not have to be a single point estimate to be verifiable; a range of possible amounts and the related probabilities can also be verified.

### Timeliness

G2.2833 Timeliness means having information available to decision-makers in time for it to be able to influence their decisions. ~~Timeliness means having information available to users in time to be capable of influencing their decisions.~~ Generally, the older the information, the less useful it is. However, some information may continue to be timely long after the end of a **reporting period** because, for example, some users will use it to identify and analyse trends ~~some users may need to identify and assess trends.~~

### Understandability

G2.2934 Classifying, characterising and presenting information clearly and concisely makes it understandable. ~~However, excluding information from financial reports about phenomena that are inherently complex and cannot be made easy to understand would make these reports incomplete and therefore possibly misleading.~~ However, understandability should not be used as a justification for omitting material information. Financial reports would be incomplete if an NPO excluded information about phenomena because the phenomena are inherently complex and cannot be made easy to understand.

### **The cost constraint on useful financial reporting**

G2.3035 ~~Cost is a pervasive constraint on the information that can be provided by financial reporting and non-financial reporting. Reporting financial and non-financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information.~~ Cost is a pervasive constraint on the information that an NPO can provide. Reporting financial and non-financial information imposes costs on an NPO, so it is important that those costs are justified by the benefits of reporting that information.



~~G2.346 NPOs Providers of financial and non-financial information~~ expend most of the effort involved in collecting, processing, verifying and disseminating financial and non-financial information. ~~Users of financial and non-financial information also incur costs of analysing and interpreting the information provided. If needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it.~~ Users also incur costs of analysing and interpreting the information an NPO provides. If NPOs do not provide needed information, users incur additional costs to obtain that information elsewhere or to estimate it.

G2.327 Reporting financial and non-financial information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence. However, it is not possible for general purpose financial reports to provide all the information that every user finds relevant.

### Undue cost or effort

~~G2.338 An undue cost or effort exemption is specified for some requirements in INPAG. This exemption shall not be used for other requirements in this Guidance. Some requirements in this Standard are accompanied by an undue cost or effort exemption. Such exemptions do not apply to other requirements in this Standard.~~

~~G2.349 Considering whether obtaining or determining the information necessary to comply with a requirement would involve undue cost or effort depends on the NPO's specific circumstances and on management's judgement of the costs and benefits from applying that requirement. This judgement requires consideration of how the economic and other decisions of those that are expected to use the financial reports could be affected by not having that information. Applying a requirement would involve undue cost or effort by an NPO if the incremental cost (for example, valuers' fees) or additional effort (for example, endeavours by employees) substantially exceeds the benefits that those that are expected to use the NPO's financial report would receive from having the information. Whether an NPO must spend undue cost or effort to obtain or judge the information necessary to comply with a requirement depends on the NPO's specific circumstances and on management's judgement of the costs and benefits of applying that requirement. To make this judgement, an NPO considers how users' decision-making could be affected by not having that information. An NPO would spend undue cost or effort applying a requirement if the incremental cost (for example, valuers' fees) or additional effort (for example, endeavours by employees) substantially exceeds the benefits users would receive from having the information.~~

~~G2.3540 Assessing whether a requirement would involve undue cost or effort on initial recognition in the financial reports – for example, at the date of the transaction – should be based on information about the costs and benefits of the requirement at the time of initial recognition. If the undue cost or effort exemption also applies subsequent to initial recognition – for example, to a subsequent measurement of an item – a new assessment of undue cost or effort should be made at that subsequent date based on information available at that date. An NPO judges whether a requirement would involve undue cost or effort on initial recognition in the financial statements – for example, at the date of the transaction – based on information about the costs and benefits of the requirement at the time of initial recognition. If the undue cost or effort exemption also applies after initial recognition – for example, to a~~

subsequent measurement of an item – the NPO makes a new judgement of undue cost or effort at that subsequent date, based on information available at that date.

~~G2.3641 Except for the undue cost or effort exemption in paragraph 19.10G, which is covered by the disclosure requirements in paragraph 19.25, whenever an undue cost or effort exemption is used by an NPO, the NPO shall disclose that fact and the reasons why applying the requirement would involve undue cost or effort.~~ If an NPO applies an undue cost or effort exemption, the NPO shall disclose that fact and the reasons why applying the requirement would involve undue cost or effort. This requirement does not apply to the undue cost or effort exemption in paragraph G19.7, which is covered by the disclosure requirements in paragraph G19.38.

## General purpose financial reports and the reporting NPO

### Objective and scope of general purpose financial reports

G2.3742 The objective of general purpose financial reports is to provide financial information about the reporting NPO's assets, liabilities, equity net assets, income and expenses, as well as non-financial information that is useful to users for accountability and decision-making purposes, including assessing management's stewardship of the NPO's resources (see paragraph G2.3-2.1217).

### Reporting period

~~G2.3843 An NPO prepares its financial reports for a specified reporting period and discloses information about financial reports are prepared for a specified period of time (reporting period) and provide financial information about:~~

- a) its assets and liabilities, including unrecognised assets and liabilities, equity net assets and funds with restrictions ~~restricted funds~~ and unrestricted funds without restrictions within net assets that existed at the end of the reporting period or during the reporting period
- b) its income and expenses for the reporting period.

~~G2.3944 To help users of financial reports identify and assess changes and trends, financial reports also provide comparative information for at least one preceding reporting period, except when this Guidance permits or requires otherwise.~~ To help users identify and analyse changes and trends, an NPO also discloses in its financial reports comparative information for at least one preceding reporting period, except if this Standard permits or requires otherwise.

G2.4045 An NPO also discloses in its financial reports information about possible future transactions and events if the information ~~Information about possible future transactions and other possible future events is included in financial reports if it:~~

- a) relates to the NPO's assets or liabilities, including unrecognised assets or liabilities, equity net assets and funds within net assets that existed at the end of the reporting period or during the reporting period, or to income or expenses for the reporting period; and
- b) is useful to users of financial reports.

## Perspective adopted in financial reports

G2.4146 ~~Financial reports provide information about transactions and other events viewed from the perspective of the reporting entity as a whole, not from the perspective of any particular group of the NPO's users.~~ An NPO discloses in its financial reports information about transactions and other events from the perspective of the NPO as a whole, not that of any particular group of the NPO's current or potential users.

## Going concern assumption

G2.4247 ~~Financial reports are normally prepared on the assumption that the reporting NPO is a going concern and will continue in operation for the foreseeable future. Hence it is assumed that the NPO has neither the intention nor the need to enter liquidation or cease operating. If such an intention or need exists, the financial statements may have to be prepared on a different basis. If so, the financial reports must describe the basis used (see paragraphs G3.8–G3.9).~~ An NPO normally prepares its financial statements on the assumption that it is a going concern and will continue in operation for the foreseeable future. Users assume that the NPO has neither the intention nor the need to enter liquidation or to stop trading. If the NPO has such an intention or need, it might prepare the financial statements on another basis. If so, the NPO describes in its financial statements the basis it has used (see paragraphs G3.8–G3.9).

## The reporting NPO

G2.4348 A reporting NPO is an NPO that is required or chooses to prepare general purpose financial reports. ~~A reporting NPO is not necessarily a legal entity.~~ A reporting NPO can be a single NPO or a portion of an NPO or can comprise more than one NPO. It may operate through trusts or other entities, and some of these may have a separate legal identity, autonomy to operate or otherwise support the provision of goods and services. ~~A reporting NPO is not necessarily a legal entity.~~

G2.449 A reporting NPO will prepare general purpose financial reports as if it were one economic entity or other complete set of activities related to its purposes.

G2.4550 An NPO may have an interest in another entity and be characterised as a **controlling NPO** (parent), while another entity (that may or may not be an NPO) is characterised as a **controlled entity**. Control is the power of an NPO to direct the activities of or use the funds of another entity (see paragraphs G9.8–G9.19).

G2.4651 If a reporting NPO comprises both the controlling NPO and its controlled entities, the reporting NPO's financial statements are referred to as **consolidated financial statements**. If the controlling NPO produces financial statements alone, these are referred to as **separate financial statements**. If the reporting NPO comprises two or more entities that are not linked by a controlling NPO-controlled entity relationship, the reporting NPO's financial statements are referred to as **combined financial statements**.

G2.4752 Determining ~~what the appropriate reporting boundary of~~ a reporting NPO can be complex when ~~re~~ the potential reporting NPO is not a legal entity or ~~where when~~ it does

not include legal entities that are governed by controlling NPO-controlled entity relationships.

G2.4853 ~~Where-When~~ a reporting NPO is not ~~clearly defined~~easily determined (for example, a reporting ~~entity-NPO~~ will be clear when it is a legal entity or is controlled by a controlling NPO-controlled entity relationship), ~~determining-establishing~~ the boundary of the reporting NPO is driven by the information needs of the users of the reporting NPO's financial statements. ~~Those-u~~Users need relevant information that faithfully represents what it purports to represent. Faithful representation requires that:

- the boundary of the reporting NPO does not contain an arbitrary or incomplete set of economic activities;
- including that set of economic activities within the boundary of the reporting NPO results in neutral information; and
- a description is provided of how the boundary of the reporting NPO was determined and of what constitutes the reporting NPO.

G2.4954 Where a reporting NPO is not ~~clearly defined~~easily determined, ~~it is required to an NPO~~ shall disclose the basis for the reporting NPO boundary, any significant judgements in determining it and its relationship with other entities in the notes to the financial statements.

## The elements of financial statements

### Introduction

G2.505 The elements of **financial statements** defined in this Section are as follows:

- Assets, liabilities and net assets, which relate to a reporting NPO's **Statement of Financial Position**.
- Income and expenses, which relate to a reporting NPO's **Statement of Income and Expenses** if they contribute to surplus and deficit, and to the **Statement of Changes in Net Assets** if they do not contribute to surplus and deficit.

G2.546 ~~Those-These~~ elements are linked to the economic resources (see paragraph G2.5459), claims and changes in economic resources and claims discussed in paragraphs G2.715-G2.1217.

G2.527 In addition to these elements, further important aspects of NPO financial statements are discussed in this Section. These include:

- equity claims**;
- restricted funds** and **unrestricted funds**.

### Definition of an asset

G2.5358 An **asset** is a present economic resource controlled by the NPO as a result of past events.

G2.5459 An economic resource is a right that has the **potential to produce economic benefits** or to provide services and goods in accordance with the NPO's objectives. Economic benefits relate to cash inflows or a reduction in cash outflows. The capacity to provide services and goods that contribute to achieving the NPO's objectives is **service**

**potential.** Service potential enables an NPO to achieve its objectives without necessarily generating net cash inflows.

G2.5560 Rights that have the potential to produce economic benefits or service potential take many forms, including;

- a) rights that correspond to an obligation of another party, for example:
  - i) rights to receive cash
  - ii) rights to receive services or goods or assign services or goods to third parties
  - iii) rights to exchange economic resources with another party on favourable terms. Such rights include, for example, a forward **contract** to buy an economic resource on terms that are currently favourable or an option to buy an economic resource
  - iv) rights to benefit from an obligation of another party to transfer an economic resource if a specified uncertain future event occurs
- b) rights that do not correspond to an obligation of another party, for example, **rights over physical assets, such as property, plant and equipment or inventories, or rights over some intangible assets.:**
  - ~~i) rights over physical objects, such as property, plant and equipment or inventories. Examples of such rights are a right to use, or allow others to use, a physical object for the achievement of an NPO's objectives without a corresponding cash inflow or a reduction in cash outflows, or a right to benefit from the residual value of a leased object~~
  - ii) rights to use intellectual property

G2.5661 Many rights are established by contract, legislation or similar means. For example, an NPO might obtain rights from owning or leasing a physical object, from owning a debt instrument or an equity claim, or from owning a registered patent. However, an NPO might also obtain rights in other ways, for example:

- a) by acquiring or creating know-how that is not in the public domain; or
- b) through ~~an obligation of~~ another party's **obligation** that arises because that other party has no practical ability to act in a manner inconsistent with its customary practices, published policies or specific statements.

G2.5762- An economic resource is a right that has the potential to produce economic benefits or service potential. It does not need to be certain, or even likely, that the right will produce economic benefits or service potential. It is only necessary that the right already exists.

~~G2.5863 Control links an economic resource to an NPO. Assessing whether control exists helps to identify the economic resource for which the NPO accounts. An NPO controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits or service potential that may flow from it. An NPO has the present ability to direct the use of an economic resource if it has the right to deploy that economic resource in its activities, or to allow another party to deploy the economic resource in that other party's activities. An NPO controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits or service potential that might flow from it. An NPO has the present ability to direct the use of an economic resource if it has the right to deploy that economic resource in its activities, or to allow another party to deploy the economic resource in that party's activities. Control includes the present~~

ability to prevent other parties from directing the use of the economic resource and from obtaining the economic benefits and service potential that may flow from it.

### Definition of a liability

G2.5964 A **liability** is an **NPO's** present obligation ~~of the NPO~~ to transfer an economic resource as a result of past events.

G2.6065 ~~For a liability to exist, three criteria must all be satisfied~~ A liability exists only if:

- a) the NPO has an obligation;
- b) the obligation is to transfer an economic resource; and
- c) the obligation is a present obligation that exists as a result of past events.

G2.6466 An **NPO** has an obligation if it has a duty or responsibility that the **NPO** has no practical ability to avoid. An obligation is always owed to another party (or parties). It is not necessary for the **NPO** to know the identity of the party (or parties) to whom the obligation is owed. Many obligations are established by contract, legislation or **equivalent** means and are legally enforceable by the party (or parties) to whom they are owed. ~~An obligation is a duty or responsibility that an NPO has no practical ability to avoid. An obligation is always owed to another party (or parties). Many obligations are established by contract, legislation or similar means and are legally enforceable by the party (or parties) to whom they are owed.~~ However, obligations can also arise from an NPO's customary practices, published policies or specific statements if the NPO has no practical ability to act in a manner inconsistent with those practices, policies or statements. The obligation that arises in such situations is sometimes referred to as a **constructive obligation**.

~~G2.62 The second criterion for a liability is that the obligation is to transfer an economic resource.~~

~~G2.637 To satisfy this criterion, the obligation must have the potential to require the NPO to transfer an economic resource to another party (or parties). For that potential to exist, it does not need to be certain, or even likely, that the NPO will be required to transfer an economic resource. The transfer may, for example, be required only if a specified uncertain future event occurs. It is only necessary that the obligation already exists and that, in at least one circumstance, it would require the NPO to transfer an economic resource.~~ A liability gives rise to an obligation to transfer an economic resource if the obligation has the potential to require an **NPO** to transfer the economic resource to another party (or parties). It does not have to be certain, or even likely, that the **NPO** will be required to transfer the economic resource for that potential to exist. It is only necessary that the obligation exists and that, in at least one circumstance, it would require the **NPO** to transfer the economic resource.

G2.648 Obligations to transfer an economic resource include, for example:

- a) obligations to pay cash
- b) obligations to provide services or deliver goods
- c) obligations to exchange economic resources with another party on unfavourable terms
- d) obligations to transfer an economic resource if a specified uncertain future event occurs

- e) obligations to issue a **financial instrument** if that financial instrument will oblige the entity-NPO to transfer an economic resource.

G2.659 Instead of fulfilling an obligation to transfer an economic resource to the party that has a right to receive that resource, an NPOs might sometimes decide ~~to~~, for example:

- a) to settle the obligation by negotiating a release from the obligation;
- b) to transfer the obligation to a third party; or
- c) to replace that obligation to transfer an economic resource with another obligation by entering into a new transaction.

~~G2.66 — The third criterion for a liability is that the obligation is a present obligation that exists as a result of past events.~~

G2.670 A present obligation exists as a result of past events only if an NPO:

- a) ~~the NPO~~ has already obtained economic benefits or service potential or taken an action giving rise to the obligation; and
- b) ~~as a consequence, the NPO~~ will or may have to transfer an economic resource that it would not otherwise have had to transfer.

G2.6870 The economic benefits or service potential obtained could include, for example, goods or services. The action the NPO has taken could include, for example, undertaking a particular activity for the benefit of the public or operating in a particular geographical area. If the NPO has obtained economic benefits or service potential ~~are obtained~~ or ~~an action is taken~~ has taken action, over time, the resulting present obligation may accumulate over that time.

## Assets and liabilities

### Unit of account

G2.6971 The **unit of account** is the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations to which an NPO applies recognition criteria and measurement concepts, ~~to which recognition criteria and measurement concepts are applied~~.

G2.7072 ~~A unit of account is selected for an asset or liability when considering how recognition criteria and measurement concepts will apply to that asset or liability and to the related income and expenses. In some circumstances, it may be appropriate to select one unit of account for recognition and a different unit of account for measurement. For example, contracts may sometimes be recognised individually but measured as part of a portfolio of contracts. For presentation and disclosure, assets, liabilities, income and expenses may need to be aggregated or separated into components.~~ An NPO selects a unit of account for an asset or liability when it considers how recognition criteria and measurement concepts will apply to that asset or liability and to the related income and expenses. In some circumstances, it might be appropriate for the NPO to select one unit of account for recognition and another unit of account for measurement. For example, an NPO might sometimes recognise contracts individually, but measure them as part of a portfolio of contracts. For presentation and disclosure, an NPO might aggregate or separate assets, liabilities, income and expenses into their components.

## Executory contracts

G2.7473 An **executory contract** is a contract, or a portion of a contract, that is equally unperformed. Neither party has fulfilled any of its obligations, or both parties have ~~partially~~ ~~partly~~ fulfilled their obligations to an equal extent.

G2.7274 An executory contract establishes a combined right and obligation to exchange economic resources. The right and obligation constitute a single asset or liability. The NPO has an asset if the terms of the exchange are currently favourable; it has a liability if the terms of the exchange are currently unfavourable. ~~Whether such an asset or liability is included in the financial statements depends on both the recognition criteria and the measurement basis selected for the asset or liability, including, if applicable, any test for whether the contract is onerous.~~ Whether the NPO includes such an asset or liability in its financial statements depends on both the recognition criteria and the measurement basis the NPO selected for the asset or liability, including, if applicable, any test for whether the contract is onerous.

## Net assets

G2.735 Net assets are the residual of recognised assets minus recognised liabilities. Net assets will include specific categories of items whose use may be either with restrictions or without restrictions as per paragraph G2.8382.

G2.76 Some of the net assets of an NPO may not be available to it to achieve its objectives of providing a benefit to the public but instead are a financial interest that is due to the holders of equity claims. Equity claims are the financial interest in the net assets of an NPO that is due to holders of those claims. Where the holders of equity claims have established a financial interest in some of the net assets of the NPO (see paragraphs G2.7877-G2.8281), the equity claims shall be recognised as a subset of net assets.

## Equity Claims in an NPO Context

G2.77 Equity claims in the NPO context are expected to be rare. An NPO's net assets are anticipated to be used to achieve its objectives, not for distribution. Where equity claims do exist, they are unlikely to be material by magnitude but may be material by nature.

G2.78 Where equity claims do exist, they provide a financial interest in the net assets of the NPO through an entitlement to:

- a) distributions of future economic benefits or service potential by the NPO during its life, such distributions being at the discretion of the NPO; and
- b) distributions of any excess assets over liabilities in the event of the NPO's dissolution where this excess has not otherwise been distributed to another NPO or entity with a similar purpose.

In some cases, this financial interest may be sold, exchanged, transferred or redeemed. Such a financial interest is similar but not the same as the concept of ownership in the IFRS for SMEs Accounting Standard, where investors in equity instruments that provide entitlement to the residual interest in the assets of an entity after deducting all of its liabilities are deemed to be owners.



G2.79 Investments from holders of equity claims are an inflow of resources to the NPO, contributed by parties external to the NPO as a consequence of equity claims arrangements, that establish or increase a financial interest in the net assets of the NPO. Examples would include the purchase by external parties of share capital issued by the NPO or funds contributed by members that entitle them to a share of net assets.

G2.80 The provision of funding by an external party that provides governance rights but does not establish a financial interest in the net assets of the NPO is not a contribution from holders of equity claims and does not lead to the recognition of equity claims. Also, if the amount contributed is required to be refunded in the future it will be recognised as a liability in accordance with [Section 22 Liabilities and equity claims](#).

G2.81 Distributions to holders of equity claims are outflows of resources from the NPO, distributed to parties external to the NPO in accordance with equity claims arrangements, which return or reduce a financial interest in the net assets of the NPO. Examples would include the repurchase from external parties of shares issued by the NPO, or paying funds back to members so that they no longer had a further entitlement to a share of net assets.

### **Fund Accounting**

G2.82 When assets and liabilities, and corresponding income and expenses, are recognised, they shall be accounted for in an appropriate fund. An NPO may have more than one fund for a variety of reasons. Where this is the case, each fund shall be categorised by an NPO as either restricted funds or unrestricted funds. This allows an NPO to manage and present the elements by individual fund. [Section 36 Fund accounting](#) provides more detail on fund accounting.

G2.83 Net assets may also feature funds originally recognised as income in the NPO financial statements. These funds might need to be held permanently and cannot be converted into income (and are often described as endowment funds). Only income which can be generated from the capital may be used by the NPO.

#### Funds with restrictions

~~G2.74~~ ~~Funds with restrictions are to be used by an NPO when there are externally imposed funding or other legal arrangements placed on the NPO by a resource provider that restrict the financial resources provided to be expended, invested or retained by the NPO for a specific purpose or activity. A breach of these funding or other legal requirements may require the NPO to return the financial resources to the party that originally provided them and/or result in the NPO facing censure from regulators for the misuse of these resources.~~

#### ~~Funds without restrictions~~

~~G2.75~~ ~~Funds without restrictions are those that are freely available to be used by an NPO for any of its purposes or activities. An NPO is free to internally designate funds for a specific purpose or activity, but the absence of any externally imposed funding or other legal arrangement means that they are not required to be used for this purpose or~~

activity. Internal designations include those that are made by boards of directors or equivalent bodies that are charged with governance of the NPO.

## Definitions of income and expenses

G2.7684 ~~Income and expenses are defined as follows:~~

a) ~~Income is increases in assets or decreases in liabilities that result in increases in net assets other than those relating to contributions from holders of equity claims; and~~  
b)

G2.85 ~~Expenses are decreases in assets or increases in liabilities that result in decreases in net assets other than those relating to distributions to holders of equity claims.~~

~~From these definitions of income and expenses, it follows that contributions from holders of equity claims are not income and distributions to holders of equity claims are not expenses.~~

G2.7786 Income and expenses are the elements of financial statements that relate to an NPO's financial activity in a reporting period. Users of financial statements need information about both an NPO's financial position and its financial activity in a reporting period. ~~Hence, a~~ Although income and expenses are defined in terms of changes in assets and liabilities, information about income and expenses is just as important as information about assets and liabilities.

G2.7887 ~~Different transactions and other events generate income and expenses with different characteristics. Providing information separately about income and expenses with different characteristics can help users of financial statements understand the NPO's financial activity in the reporting period.~~ Transactions and other events generate income and expenses with varied characteristics. Separating information about income and expenses that have differing characteristics can help users understand the NPO's financial activity.

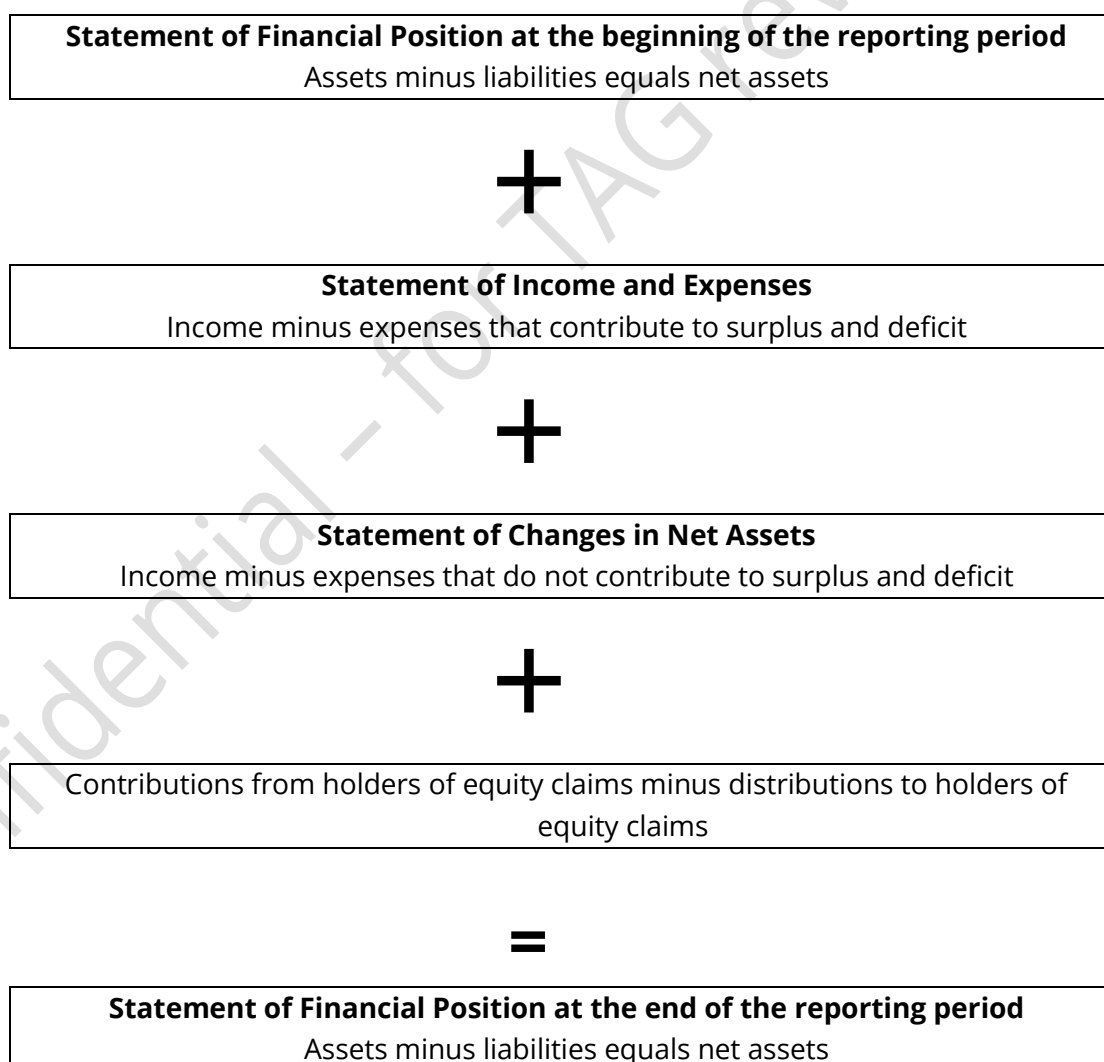
## Recognition and derecognition

### The recognition process

G2.7988 ~~Recognition is the process of capturing for inclusion in the Statement of Financial Position, the Statement of Income and Expenses or the Statement of Changes in Net Assets an item that meets the definition of one of the elements of financial statements – an asset, a liability, equity, income or expenses. Recognition involves depicting the item in one of those statements – either alone or in aggregation with other items – in words and by a monetary amount, and including that amount in one or more totals in that statement. The amount at which an asset, a liability or equity is recognised in the Statement of Financial Position is referred to as its carrying amount.~~ Recognition is the process of capturing assets, liabilities, net assets, income and expenses in the Statement of Financial Position, Statement of Income and Expenses or the Statement of Changes in Net Assets. Recognition involves depicting the item, either alone or in aggregation with other items, in words and by a single monetary amount in one of those statements and including that amount in one or more totals in that statement. The carrying amount is the amount at which an NPO recognises an asset, a liability or net assets in the Statement of Financial Position.

- G2.8089 Recognition links the elements, the Statement of Financial Position, the Statement of Income and Expenses and the Statement of Changes in Net Assets as follows (see Figure 2.1 and Figure 2.2). In the Statement of Financial Position, at the beginning and end of the reporting period, total assets minus total liabilities is equal to net assets. Recognised changes in net assets during the reporting period comprise
- ~~a) in the Statement of Financial Position, at the beginning and end of the reporting period, total assets minus total liabilities is equal to net assets; and~~
  - ~~b) recognised changes in net assets during the reporting period comprise:~~
    - a) i) income minus expenses that contribute to surplus and deficit and that are recognised in the Statement of Income and Expenses; plus
    - b) ii) income minus expenses that do not contribute to surplus and deficit and that are recognised directly in the Statement of Changes in Net Assets; plus
    - iii) contributions from holders of equity claims minus distributions to holders of equity claims.

**Figure 2.1: How recognition links the elements of financial statements**



**Figure 2.2: How recognition impacts components of net assets**

Net assets at the beginning of the reporting period	In reporting period recognition			Net assets at the end of the reporting period
Funds without restrictions <u>Unrestricted funds</u>	Plus income without restrictions	Minus expenses without restrictions	Plus/minus reclassifications between funds without restrictions <u>unrestricted funds</u> and funds with restrictions <u>restricted funds</u>	Funds without restrictions <u>Unrestricted funds</u>
Funds with restrictions <u>Restricted funds</u>	Plus income with restrictions	Minus expenses with restrictions	Plus/minus reclassifications between funds without restrictions <u>unrestricted funds</u> and funds with restrictions <u>restricted funds</u>	Funds with restrictions <u>Restricted funds</u>
Equity <u>claims</u> (where it <u>they</u> exists)	Plus contributions from holders of equity claims	Minus distributions to holders of equity claims		Equity <u>claims</u>
<u>Other reserves</u> (revaluation reserves)	<u>Plus (revaluation) increases</u>	<u>Minus (revaluation) decreases</u>		<u>Other reserves</u> (revaluation reserves)

### Recognition criteria

G2.8490 Only items that meet the definition of an asset, a liability or net assets are recognised in the Statement of Financial Position. ~~Similarly, only -i~~ items that meet the definition of income or expenses are recognised in the Statement of Income and Expenses or in the Statement of Changes in Net Assets, depending on whether they contribute to surplus and deficit or not. However, not all items that meet the definition of one of those elements are recognised (see also paragraph G2.92 below).

G2.8291 ~~The failure to recognise an item that satisfies those criteria is not rectified by disclosure of the **accounting policies** used or by notes or explanatory material.~~ An NPO cannot correct its failure to recognise an item that satisfies the recognition criteria by disclosing the **accounting policies** it used or by providing notes or explanatory material.

### Relevance

G2.8392 Information about assets, liabilities, net assets, income and expenses is relevant to users ~~of financial statements~~. However, recognition of a particular asset or liability and any resulting income, expenses or changes in net assets ~~may-might~~ not always provide relevant information. ~~That may be the case if, for example, it is uncertain whether an asset or liability exists, or an asset or liability exists but the probability of an inflow or outflow of economic benefits is low. The presence of one or both factors does not automatically lead to a conclusion that the information provided by recognition lacks relevance, as other factors may need to be taken into account.~~ For example, if it is uncertain whether an asset or liability exists, or if an asset or liability exists but the probability of an inflow or outflow of economic benefits or service potential is low, information about that asset or liability might not be relevant. However, that information could be relevant in combination with other factors.

### Existence uncertainty

G2.8493 In some cases, it may be unclear whether an asset or liability exists. ~~That uncertainty, possibly combined with a low probability of inflows or outflows of economic benefits and an exceptionally wide range of possible outcomes, may mean that the recognition of an asset or liability, necessarily measured at a single amount, would not provide relevant information. Whether or not the asset or liability has been recognised, explanatory information about the associated uncertainties may need to be provided in the financial statements.~~ That uncertainty, which might coincide with a low probability of inflows or outflows of economic benefits or service potential and an exceptionally wide range of possible outcomes, might mean that recognising a single asset or liability would not provide relevant information. Whether or not an NPO has recognised the asset or liability, the NPO might need to provide explanatory information in the financial statements about the associated uncertainties.

### Faithful representation

G2.8594 Recognition of a particular asset or liability is appropriate if it provides not only relevant information but also a faithful representation of that asset or liability and of any resulting income, expenses or changes in net assets. ~~Whether a faithful representation can be provided may be affected by the level of measurement uncertainty associated with the asset or liability or by other factors.~~ Whether an NPO can provide a faithful representation might be affected by the level of measurement uncertainty associated with the asset or liability or by other factors.

### Measurement uncertainty

G2.8695 ~~For an asset or liability to be recognised, it must be measured. In many cases, such measures must be estimated and are therefore subject to measurement uncertainty. The use of reasonable estimates is an essential part of the preparation of financial information and does not undermine the usefulness of the information if the estimates are clearly and accurately described and explained.~~ An NPO measures an asset or liability in order to recognise it. In many cases, an NPO estimates this measurement and it is therefore subject to measurement uncertainty. Using estimates is an essential part of preparing financial information and does not undermine the usefulness of the information if an NPO clearly and accurately describes and explains the estimates.

G2.8796 An item that fails to meet the recognition criteria ~~may~~ might later qualify for recognition ~~at a later date~~ as a result of ~~subsequent~~ circumstances or events.

G2.8897 ~~Whether or not an asset or liability is recognised, a faithful representation of the asset or liability may need to include explanatory information about the uncertainties associated with the asset or liability's existence or measurement, or with its outcome – the amount or timing of any inflow or outflow of economic benefits that will ultimately result from it.~~ Whether or not an NPO recognises an asset or liability, the NPO might need to include explanatory information to provide a faithful representation of the asset or liability. The NPO could include information about the uncertainties associated with the asset or liability's existence or measurement, or with its outcome – the amount

or timing of any inflow or outflow of economic benefits that will ultimately result from the asset or liability (see paragraphs G2.130–G2.131).

## Derecognition

G2.9898 **Derecognition** is the removal of all or part of a recognised asset or liability from an NPO's Statement of Financial Position. Derecognition normally occurs ~~when-if~~ that item no longer meets the definition of an asset or liability: ~~For example:~~

- a) for an asset, derecognition normally occurs ~~when-if~~ the NPO loses control of all or part of the recognised asset; and
- b) for a liability, derecognition normally occurs ~~when-if~~ the NPO no longer has a present obligation for all or part of the recognised liability.

G2.9099 Accounting requirements for derecognition ~~in this Standard~~ aim ~~for an NPO~~ to faithfully represent both any asset and liabilities ~~it~~ retained after the transaction or other event that led to derecognition and the change in ~~the NPO's~~ assets or liabilities as a result of that transaction or other event.

G2.94100 ~~To achieve the aim described in paragraph G2.99, an NPO normally~~The aim of paragraph G2.90is normally achieved by:

- a) ~~derecognising~~~~derecognises~~ any assets or liabilities that have expired or have been consumed, collected, fulfilled or transferred, and ~~recognising~~~~recognises~~ any resulting income and expenses; and
- b) ~~continuing~~~~continues~~ to recognise any retained assets or liabilities.

G2.92101 ~~To achieve the aim described in paragraph G2.99, an NPO can:~~One or more of the following procedures may be applied to achieve the aims of paragraph G2.90:

- a) present the retained component separately in the Statement of Financial Position;
- b) present separately in the Statement of Income and Expenses any income and expenses that contribute to surplus and deficit recognised as a result of the derecognition of the transferred component;
- c) present separately in the Statement of Changes in Net Assets any income and expenses that do not contribute to surplus and deficit recognised as a result of the derecognition of the transferred component; or
- d) provide explanatory information.

## Measurement

G2.93102 ~~Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis.~~An NPO quantifies elements recognised in financial statements in monetary terms. To quantify an element, an NPO first selects a measurement basis.<sup>7a</sup>

G2.94103 A measurement basis is an identified feature – for example, historical cost, **fair value** or fulfilment value – of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.

~~G2.95104 Different measurement bases may be appropriate for different assets, liabilities, income and expenses. The appropriate measurement basis is specific to the item being measured.~~

## Measurement bases

### Historical cost

G2.96105 Historical cost measures provide monetary information about the assets, liabilities and related income and expenses using information derived, at least in part, from the price of the transaction or other event that gave rise to them.

G2.97106 The historical cost of an asset when it is acquired or created is the value of the costs incurred in acquiring or creating the asset, comprising the consideration paid to acquire or create the asset plus **transaction costs**. ~~The historical cost of a liability when it is incurred or taken on is the value of the consideration received to incur or take on the liability minus transaction costs.~~ The historical cost of a liability is the value of the consideration the NPO received to incur or take on the liability minus transaction costs.

G2.98107 ~~An NPO updates over time the historical cost of an asset to depict, if applicable: The historical cost of an asset is updated over time to depict, if applicable:~~

- the consumption of part or all of the economic resource that constitutes the asset (**depreciation** or **amortisation**);
- any payments received ~~that extinguish for~~ part or all of the asset;
- the effect of events that cause part or all of the historical cost of the asset to ~~be~~ no longer be recoverable (**impairment**); and
- accrual of interest to reflect any financing component of the asset.

G2.99108 ~~An NPO updates over time the historical cost of a liability to depict. The historical cost of a liability is updated over time to depict, if applicable:~~

- fulfilment of part or all of the liability – for example, by making payments that ~~extinguish diminish~~ part or all of the liability or by satisfying an obligation to deliver ~~services or~~ goods.
- the effect of events that increase the value of the obligation to transfer the economic resources needed to fulfil the liability to ~~the such an~~ extent that the liability becomes onerous. A liability is onerous if the historical cost is no longer ~~sufficient enough~~ to depict the obligation to fulfil the liability.
- ~~the~~ accrual of interest to reflect any financing component of the liability.

G2.100109 ~~One way to apply a historical cost measurement basis to financial assets and financial liabilities is to measure them at amortised cost. The amortised cost of a financial asset or financial liability reflects estimates of future cash flows, discounted at a rate determined at initial recognition. For variable-rate instruments, the discount rate is updated to reflect changes in the variable rate. The amortised cost of a financial asset or financial liability is updated over time to depict subsequent changes, such as the accrual of interest, the impairment of a financial asset and receipts or payments. One way an NPO applies a historical cost measurement basis to financial assets and financial liabilities is to measure them at amortised cost. The amortised cost of a financial asset or financial liability reflects estimates of future cash flows discounted at the rate the NPO determined at initial recognition. For variable rate instruments, the NPO updates the discount rate to reflect changes in the variable rate. Over time, the NPO~~

updates the amortised cost of a financial asset or financial liability to depict changes such as the accrual of interest, the impairment of a financial asset and receipts or payments.

### Current value

G2.401110 ~~Current value measures provide monetary information about assets, liabilities and related income and expenses using information updated to reflect conditions at the measurement date. Current value measurement bases include~~ Measurements based on current value provide monetary information about assets, liabilities and related income and expenses using information updated to reflect conditions at the measurement date. Current value measurement bases include:

- fair value;
- current cost;
- value in use** for assets; and
- fulfilment value for liabilities.

G2.402111 **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between **market participants** at the measurement date. Because fair value is not derived, even in part, from the price of the transaction or other event that gave rise to the asset or the liability, fair value is not increased by transaction costs an NPO incurs when acquiring the asset and is not decreased by the transaction costs an NPO incurs when it takes on the liability. ~~incurred when acquiring the asset and is not decreased by the transaction costs incurred when the liability is incurred or taken on.~~

G2.403112 Current cost is the cost of an equivalent asset at the measurement date, comprising the consideration an NPO would pay at the measurement date plus the transaction costs the NPO would incur at that date. The current cost of a liability is the consideration an NPO would receive for an equivalent liability at the measurement date minus the transaction costs the NPO would incur at that date. ~~Value in use is the present value of the cash flows, other economic benefits or service potential that an entity expects to derive from the use of an asset and from its ultimate disposal. Fulfilment value is the present value of the cash or other economic resources that an entity expects to be obliged to transfer as it fulfils a liability. As value in use and fulfilment value are usually based on future cash flows, they do not include transaction costs incurred on acquiring an asset or taking on a liability.~~

G2.404113 \_\_\_\_\_ Value in use is the **present value** of the cash flows or other economic benefits or service potential that an NPO expects to derive from the use of an asset and from its ultimate disposal. Fulfilment value is the present value of the cash or other economic resources that an NPO expects to be obliged to transfer when it fulfils a liability. Because value in use and fulfilment value are **usually** based on future cash flows, they do not include transaction costs incurred when an NPO acquires an asset or takes on a liability. ~~The current cost of an asset is the cost of an equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date plus the transaction costs that would be incurred at that date. The current cost of a liability is the consideration that would be received for an equivalent~~



~~liability at the measurement date minus the transaction costs that would be incurred at that date.~~

### Information provided by particular measurement bases

G2.405114 When ~~an NPO selectings~~ a measurement basis, it ~~is important to consider~~ the nature of the information that the measurement basis will produce in the Statement of Financial Position, the Statement of Income and Expenses or the Statement of Changes in Net Assets.

#### Historical cost

G2.406115 ~~Information provided by measuring an asset or liability at historical cost may be relevant to users of financial statements because historical cost uses information derived, at least in part, from the price of the transaction or other event that gave rise to the asset or liability. As historical cost is reduced to reflect consumption of an asset and its impairment, the amount expected to be recovered from an asset measured at historical cost is at least as great as its carrying amount. Similarly, because the historical cost of a liability is increased when it becomes onerous, the value of the obligation to transfer the economic resources needed to fulfil the liability is no more than the carrying amount of the liability.~~ If an NPO measures an asset or liability at historical cost, the resulting information might be relevant to users because historical cost uses information derived, at least in part, from the price of the transaction or other event that gave rise to the asset or liability. Because an NPO reduces historical cost to reflect consumption of an asset and its impairment, the amount expected to be recovered from an asset measured at historical cost is at least as great as its carrying amount. Similarly, because an NPO increases the historical cost of a liability when the liability becomes onerous, the value of the obligation to transfer the economic resources needed to fulfil the liability is no more than the carrying amount of the liability.

#### Current value

G2.407116 ~~Information provided by measuring an asset or liability at fair value may have predictive value because fair value reflects market participants' current expectations about the amount, timing and uncertainty of future cash flows.~~ If an NPO measures an asset or liability at fair value, the resulting information might have predictive value because fair value reflects market participants' current expectations about the amount, timing and uncertainty of future cash flows.

G2.408117 ~~Value in use provides information about the present value of the estimated cash flows or service potential from the use of an asset and from its ultimate disposal. This information may have predictive value because it can be used in assessing the prospects for future net cash inflows or service potential generated by an asset.~~ If an NPO measures an asset using value in use, the resulting information is about the present value of the estimated cash flows or service potential from the use of the asset and from its ultimate disposal. This information might have predictive value because it can be used in assessing the prospects for future net cash inflows or service potential generated by an asset.

~~G2.109118 Fulfilment value provides information about the present value of the estimated cash flows needed to fulfil a liability. Hence fulfilment value may have predictive value, particularly if the liability will be fulfilled rather than transferred or settled by negotiation. If an NPO measures a liability using fulfilment value, the resulting information is about the present value of the estimated cash flows needed to fulfil the liability. This information might have predictive value, particularly if the NPO expects to fulfil the liability instead of transferring it or settling it by negotiation.~~

~~G2.110119 Updated estimates of value in use or fulfilment value, combined with information about estimates of the amount, timing and uncertainty of future cash flows or service potential, may also have confirmatory value because they provide feedback about previous estimates of value in use or fulfilment value. If an NPO provides updated estimates of value in use or fulfilment value, combined with information about estimates of the amount, timing and uncertainty of future cash flows, that information might help verify previous estimates of value in use or fulfilment value.~~

~~G2.111120 Information about assets and liabilities measured at current cost may be relevant because current cost reflects the cost at which an equivalent asset could be acquired or created at the measurement date or the consideration that would be received from incurring or taking on an equivalent liability. If an NPO measures an asset or liability using current cost, the resulting information might be relevant because current cost reflects the cost at which an equivalent asset could be acquired or created at the measurement date or the consideration that would be received from incurring or taking on an equivalent liability.~~

### **Factors to consider when selecting a measurement basis**

~~G2.112121 In selecting a measurement basis for an asset or liability, and for the related income and expenses, it is necessary to consider the nature of the information that the measurement basis will produce in the Statement of Financial Position, the Statement of Income and Expenses or the Statement of Changes in Net Assets. When an NPO selects a measurement basis for an asset or liability and for the related income and expenses, the NPO considers the nature of the information that the measurement basis will produce in in the Statement of Financial Position, the Statement of Income and Expenses or the Statement of Changes in Net Assets.~~

~~G2.113122 In most cases, no single factor will determine which measurement basis should be selected. In most cases, an NPO will not select a measurement basis based on a single factor. The relative importance of each factor will depend on facts and circumstances.~~

~~G2.114123 The information provided by a measurement basis must be useful to users of financial reports. To achieve this, the information must be relevant, and it must faithfully represent what it purports to represent. In addition, the information provided should, as far as possible, be comparable, verifiable, timely and understandable. An NPO selects a measurement basis that will provide useful information to users. To be useful, the information is relevant and faithfully represents what it purports to represent. In addition, the information should be comparable, verifiable, timely and understandable, to the extent possible.~~

## Relevance

G2.115124 The relevance of information an NPO provides using a measurement basis is affected by: ~~The relevance of information provided by a measurement basis for an asset or liability and for the related income and expenses is affected by:~~

- the characteristics of the asset or liability, in particular whether ~~they are~~ it is held for ~~their~~ its service potential rather than to generate cash flows, the variability of cash flows, and whether the value of the asset or liability is sensitive to market factors or other risks; and
- how that asset or liability contributes to future cash flows.

G2.116125 If the value of an asset or liability is sensitive to market factors or other risks, or if the asset is held for its service potential, its historical cost might differ significantly from its current value. Consequently, historical cost may not provide relevant information if information about changes in value is important to users of financial statements. ~~For example, amortised cost cannot provide relevant information about a financial asset or financial liability that is a derivative.~~

G2.117126 For assets and liabilities that produce cash flows directly, such as assets that can be sold independently and without a ~~significant~~ substantial economic penalty (for example, without a ~~significant~~ substantial disruption to an NPO's activities), the measurement basis that provides the most relevant information is likely to be a current value that ~~incorporates~~ takes into account current estimates of the amount, timing and uncertainty of the future cash flows. For assets and liabilities that do not produce cash flows directly, such as assets held for their service potential, the principles of relevance and faithful representation should be considered to the extent that they apply to the facts and circumstances.

G2.118127 ~~When~~ If an NPO's activity involves managing financial assets and financial liabilities with the objective of collecting contractual cash flows, amortised cost may provide relevant information that can be used to derive the margin between the interest earned on the assets and the interest incurred on the liabilities.

## Faithful representation

G2.119128 ~~In some circumstances, avoiding an accounting mismatch by using the same measurement basis for related assets and liabilities may provide users of financial reports with information that is more useful than the information that would result from using different measurement bases. This may be particularly likely when the cash flows from one asset or liability are directly linked to the cash flows from another asset or liability.~~ In some circumstances, an NPO uses the same measurement basis for related assets and liabilities to provide users with more useful information than the information that would result from using different measurement bases, for example, if the NPO's cash flows from one asset or liability are directly linked to its cash flows from another asset or liability.

G2.120129 As noted in paragraph G2.2325, although a perfectly faithful representation is free from error, ~~measures do not have to be perfectly accurate~~ this does not mean that ~~measures must be perfectly accurate in all respects.~~

~~G2.121-130~~ When a measure cannot be determined directly by observing prices in an active market and must instead be estimated, measurement uncertainty arises. The level of measurement uncertainty associated with a particular measurement basis may affect whether information provided by that measurement basis provides a faithful representation of an NPO's financial position and income and expenses. A high level of measurement uncertainty does not necessarily prevent the use of a measurement basis that provides relevant information. However, in some cases, the level of measurement uncertainty is so high that information provided by a measurement basis might not provide a sufficiently faithful representation. In such cases, it is appropriate to consider selecting a different measurement basis that would also result in relevant information. Measurement uncertainty arises if an NPO estimates an item's value because it cannot measure the item by observing prices in an **active market**. The level of measurement uncertainty associated with a particular measurement basis might affect whether the information an NPO provides using that measurement basis is a faithful representation of the NPO's financial position and income and expenses. A high level of measurement uncertainty does not necessarily prevent an NPO from using a measurement basis that provides relevant information, but in some cases, the level is so high that such information might not lead to a sufficiently faithful representation. In these cases, an NPO should consider selecting another measurement basis that would also result in relevant information.

~~G2.122-131~~ Measurement uncertainty is different from both outcome uncertainty and existence uncertainty:

- ~~a)~~ outcome uncertainty arises when there is uncertainty about the amount or timing of any inflow or outflow of economic benefits or service potential that will result from an asset or liability.
- ~~b)~~ existence uncertainty arises when it is uncertain whether an asset or a liability exists. Paragraphs G2.83–G2.84 discuss how existence uncertainty may affect decisions about whether an NPO entity recognises an asset or liability when it is uncertain whether that asset or liability exists. Measurement uncertainty is not the same as **outcome uncertainty** and **existence uncertainty**. Outcome uncertainty arises when there is uncertainty about the amount or timing of any inflow or outflow of economic benefits or service potential that will result from an asset or liability. Existence uncertainty arises when an asset or a liability's existence is uncertain. Paragraphs G2.92–G2.93 discuss how existence uncertainty might affect an NPO's decisions to recognise an asset or liability when the NPO is uncertain about whether that asset or liability exists.

#### Enhancing qualitative characteristics and the cost constraint

~~G2.123-132~~ The enhancing qualitative characteristics of comparability, understandability and verifiability, and the cost constraint have implications for ~~the an~~ NPO's selection of a measurement basis. The enhancing qualitative characteristic of timeliness has no specific implications for measurement.

~~G2.124-133~~ Consistently using the same measurement bases for the same items, either from period to period within a reporting NPO or in a single period across NPOs, can help make financial reports more comparable.

~~G2.125-134~~ A change in measurement basis can make financial reports less understandable. However, a change may be justified if other factors outweigh the reduction in understandability—for example, if the change results in more relevant information. If a

~~change is made, users of financial reports may need explanatory information to enable them to understand the effect of that change.~~ If an NPO changes the measurement basis it uses, its financial reports might be less understandable. However, a change might be justified if, for example, the change results in more relevant information. If an NPO changes the measurement basis it uses, users might need explanatory information to understand the effect of that change.

G2.126-135 Understandability depends partly on how many different measurement bases ~~an NPO are used~~ and ~~on whether its use of those bases they~~ changes over time. In general, ~~theif~~ more measurement bases ~~an NPO uses are used in a set of financial reports~~, the ~~more complex the~~ resulting information. ~~Consequently, the information~~ becomes ~~more complex and hence~~ less understandable, and the totals or subtotals in the Statement of Financial Position, the Statement of Income and Expenses or the Statement of Changes in Net Assets become less informative. However, it could be appropriate ~~for an NPO~~ to use more measurement bases if ~~doing so that is necessary to~~ provides useful information.

G2.127-136 ~~Verifiability is enhanced by using measurement bases that result in measures that can be independently corroborated, either directly – for example, by observing prices – or indirectly – for example, by checking inputs to a model. If a measure cannot be verified, users of financial reports may need explanatory information to enable them to understand how the measure was determined. In such cases, it may be necessary to specify the use of a different measurement basis.~~ Verifiability is improved when an NPO uses measurement bases that result in information that can be independently corroborated, either directly (for example, by observing prices) or indirectly (for example, by checking inputs to a model). If a measure cannot be verified, an NPO might provide explanatory information to enable users to understand how the NPO determined the measure.

## Measurement of net assets and equity

G2.128-137 Net assets equal the total of the carrying amounts of all recognised assets less the total of the carrying amounts of all recognised liabilities.

G2.129-138 In the rare circumstances where an NPO has equity claims, it may be appropriate to directly measure the carrying amount of some individual classes and/or components of equity net assets.

## Presentation and disclosure

### Presentation and disclosure as communication tools

G2.130-139 A reporting NPO communicates information about its assets, liabilities, equity net assets and funds with and without restrictions in net assets, income and expenses by presenting and disclosing information in its financial reports.

G2.131-140 ~~Effective communication of information in financial reports makes that information more relevant and contributes to a faithful representation of an entity's assets, liabilities, equity and funds with and without restrictions in net assets, income~~

~~and expenses. It also enhances the understandability and comparability of information in financial reports.~~ An NPO that effectively presents and discloses information in its financial reports makes that information more relevant, understandable and comparable. Effective presentation and disclosure also contribute to faithful representation of the NPO's assets, liabilities, net assets, income and expenses.

G2.132141 Decisions on the selection, location and organisation of information are made in response to the information needs of users. User information needs should underpin:

- information selection for the financial reports, in particular information about the financial position, income and expenses and cash flows of an NPO;
- the location of information in the financial reports, which may affect the way that users interpret information; and
- organisation of information, including decisions on the use of cross-referencing, tables, graphs, headings, numbering and the arrangement of items within a particular component of a report, including decisions on item order.

G2.133142 Just as cost constrains other financial reporting decisions, it also constrains decisions about presentation and disclosure. ~~Hence, in making decisions about presentation and disclosure, it is important to consider whether the benefits provided to users of financial reports by presenting or disclosing particular information are likely to justify the costs of providing and using that information.~~ When an NPO decides how to present and disclose information, it is important that the NPO considers whether the benefits to users justify the costs of providing and using that information.

## Classification

G2.134143 **Classification** is the sorting of assets, liabilities, net assets, , income or expenses on the basis of shared characteristics for presentation and disclosure purposes. Such characteristics include but are not limited to the nature of the item, its role (or function) within the activities conducted by the NPO and how it is measured.

G2.135144 Classifying dissimilar assets, liabilities, net assets, income or expenses together can obscure relevant information, reduce understandability and comparability, and may not provide a faithful representation of what it purports to represent.

G2.136145 ~~Classification is applied to the unit of account selected for an asset or liability. However, it may sometimes be appropriate to separate an asset or liability into components that have different characteristics, and to classify those components separately when this would enhance the usefulness of the resulting financial information.~~ An NPO applies the classification to the unit of account the NPO selected for an asset or liability. However, an NPO separates an asset or liability's components by characteristic and classifies those components separately if the resulting financial information is more useful.

G2.137146 An NPO classifies income and expenses and includes them in either ~~Income and expenses are classified and included in either:~~

- the Statement of Income and Expenses if they contribute to surplus and deficit; or
- the Statement of Changes in Net Assets if they do not contribute to surplus and deficit.

G2.~~138~~147 The Statement of Income and Expenses is the primary source of information about an NPO's financial activity for the reporting period. All income and expenses are, in principle, included in that statement if they contribute to surplus and deficit. Income or expenses are to be included in the Statement of Changes in Net Assets if they do not contribute to surplus and deficit when explicitly permitted or required by this [GuidanceStandard](#). This results in the Statement of Income and Expenses providing more relevant information or providing a more faithful representation of the NPO's financial activity for that period.

G2.~~139~~148 Individual Sections of this [GuidanceStandard](#) ~~may~~ might describe situations where income and expenses resulting from the changes in the current value of assets and liabilities are included in the Statement of Income and Expenses or the Statement of Changes in Net Assets.

### Offsetting

G2.~~140~~149 Offsetting occurs when an NPO recognises and measures both an asset and liability as separate units of account but groups them into a single net amount in the Statement of Financial Position. Offsetting classifies dissimilar items together and therefore is generally not appropriate unless required or permitted by a specific Section of this [GuidanceStandard](#).

### Classification of components net assets

G2.~~141~~150 To provide useful information, it may be necessary, where relevant for an NPO, to classify components of net assets separately if those components have different characteristics or are subject to particular legal, regulatory or other requirements.

G2.~~142~~151 Similarly, to provide useful information, where an NPO manages net assets in separate funds, classifying net assets between ~~funds with restrictions~~ [restricted funds](#) and ~~funds without restrictions~~ [unrestricted funds](#) and providing an explanation of the nature and purpose of the ~~funds and any restrictions~~ [restricted funds](#) will provide useful information.

### Aggregation

G2.~~143~~152 Aggregation is the adding together of assets, liabilities, net assets income or expenses that have shared characteristics and are included in the same classification.

G2.~~144~~153 Aggregation makes information more useful by summarising a large volume of detail. However, aggregation conceals some of that detail. ~~Hence, a balance needs to be found so that relevant information is not obscured either by a large amount of insignificant detail or by excessive aggregation.~~ An NPO balances its use of aggregation so that relevant information is not obscured either by too little or too much detail.

~~Application Guidance: Section 2 – Concepts and pervasive principles (New)~~

~~Qualitative characteristics of financial and non-financial information~~

AG2.1—Applying the qualitative characteristics of financial and non-financial information may appear difficult for the many NPOs that have access to limited technical accounting resources. However, it will not be necessary for NPOs to have to consciously consider each of them when accounting for many transactions and economic events and reporting on them in their general purpose financial reports. Rather the guidance in the most appropriate Section will be used to determine the accounting treatment and how the transaction or economic event is recognised, measured, presented and disclosed.

AG2.2—Ensuring accounting systems and processes are in place that are well designed and operating effectively will assist in enabling NPOs to gather and process the financial and non-financial information needed to apply the qualitative characteristics to transactions and economic events and comply with the relevant requirements of INPAG.

AG2.3—From a reporting perspective, the needs of users should guide how NPOs present and disclose financial and non-financial information. Materiality and whether the information is required by users for accountability and decision-making purposes is a key consideration. NPOs also need to ensure that where information is material and is to be reported, users' abilities to understand the information provided is also considered. Some transactions and economic events necessarily require complex accounting treatments. For users to understand these, it may be necessary to provide additional explanatory disclosures. Additional disclosures may also be required to enable users to understand material unrecognised assets and liabilities or longer term trends.

#### Restrictions

AG2.4—Externally imposed restrictions on financial resources provided to NPOs may take many forms. The key decision is whether the economic substance of the funding or other legal arrangement means that the resources are in practice freely available to the NPO for use in any of its purposes or activities.

AG2.5—Where there are specific conditions attached to resources provided with restrictions, these may be sufficient to not only require that resources are recognised within funds with restrictions but also the recognition of a liability rather than revenue. Further guidance is provided in Section 23 Revenue.

#### Equity in the NPO context

AG2.6—Equity in the NPO context is not expected to be common, and where it does exist, it is unlikely to be material by magnitude but may be material by nature. It is future economic benefits or service potential that have been contributed to the NPO by external parties other than those that result in liabilities of the NPO and that establish a financial interest in the net assets of the NPO, which:

- a) conveys entitlement to both:
  - i) distributions of future economic benefits or service potential by the NPO during its life, such distributions being at the discretion of the NPO, and to
  - ii) distributions of any excess of assets over liabilities in the event of the NPO being wound up; and/or
- b) can be sold, exchanged, transferred or redeemed.

Movements in equity are comprised of contributions from holders of equity claims and distributions to holders of equity claims.

AG2.7—Contributions from holders of equity claims are an inflow of resources to the NPO contributed by external parties that establish or increase a financial interest in the net assets of the NPO. Examples would include the purchase by external parties of share capital issued by the NPO or funds contributed by members that entitle them to a share of net assets. The provision of funding by an external party that provides governance rights but does not establish a financial interest in the net assets of the NPO is not a contribution from holders of equity claims and does not lead to the recognition of equity.



~~AG2.8—Distributions to holders of equity claims are outflows of resources from the NPO distributed to external parties that return or reduce a financial interest in the net assets of the NPO. Examples would include the repurchase from external parties of shares issued by the NPO or paying funds back to members, so that they no longer have a further entitlement to a share of net assets.~~

~~AG2.9—Inflows of resources from contributions from holders of equity claims and outflows of resources from distributions to holders of equity claims are related to transactions with holders of equity claims in their capacity as holders of equity claims. Such transactions are different to transactions that give rise to income and expenses (see paragraphs G2.76–G2.78).~~

### ~~Identification of the reporting NPO~~

~~AG2.10—There may be circumstances where a reporting NPO is not easily identified. This might be where:~~

- ~~• the organisational structures are complex or hard to define; or~~
- ~~• the potential reporting entity might be a part of a legal entity; or~~
- ~~• the potential reporting entity may be a combination of two or more legal entities.~~

~~Complexities may also come from the existence of branches, which are considered further below.~~

~~AG2.11—Paragraphs G2.43–G2.46 set out the requirements relating to the identification of a reporting NPO, including the need to prepare general purpose financial reports as if it were one economic entity or other complete set of activities.~~

~~AG2.12—An economic entity or other complete set of activities is likely to exist where there is an identifiable and integrated set of activities and assets that is capable of being operated to raise or manage funds and resources for the NPO. These collective resources are used by the NPO to provide services and goods for the benefit of the public.~~

~~AG2.13—If difficulties remain in identifying the reporting NPO, NPOs will also need to apply paragraph G2.48, which requires the determination of the boundary of the reporting NPO by examining the existence of users and their information needs. These users of the reporting NPO's general purpose financial reports will include:~~

- ~~• the public, to whom the NPO provides services and goods;~~
- ~~• providers of resources to the NPO; and~~
- ~~• those fulfilling oversight functions on behalf of the public, to whom the NPO provides services and goods, and resource providers.~~

~~AG2.14—Users of the general purpose financial reports are expected to be able to take economic or other decisions based on the information provided in these reports. The reports should also provide transparency over how an NPO has demonstrated accountability in relation to a range of obligations. In many cases, the range of users who are dependent on the general purpose financial reports for accountability purposes, making decisions or allocating resources will be obvious. However, to determine who the users might be and their need for financial reporting, it may be necessary to consider such factors as:~~

- ~~• whether management is acting on behalf of others providing resources;~~
- ~~• impacts of the entity's activity on the welfare of external parties; and~~
- ~~• the financial characteristics of the entity, including its size.~~

~~AG2.15—In considering size, account should be taken of all relevant information, including the level of any indebtedness, the number of transactions, the amount of financial and other resources it receives, and the number of members of the public who benefit from the services and goods provided by the NPO. The larger the size of the NPO, the more likely that users will exist who use the financial or other reported information for decision making and accountability purposes.~~

~~AG2.16—When assessing the boundary of a reporting NPO based on the existence and information needs of users, it is essential that it:~~

- does not contain an arbitrary set of economic activities (or other set of activities related to its purposes) that is incomplete (ie if the financial information provided would be incomplete and lack neutrality, this would not meet the requirements for faithful representation of transactions); and
- results in information for the users of the general purpose financial reports that is neutral, in accordance with the requirements for faithful representation (this means that information provided is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated).

## Branches as a reporting entity

### Introduction

AG2.17—NPOs may operate through a system of branches, which are administrative arrangements whereby the operating structure of the NPO is arranged according to function, location or other factor to facilitate its administration. These branches may include supporters' groups, members' groups or offices in different locations, and they may operate nationally or internationally. Where the branch is a part of a reporting NPO (for example, an internal subdivision of a reporting entity), the activities of the branch should be included in the general purpose financial reports of the reporting NPO. For the purposes of this Guidance, such internal subdivisions are described as internal branches.

AG2.18—A branch may produce a separate general purpose financial report as a result of legal or other regulatory requirements. However, INPAG requires that the NPO still considers its relationship, if any, with that branch or other reporting NPO entity for financial reporting purposes.

### Identification of internal branches

AG2.19—The following are examples of indicators that an operational structure is an internal branch of an NPO and not a separate reporting entity. This list is not exhaustive. The operational structure:

- is not a separate legal structure;
- is not required to provide separate general purpose financial reports;
- uses the name of the reporting NPO in its title, its letterheads, on its website or as a part of its publicity;
- raises funds solely for the reporting NPO;
- presents itself to the public as a local or other form of representative of the reporting NPO; and/or
- receives financial and administrative support, instruction and advice from the reporting NPO.

AG2.20—Consideration of these indicators will require judgement. Displaying just one of the indicators may not mean that an organisation meets the definition of a branch, but in combination with another might lead the reporting NPO to decide that it is an internal branch.

### Recognition of assets/liabilities, net assets and income and expenses of branches

AG2.21—There might be occasions when an internal branch produces separate regulatory general purpose financial reports but may still be an internal branch, and therefore where all the income, expenses, assets and liabilities need to be recognised in the reporting NPO's financial statements. This is unlikely to be regularly the case but might happen where, for example, an international NPO has internal branches in separate jurisdictions and where one or more of those jurisdictions requires that the organisation (which would otherwise be deemed to be an internal branch of the international NPO) produce separate general purpose financial reports.

AG2.22—All transactions of an internal branch shall be accounted for as gross within its general purpose financial reports and not netted off against other transactions within its own separate general purpose financial report unless such netting off is allowed within another Section in this Guidance.

Where a reporting NPO consists of multiple branches any intra-branch transactions should be netted off within the financial statements of the reporting NPO.

AG2.23—Some branches may hold separate bank accounts and/or produce financial statements for their own purposes. However, the transactions of an internal branch or branches including its assets, liabilities, equity and funds with and without restriction in net assets and income and expenses shall be included in the general purpose financial reports of the reporting NPO.

AG2.24—For example, all funds raised by internal branches shall be recognised as income where they meet revenue recognition criteria in the reporting NPO's financial statements.

## Comparison of Section 2 with the *IFRS for SMEs Accounting Standard*

Section 2 of ~~INPAG~~INPAS has been drawn from Section 2 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 2 of the Third edition of the *IFRS for SMEs Accounting Standard* and Section 2 of INPAS are as follows:

~~differences between Section 2 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and~~

~~Section 2 of INPAG are as follows:~~

- ~~INPAG~~INPAS Section 2 provides a description of the primary users of NPO general purpose financial reports, their information needs for accountability and decision-making purposes, and how the information provided by general purpose financial reports meets the needs of users.
- ~~INPAG~~INPAS Section 2 describes the reporting NPO and provides additional guidance on how to determine the reporting NPO and its reporting boundary.
- ~~INPAG~~INPAS Section 2 introduces the concept of service potential in the definition of elements, where service potential relates to the capacity to provide services that contribute to achieving the NPO's objectives without necessarily generating net cash inflows.
- ~~INPAG~~INPAS Section 2 provides guidance for applying the element of equity in the NPO context includes an element described as net assets rather than equity. Net assets include restricted and unrestricted funds and equity claims.
- ~~INPAG~~INPAS Section 2 provides a description of net assets and how separate funds with restrictions and funds without restrictions are the funds includes equity claims as a subset of net assets. Equity claims are where holders of such claims have established a financial interest in some of the net assets of the NPO, within net assets. Funds with restrictions and funds without restrictions are also described, including the importance of externally imposed restrictions.
- The concept of ownership implied from equity in the private sector does not apply to non-profit organisations that operate for the benefit of service beneficiaries rather than for private distributions.
- Financial interests in the net assets held by private individuals are instead defined as equity claims. Equity claims are a subset of net assets as, given the characteristics of NPOs, equity claims are not expected to be the most significant claim on an NPO's net assets.
- Net assets are defined as the residual of recognised assets minus recognised liabilities available to the NPO to achieve its objectives.

- **INPAGINPAS** Section 2 amends the IFRS for SMEs Accounting Standard's recognition process for income and expenses to reflect that some income and expenses contribute to surplus and deficit, and some are instead recognised in the Statement of Changes in Net Assets.
- **INPAGINPAS** Section 2 includes some presentation principles from IPSAS in relation to decisions on the selection, location and organisation of information in response to users' information needs.

## Section 3 – Financial statement presentation (Status – Updated)

### Scope of this Section

- G3.1 ~~The objective of Section 3 is to prescribe the manner in which **general purpose financial statements** are to be presented to ensure comparability both with an NPO's **financial statements** from previous periods and with the financial statements of other NPOs. This Section explains **fair presentation** of financial statements, what compliance with the **INPAG-INPAS** requires and what **comprises** a complete set of financial statements **is**.~~

### Fair presentation

- G3.2 Financial statements shall present fairly the **financial position, income** and **expenses**, other changes in net assets and **cash flows** of an NPO. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and **recognition** criteria for **assets, liabilities, income and expenses set out in Section 2 Concepts and pervasive principles:**
- a) the application of **INPAGINPAS**, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, income and expenses, other changes in net assets and cash flows of NPOs.
  - b) the application of this **Guidance Standard** by an NPO with **public accountability** is unlikely to result in a fair presentation in accordance with this **Guidance Standard** (see paragraph **G1.9**).

The additional disclosures referred to in (a) are necessary when compliance with the specific requirements in this **Guidance Standard** is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the NPO's financial position and income and expenses.

### Compliance with **INPAGINPAS**

- G3.3 An NPO whose financial statements comply with **INPAGINPAS** shall make an explicit and unreserved statement of such compliance in the **notes. Financial statements** shall not be described as complying with **INPAGINPAS** unless they comply with all the requirements of this **Guidance Standard**. Where an NPO is transitioning to **INPAGINPAS**, it shall comply with the disclosure requirements in **Section 36–38 Transition to the GuidanceINPAS**.
- G3.4 In the extremely rare circumstances when management concludes that compliance with this **Guidance Standard** would be so misleading that it would conflict with the objective of

financial statements of NPOs set out in **Section 2**, the NPO shall depart from that requirement in the manner set out in paragraph **G3.5**, unless the relevant regulatory framework prohibits such a departure.

- G3.5 When an NPO departs from a requirement of this **Guidance Standard** in accordance with paragraph **G3.4**, it shall disclose the following:
- a) that management has concluded that the financial statements present fairly the NPO's financial position, income and expenses, other changes in net assets and cash flows;
  - b) that it has complied with **INPAGINPAS**, except that it has departed from a particular requirement to achieve a fair presentation; and
  - c) ~~The~~ the nature of the departure, including the treatment that **INPAGINPAS** would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in **Section 2** and the treatment adopted.
- G3.6 When an NPO has departed from a requirement of **INPAGthis Standard** in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph **G3.5 c)**.
- G3.7 In the extremely rare circumstances when management concludes that compliance with a requirement in **INPAGINPAS** would be so misleading that it would conflict with the objective of financial statements of NPOs set out in **Section 2**, but the relevant regulatory framework prohibits departure from the requirement, the NPO shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing the following:
- a) the nature of the requirement in **INPAGthis Standard** and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in **Section 2**; and
  - b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.

## Going concern

- G3.8 When preparing financial statements, the management of an NPO using **INPAGthis Standard** shall assess the NPO's ability to continue as a **going concern**. An NPO is a going concern unless management either intends to liquidate it or to cease activities, or it has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least but is not limited to twelve months from the **reporting date**.
- G3.9 When management is aware in making its assessment of **material** uncertainties related to events or conditions that cast significant doubt upon the NPO's ability to continue as a going concern, the NPO shall disclose those uncertainties. When an NPO does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the NPO is not regarded as a going concern.

## Frequency of reporting

- G3.10 An NPO shall present a complete set of financial statements (including comparative information – see paragraph G3.14) at least annually. When the end of an NPO's **reporting period** changes and the financial statements are presented for a period longer or shorter than one year, the NPO shall disclose the following:
- that fact;
  - the reason for using a longer or shorter period;
  - the fact that comparative amounts presented in the financial statements (including the related notes) are not entirely comparable.

## Consistency of presentation

- G3.11 An NPO shall retain the presentation and **classification** of items in the financial statements from one period to the next unless:
- it is apparent, following a significant change in the nature of the NPO's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in **Section 10 Accounting policies, estimates and errors**
  - this **GuidanceStandard** requires a change in presentation.
- G3.12 When the presentation or classification of items in the financial statements is changed, an NPO shall reclassify comparative amounts unless the reclassification is **impracticable**. When comparative amounts are reclassified, an NPO shall disclose the following:
- the nature of the reclassification;
  - the amount of each item or class of items that is reclassified; and
  - the reason for the reclassification.
- G3.13 If it is impracticable to reclassify comparative amounts, an NPO shall disclose why reclassification was not practicable.

## Comparative information

- G3.14 Except when this **GuidanceStandard** permits or requires otherwise, an NPO shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements. An NPO shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

## Materiality and aggregation

- G3.15 An NPO shall present separately each material class of similar items. An NPO shall present separately items of a dissimilar nature or function unless they are immaterial.
- G3.16 When applying this **GuidanceStandard**, an NPO shall decide, after taking into consideration all the relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. ~~The An~~ NPO shall not reduce the

understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

G3.17 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the **primary users** of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting NPO. Materiality depends on the nature or magnitude of information, or both. An NPO assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

### **Accrual basis**

G3.18 An NPO shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. On the accrual basis, items are recognised as assets, liabilities, net assets, income or expenses when they satisfy the definitions and recognition criteria for those items.

### **Complete set of financial statements**

G3.1819 A complete set of financial statements of an NPO shall include all the following:

- a) a **Statement of Financial Position** as at the reporting date;
- b) a **Statement of Income and Expenses** for the reporting period, displaying those items of income and expense recognised during the period in determining **surplus or deficit**;
- c) a **Statement of Changes in Net Assets** for the reporting period;
- d) a **Statement of Cash Flows** for the reporting period; and
- e) notes comprising material accounting policy information and other explanatory information.

G3.1920 Because paragraph G3.14 requires comparative amounts in respect of the previous period for all amounts presented in the financial statements, a complete set of financial statements means that an NPO shall present, as a minimum, two of each of the required financial statements and related notes.

G3.201 In a complete set of financial statements, an NPO shall present each financial statement with equal prominence.

G3.212 An NPO may use titles for the financial statements, headings and descriptions other than those used in this Standard, as long as they are not misleading. Similarly an NPO may choose other labels for the headings and line items used in the Standard provided they are not misleading.

### **Identification of the financial statements**

G3.2223 An NPO shall clearly identify each of the financial statements and the notes and distinguish them from other information in the same document. In addition, an NPO shall display the following information prominently and repeat it when necessary for an understanding of the information presented:

- a) the name of the reporting NPO and any change in its name since the end of the preceding reporting period;
- b) whether the financial statements cover the individual **entity NPO** or a **group** of entities;
- c) the date of the end of the reporting period and the period covered by the financial statements;
- d) the **presentation currency** as defined in **Section 30 Foreign currency translation**; and
- e) the level of rounding, if any, used in presenting amounts in the financial statements.

G3.23-24 An NPO shall disclose the following in the notes:

- a) the domicile and legal form of the NPO, its country of incorporation or registration (if applicable) and the address of the office registered with the jurisdictional regulator (or principal place of **business** if different from the registered office or there is no registered office).
- b) a description of the nature of the NPO's operations and its principal activities.

### Presentation of information not required by this Standard

G3.24-25 This **Guidance Standard** does not address presentation of segment information, earnings per share (if applicable) or interim financial reports by NPOs. An NPO making such disclosures shall describe the basis for preparing and presenting the information.

## Application – Guidance: Section 3 – Financial statement presentation (new)

### Objective of financial statements

AG3.1 The objectives of general purpose financial statements are to provide information about the financial position, income and expenses (financial performance) and cash flows of an entity that is useful to a wide range of users. Specifically, the objectives of general purpose financial reporting for NPOs are to provide information useful for decision making and to demonstrate accountability for the resources entrusted to it. General purpose financial statements can also provide information useful for predicting the level of resources required for continued operations, the resources that may be generated by continued operations and the associated risks and uncertainties

### Fair presentation

AG3.2 Any NPO that has public accountability as defined in the IFRS Standards (see G1.6–G1.7) can use this Guidance to assist in preparing its financial statements. However, the simplifications and presentational differences in this Guidance mean that an NPO with public accountability is unlikely to be able to assert (per G3.2) a fair presentation in accordance with this Guidance, as it may be required to adopt financial reporting standards that differ from the requirements of this Guidance.

### Compliance with INPAG



~~AG3.3—Where all requirements of INPAG have been complied with, the NPO shall make a statement in the notes to the financial statements that it has complied with the requirements. Except where an NPO discloses (in accordance with paragraph G3.5) that a departure from this Guidance is necessary to achieve fair presentation, this statement cannot include any exceptions or caveats to the level of compliance with the Guidance. If exceptions or caveats (other than as prescribed in paragraph G3.5) are needed, then compliance with INPAG cannot be stated.~~

~~AG3.4—Paragraph G3.3 sets out the disclosure requirements when adopting INPAG for the first time per [Section 36 Transition to the Guidance (to be provided in ED3)]. Jurisdictions may permit INPAG to be adopted over a period of time, or an NPO may adopt a transition path for full adoption of the Guidance such that not all requirements of the Guidance are met immediately. This timeline may differ to that permitted in INPAG.~~

~~AG3.5—In such circumstances, the disclosure requirements in Section 36 may not be appropriate, and an NPO should consider what disclosures will be necessary to enable users to understand the financial statements, in addition to any disclosures that are required by the relevant regulator.~~

### **Going concern**

~~AG3.6—Financial statements are normally prepared on the assumption that the NPO is a going concern per paragraphs G3.8–G3.9 and will continue in operation and meet its obligations for the foreseeable future.~~

~~AG3.7—Before it is appropriate to conclude that the going concern assumption is appropriate, those responsible for the preparation of financial statements shall consider a wide range of factors, including material uncertainties in the operating environment of the NPO. Factors include:~~

- ~~a) current and future demand for services and goods;~~
- ~~b) potential and announced restructurings of organisational units, including decisions to cease any operations;~~
- ~~c) political, legal or regulatory changes;~~
- ~~d) estimates of revenue or the likelihood of continued funding; and~~
- ~~e) potential sources of replacement financing.~~

~~AG3.8—Such considerations will depend on the facts in each case. Assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the NPO is nonetheless a going concern. For example, there may be multi-year funding agreements or other arrangements in place that will ensure the continued operation of the NPO.~~

### **Consistency and comparability**

~~AG3.9—Paragraphs G3.11–G3.14 set out requirements related to consistency and comparability. Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an~~

individual item of information but rather a quality of the relationship between two or more items of information.

~~AG3.10 Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an NPO or in a single period across more than one NPO. Comparability is the goal, and consistency helps in achieving that goal. In some cases, the accounting principles or policies adopted by an NPO may be revised to better represent a particular transaction or event in **general purpose financial reports**. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.~~

~~AG3.11 Information about an NPO's financial position, income and expenses, cash flows, achievement of objectives or operational performance, compliance with relevant legislation or other regulations governing the raising and use of resources, and its future plans is necessary for accountability purposes and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:~~

- ~~a) prospective financial and non-financial information previously presented for that reporting period or reporting date;~~
- ~~b) similar information about the same entity for some other period or some other point in time; and~~
- ~~c) similar information about other entities (for example, NPOs providing similar services in different jurisdictions) for the same reporting period.~~

## **Materiality and aggregation**

~~AG3.12 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the Statement of Financial Position, Statement of Income and Expenses, Statement of Changes in Net Assets, and Statement of Cash Flows or in the notes.~~

~~AG3.13 Paragraphs G3.15–G3.17 require that in classifying items in the financial statements, that similar material items should be separated, and that dissimilar, immaterial items may be aggregated. The presentation of information in the financial statements must take account of materiality. If a line item is not individually material, it can be aggregated with other items, either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.~~

~~AG3.14 The judgement about how to classify items in the financial statements should focus on whether disclosure of information is important to the user's understanding of the financial statements. Items that are material by nature or by amount should be separately disclosed.~~

~~AG3.15 Aggregating material items in any individual financial statement is not permitted, as it could mislead users of the financial information. Separation is required to help provide an appropriate understanding of the financial position, activities and cashflows of the~~

~~NPO. Guidance on revenue (Section 23) and the classification of expenses (Section 24) [to be provided in Exposure Draft 2 and Exposure Draft 3 respectively] will provide additional guidance on the classification of revenues and expenses~~

## **Complete set of financial statements**

~~AG3.16 The financial statements listed in G3.18 can be referred to by a variety of names both within and across jurisdictions. The Statement of Financial Position may also be referred to as a balance sheet. The Statement of Income and Expenses may also be referred to as a statement of financial performance, an operating statement, or a statement of financial activities. The notes may include items referred to as schedules. Alternative names to those listed in G3.18 can be used as long as in doing so it would not mislead the users of the financial statements.~~

### **Comparison of Section 3 with the IFRS for SMEs Accounting Standard**

Section 3 of ~~INPAGINPAS~~ has been drawn from Section 3 of the IFRS for SMEs Accounting Standard. The main differences between Section 3 of the ~~draft third-Third~~ edition of the IFRS for SMEs Accounting Standard and Section 3 of the ~~draft~~ first edition of ~~INPAGINPAS~~ are as follows:

- ~~INPAGINPAS~~ Section 3 uses different terminology, referring specifically to NPOs rather than entities more generally.
- ~~INPAGINPAS~~ Section 3 refers to income and expenses rather than financial performance to better represent the nature of NPOs. While financial performance is important to all organisations, the purposes/ mission of NPOs may prioritise other factors in assessing overall performance.
- ~~INPAGINPAS~~ Section 3 requires an NPO to produce a Statement of Income and Expenses that results in a surplus or deficit rather than allowing the choice available in Section 3 of the draft Third edition of the IFRS for SMEs Accounting Standard of either a single statement of comprehensive income or a separate income statement and statement of comprehensive income. Surplus and deficit replaces profit and loss.
- ~~INPAGINPAS~~ Section 3 replaces the statement of changes in equity with a Statement of Changes in Net Assets.
- The additional guidance in Section 3 of the ~~draft-Third~~ edition of the IFRS for SMEs Accounting Standard that relates to ~~when~~ the required use of its statements are required has been removed ~~to reflect the changes to the statements where these statements are not required in INPAS.~~
- ~~INPAGINPAS~~ Section 3 includes additional commentary in relation to the transitional guidance to be contained in Section ~~36-38~~ of ~~INPAGINPAS~~. ~~This Section will be updated in Exposure Draft 3 of the of INPAGINPAS.~~
- ~~INPAGINPAS~~ Section 3 amends the information required about the reporting entity, including registration information, so that it addresses the more varied arrangements for NPOs. The requirements are intended to provide equivalent information.
- INPAS allows alternative headings and descriptions to be used in addition to alternative titles to financial statements where this would not result in information that is misleading. This is to provide explicit flexibility for NPOs.

## Section 4 – Statement of Financial Position (Status – Modified)

### Scope of this Section

G4.1 This Section sets out the information that is to be presented in a **Statement of Financial Position** and how to present it. The Statement of Financial Position (sometimes called the balance sheet) presents an NPO's **assets, liabilities** and **net assets** (comprising ~~restricted funds with restrictions~~, ~~unrestricted funds without restrictions~~, any **equity claims**, and, exceptionally, **non-controlling interests**) as of a specific date – the end of the **reporting period**.

### Information to be presented in the Statement of Financial Position

G4.2 The Statement of Financial Position shall include line items that present the following amounts:

- a) **cash** and cash **equivalents**;
- b) operating and other receivables;
- c) **financial assets** (excluding amounts shown under a), b), k) and l));
- d) inventories;
- e) **property, plant and equipment** (including **bearer plants** in the scope of **Section 17 Property, plant and equipment**);
- f) **investment property** carried at cost less accumulated **depreciation** and **impairment**;
- g) investment property carried at **fair value** through **surplus or deficit**;
- h) **intangible assets**;
- i) **biological assets** in the scope of **Section 34 Specialised activities** carried at cost less accumulated depreciation and impairment;
- j) biological assets in the scope of **Section 34** carried at fair value through surplus or deficit;
- k) investments in **associates**;
- l) investments in **jointly controlled entities**;
- m) operating and other payables;
- n) **financial liabilities** (excluding amounts shown under m) and q));
- o) liabilities and assets for **current tax**;
- p) **deferred tax liabilities** and **deferred tax assets** (these shall always be classified as noncurrent);
- q) **provisions**;
- r) **non-controlling interest**, presented within net assets;
- s) **equity claims**, being the cumulative total at the reporting date of **contributions from holders of equity claims** less **distributions to holders of equity claims**;
- t) the aggregate of ~~funds with restrictions~~ **restricted funds**; and
- u) the aggregate of ~~funds without restrictions~~ **unrestricted funds**.

G4.3 An NPO shall present additional line items (including by disaggregating the line items listed in paragraph **G4.2**), headings and subtotals in the Statement of Financial Position when such presentation is relevant to an understanding of the NPO's **financial position**.

## Current/non-current distinction

G4.4 An NPO shall present current and non-current assets, and current and non-current liabilities, as separate **classifications** in its Statement of Financial Position in accordance with paragraphs **G4.5–G4.8**, except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented in order of approximate liquidity (ascending or descending).

### Current assets

- G4.5 An NPO shall classify an asset as current when:
- it expects to realise the asset, or intends to sell or consume it, in the NPO's normal operating cycle;
  - it holds the asset primarily for the purpose of its operating activities;
  - it expects to realise the asset within twelve months after the reporting date; or
  - the asset is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.
- G4.6 An NPO shall classify all other assets as non-current. When the NPO's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

### Current liabilities

- G4.7 An NPO shall classify a liability as current when:
- it expects to settle the liability in the NPO's normal operating cycle;
  - it holds the liability primarily for the purpose of its operating activities;
  - the liability is due to be settled within twelve months after the reporting date; or
  - the NPO does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date.
- G4.8 An NPO shall classify all other liabilities as non-current.

### Normal operating cycle

G4.9 There is a rebuttable presumption that an NPO's operating cycle is twelve months. Where the presumption is rebutted, the **normal** operating cycle of an NPO is the time taken to convert inputs or resources into outputs. For instance, an NPO may receive donations or grants and use these resources to deliver services to meet the NPO's objectives.

### Sequencing of items and format of items in the Statement of Financial Position

- G4.10 This **Guidance Standard** does not prescribe the sequence or format in which items are to be presented. **Paragraph G4.2** simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation in the Statement of Financial Position. In addition:
- line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the NPO's financial position; and

- b) the descriptions used and the sequencing of items or aggregation of similar items may be amended, according to the nature of the NPO and its transactions, to provide information that is relevant to an understanding of the NPO's financial position.

G4.11 The judgement on whether additional items are presented separately is based on an assessment of all the following:

- a) the amounts, nature and liquidity of assets;
- b) the function of assets within the NPO; and
- c) the amounts, nature and timing of liabilities.

### Information to be presented either in the Statement of Financial Position or in the notes

G4.12 An NPO shall disclose, either in the Statement of Financial Position or in the notes, the following subclassifications of the line items presented:

- a) property, plant and equipment in classifications appropriate to the NPO.
- b) cash and cash equivalents, showing separately cash that may not be available for use by the NPO (comprising cash and cash equivalents that have restrictions due to reasons such as foreign exchange controls, legal restrictions or restrictions imposed by donors – for example, the retention of cash in a specified bank account).
- c) operating and other receivables, showing separately amounts ~~due receivable~~ from related parties, amounts ~~due and receivables~~ from other parties ~~and receivables arising from accrued income not yet billed~~.
- d) inventories, showing separately amounts of inventories:
  - i) held for sale in the ordinary course of operations
  - ii) held for distribution in the ordinary course of operations
  - iii) in the process of production for such sale; ~~and~~
  - iv) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
- e) operating and other payables, showing separately amounts payable to operating suppliers, payable to related parties, deferred income and accruals.
- f) provisions for **employee benefits** and other **provisions**.

G4.13 The use of separate columns to present items in the Statement of Financial Position in respect of ~~restricted funds with restrictions~~ and ~~unrestricted funds without restrictions~~ is not required, ~~but an NPO may choose to do so if this will provide useful information to users of the financial statements~~.

G4.14 An NPO shall disclose an analysis of the movements of net assets, either on the face of the Statement of Financial Position or in the notes, showing separately material individual ~~reserves or funds, where this is not required by~~ ~~reserves or funds, including reserves including a description of the nature and purpose of each reserve or fund. For the reporting requirements for both restricted and unrestricted funds see~~ **Section 36 Fund accounting**.

G4.15 In addition to the disclosures in **paragraph G4.12**, an NPO with share capital shall disclose the following, either in the Statement of Financial Position or in the notes for each class of share capital:

- a) the number of shares authorised;

- b) the number of shares issued and fully paid and issued but not fully paid;
- c) par value per share or that the shares have no par value;
- d) a reconciliation of the number of shares outstanding at the beginning and at the end of the period. This reconciliation need not be presented for prior periods;
- e) the rights, preferences and restrictions attaching to that class, including restrictions on the distribution of **dividends** and the repayment of capital;
- f) shares in the entity held by the NPO or by its controlled entities or associates; and
- g) shares reserved for issue under options and **contracts** for the sale of shares, including the terms and amounts.

G4.16 An NPO with equity claims other than share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph G4.15, showing changes during the period in each category of equity claims and the rights, preferences and restrictions attaching to it.

G4.17 If at the reporting date an NPO has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities, the NPO shall disclose the following information:

- a) a description of the asset(s) or the group of assets and liabilities;
- b) a description of the facts and circumstances of the sale; and
- c) the carrying amount of the assets or, if the disposal involves a group of assets and liabilities, the carrying amounts of those assets and liabilities.

## Application Guidance: Section 4 – Statement of Financial Position (new)

### Information to be presented in the Statement of Financial Position

~~AG4.1 The nature of the net assets of an NPO can be a combination of equity and the aggregate of the entity's accumulated surpluses or deficits and reserves that are the funds with restrictions and funds without restrictions. The provision of information through additional disclosures and sequencing should take account information needs of **service beneficiaries**.~~

~~AG4.2 Paragraph G4.2 sets out the minimum information that must be presented on the face of the Statement of Financial Position. This level of information is consistent with that required in other international financial reporting standards. However, it presumes that the majority of NPOs will not have equity in the form of share capital. As a consequence, this information is not required to be shown on the face of statement. An NPO can choose, where it has share capital, to disclose it separately; otherwise, it will be part of equity. G4.15 requires further disclosures if an NPO has share capital.~~

~~AG4.3 For private sector entities, it is typical that the balance sheet shows equity split between controlling interests (ie that owned by equity holders) and non-controlling interests. This requirement (to split controlling and non-controlling interests) has been retained in paragraph G4.2, as some NPOs may have non-controlling interests. However, in most cases, an NPO will have no non-controlling interests and will not need to apply the requirement of G4.2 r).~~

## Current/non-current distinction

AG4.4—When an NPO supplies services or goods within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the Statement of Financial Position provides useful information. It distinguishes between those net assets that are continuously circulating as working capital from those used in the entity's long-term operations. There is a rebuttable presumption that an NPO's operating cycle is twelve months. However, where an NPO does not supply services or goods within a clearly identifiable operating cycle, G4.4 allows a presentation of assets and liabilities in ascending or descending order of liquidity that may provide information that is faithfully representative and is more relevant than a current/non-current presentation.

## Information to be presented in the Statement of Financial Position or in the notes

AG4.5—Paragraphs G4.14 and G4.15 require an NPO to disclose information about the components of its net assets. Paragraph G4.14 requires that funds with restrictions and funds without restrictions are disaggregated to show material funds or reserves. Within funds with restrictions, this would require that either individual or aggregates of similar related items are disclosed. For example, this could include aggregate of funds related to a particular donor or grantor or aggregate of funds related to a particular programme. Judgements should be made based on the usefulness of the information to users of an NPO's **general purpose financial reports** as outlined in G3.15–G3.17.

AG4.6—Within funds without restrictions, an NPO might disclose any reserves that management has earmarked for particular purposes. Judgements on disclosures should mirror the approach in AG4.5.

AG4.7—Other components of net assets, other than equity and non-controlling interests (for example, reserves relating to the revaluation of assets or liabilities, pension reserves, etc.) should be included within funds with restrictions or funds without restrictions according to their nature.

AG4.8—Many NPOs will not have share capital, having been formed under legislation or regulations that do not require the NPO to be an incorporated structure; for example, an NPO may be a partnership or trust. However, an NPO may have some form of equity such as funds that have been provided to set it up and that provide an interest in the residual net assets of the NPO. Equity may include debt or other instruments that give the owners of that debt or instrument rights to the assets of the NPO other than as ordinary loan collateral. Where this exists, G4.16 requires additional disclosures.

AG4.9—The aforementioned disclosures must include the nature and amount of equity, disaggregated by material category. Relevant disclosures are likely to include:

- a) opening and closing balances;
- b) the reasons for changes during the period (including distributions to holders of equity claims and any new contributions from holders of equity claims); and
- c) any changes to the rights attached to each category of equity.



~~AG4.10 In those situations where an NPO does have share capital, paragraph G4.15 requires disclosure of information about the amount of shares, the amount received and ownership. For the majority of NPOs, the requirement of this paragraph is unlikely to apply.~~

~~AG4.11 In addition to the separation of funds with restrictions and funds without restrictions, G4.12 requires that the level of restricted cash is presented on the face of the Statement of Financial Position or in the notes to the financial statements.~~

## **Sequence and format of items in the Statement of Financial Position**

~~AG4.12 Paragraph G4.2 does not prescribe the sequence or format in which items are to be presented. However, in line with the principles for presenting financial statements set out in Section 3, material items should be presented separately. Items are material if omitting, misstating or obscuring them would make a difference to decisions made by users of the financial statements. This may require the inclusion of additional line items in the Statement of Financial Position. NPOs should also consider whether information is being obscured by including insignificant line items that could be aggregated without affecting decisions made by users of the financial statements.~~

### **Comparison of Section 4 with the *IFRS for SMEs Accounting Standard***

Section 4 of INPAGINPAS has been drawn from Section 4 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 4 of the ~~draft~~ Third edition of the *IFRS for SMEs Accounting Standard* and Section 4 of INPAGINPAS are as follows:

- INPAGINPAS Section 4 replaces 'equity' as defined in the *IFRS for SMEs Accounting Standard* with 'net assets' in its description of the Statement of Financial Position. Net assets are comprised of ~~funds with restrictions, funds without restrictions~~restricted funds, unrestricted funds and equity claims (which ~~is~~are defined in Section 2 for the NPO context) and exceptionally non-controlling interests.
- Consequently, Section 4 of INPAGINPAS removes 'equity attributable to owners of the entity' and replaces it with equity claims, restricted funds~~with restrictions~~ and unrestricted funds~~without restrictions~~. Several core disclosures relating to equity have been removed, with disclosures only where applicable.
- INPAGINPAS Section 4 clarifies that there is no requirement to split all items in the Statement of Financial Position between those with and without restrictions.
- INPAGINPAS Section 4 requires that restricted funds~~with~~ and unrestricted funds~~without restrictions~~ are disaggregated into their main components, either on the face of or in the notes to the financial statements.
- INPAGINPAS Section 4 replaces the word 'trade' in relation to receivables, payables and liabilities used in Section 4 of the ~~draft~~ Third edition of the *IFRS for SMEs Accounting Standard* with 'operating' to accommodate the range of activities that NPOs carry out.

- **INPAGINPAS** Section 4 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other Sections of **INPAGINPAS** rather than the *IFRS for SMEs* Accounting Standard.

## Section 5 – Statement of Income and Expenses (Status – Modified)

### Scope of this Section

G5.1 This Section requires an NPO to present its **income and expenses** for a period – ie its financial activity for the period. It sets out the information that is to be presented in this statement and how to present it.

### Presentation of income and expenses

G5.2 An NPO shall present a **Statement of Income and Expenses** that presents all items of income and expense recognised in the period, except those that are recognised in the **Statement of Changes in Net Assets** as permitted or required by this **GuidanceStandard**.

G5.3 Aggregated income and expenses with restrictions ~~shall~~ **may** be presented in a separate column to aggregated income and expenses without restrictions on the face of the Statement of Income and Expenses.

G5.4 The effects of corrections of **errors** and changes in **accounting policies** are presented as retrospective adjustments of prior periods instead of as part of surplus or deficit in the period in which they arise (see **Section 10 Accounting policies, estimates and errors**).

G5.5 The Statement of Income and Expenses shall include all items of income and expense recognised in a period unless this **GuidanceStandard** requires otherwise. An NPO shall present its unrealised gains or losses from **fair value** adjustments as part of the surplus or deficit, except where these gains or losses are recognised in the Statement of Changes in Net Assets (see paragraph **G5.6**). These should be presented after **surplus or deficit from operating activities** in arriving at the total surplus or deficit of the NPO. Disclosure ~~should~~ **shall** be made of unrealised gains and losses from fair value adjustment to:

- a) investment properties that are carried at fair value through surplus or deficit
- b) **financial instruments** that are carried at fair value through surplus or deficit
- c) defined benefit pensions where actuarial adjustments are recognised through surplus or deficit.

G5.6 Four types of unrealised gains or losses are recognised as part of Statement of Changes in Net Assets (see **Section 6 Statement of Changes in Net Assets**) outside of surplus or deficit when prescribed by this **GuidanceStandard**:

- a) some **gains** and **losses** arising on translating the **financial statements** of a foreign operation (see **Section 30 Foreign currency translation**);
- b) some actuarial gains and losses (see **Section 28 Employee benefits**);
- c) some changes in fair values of **hedging instruments** (see **Part II of Section 11 Other financial instrument issues**); and

- d) changes in the revaluation surplus for **property, plant and equipment**, measured in accordance with the revaluation model (see **Section 17 Property, plant and equipment**).
- G5.7 As a minimum an NPO shall include, in the Statement of Income and Expenses, line items that present the following amounts for the period:
- a) **revenue**;
  - b) finance costs;
  - c) share of the surplus or deficit of investments in **associates** (see **Section 14 Investments in associates**) and **jointly controlled entities** (see **Section 15 Joint arrangements**), accounted for using the equity method;
  - d) **tax expense**, excluding tax allocated to items e), g) and h) (see paragraph **G29.35**);
  - e) a single amount comprising the total of:
    - i) the post-tax surplus or deficit of a **discontinued operation**; and
    - ii) the post-tax gain or loss attributable to an **impairment**, or reversal of an impairment, of the assets in the discontinued operation (see **Section 27 Impairment of assets**), both at the time and subsequent to being classified as a discontinued operation and to the disposal of the net assets constituting the discontinued operation;
  - f) surplus or deficit from operating activities;
  - g) each unrealised gain or loss (see paragraph G5.5) classified by nature (excluding amounts in h));
  - h) share of the gains or losses of associates and jointly controlled entities accounted for using the equity method; and
  - i) total surplus or deficit.
- G5.8 An NPO shall disclose separately in the Statement of Income and Expenses as allocations for the period **the surplus or loss-deficit** for the period attributable to:
- a) **non-controlling interest**;
  - b) holders of **equity claims**.
- G5.9 An NPO shall present additional line items, headings and subtotals in the Statement of Income and Expenses when such presentation is relevant to an understanding of the NPO's financial performance.
- G5.10 An NPO shall not present or describe any items of income and expense as 'extraordinary items' in the Statement of Income and Expenses or in the **notes**.

### **Analysis of expenses**

- G5.11 An NPO shall present an analysis of expenses that provides information that is reliable and **more** relevant. ~~This analysis may be presented either in the Statement of Income and Expenses or in the notes. [Section 24 will contain further guidance on the classification of expenses that will be published in Exposure Draft 3].~~ **in accordance with Section 24 Part II Classification of expenses.**

## Application Guidance: Section 5 – Statement of Income and Expenses (New)

### Information to be presented in the Statement of Income and Expenses

AG5.1—The effects of an NPO's various financial activities, transactions and other events differ in terms of its ability to meet its service delivery obligations. Disclosing the components of income and expenses assists in an understanding of the financial activities delivered and in making projections of future results.

AG5.2—Additional line items are included on the face of the Statement of Income and Expenses, and the descriptions used and ordering of items are amended when this is necessary to explain the elements of activity. Factors to be considered include:

- materiality;
- the nature and function of the components of revenue; and
- the nature and function of the components of expenses.

AG5.3—Paragraph G5.7 does not prescribe the sequence or format in which items are to be presented in the Statement of Income and Expenses. However, in line with the principles for presenting financial statements set out in Section 3, material items should be presented separately. Items are material if omitting, misstating or obscuring them would make a difference to decisions made by users of the financial statements. This may require the inclusion of additional line items in the Statement of Income and Expenses. NPOs should also consider whether information is being obscured by including insignificant line items that could be aggregated without affecting decisions made by users of the financial statements.

### Income and expenses with restrictions

AG5.4—Paragraph G5.3 requires that the face of the Statement of Income and Expenses shows the aggregation of income and expenses with restrictions shall be presented in a separate column to the **aggregation** of income and expenses without restrictions. In determining restrictions, regard should be given to the definition of restricted funds in Section 2, paragraph G2.74 and to the requirements of other parts of this Guidance [Sections 23 and 24, to be updated in Exposure Draft 2].

AG5.5—All income that meets the definition of a restriction in G2.74 shall be shown in the 'with restrictions' column. The expenses that relate to the activities being funded by income with restrictions are to be separately identified and included in the 'with restrictions' column.

AG5.6—An NPO should disaggregate the 'with restrictions' column into the individual funds, or a subgrouping of funds or programmes, in the notes to the accounts, where this provides information that is useful to the users of the financial statements. An NPO may present this analysis on the face of the Statement of Income and Expenses.

### Classification of income

~~AG5.7—Income comprises revenue, interest income and other income (including income from royalties and licences). Paragraph G5.7 requires that revenue as a component of income is analysed on the face of the financial statement. The illustrative financial statements provide examples of the classification of revenue, which if relevant might include an analysis between general grants and donations, grants for and donations of non-current assets, and sales of services and goods.~~

### **Classification of expenses**

~~AG5.8—Paragraph G5.11 requires that expenses be subclassified. Expenses are subclassified to highlight the costs and cost recoveries of particular programmes, activities or other relevant segments of an NPO. NPOs are required to present an analysis of expenses on the face of the Statement of Income and Expenses. [Section 24 will contain further guidance on the classification of expenses that will be published in Exposure Draft 3].~~

### **Additional disclosures**

~~AG5.9—The Guidance does not permit any items to be described as extraordinary as outlined in G5.10. However, there may be circumstances when disclosing additional line items that will be beneficial to users' understandings of the financial statements. Where material by nature or by amount, the circumstances that would give rise to the separate disclosure of items of income and expense include:~~

- ~~a) write-downs of inventories to net realisable value, or of property, plant, and equipment to **recoverable amount**, as well as reversals of such write-downs;~~
- ~~b) restructurings of the activities of an NPO and reversals of any provisions for the costs of restructuring;~~
- ~~c) disposals of items of property, plant, and equipment;~~
- ~~d) disposals of investments;~~
- ~~e) discontinuing operations;~~
- ~~f) litigation settlements; and~~
- ~~g) other reversals of provisions.~~

~~This list is not exhaustive, and other circumstances may occur that would give rise to the separate disclosure of items of income and expenses.~~

## **Comparison of Section 5 with the *IFRS for SMEs Accounting Standard***

Section 5 of [INPAGINPAS](#) has been drawn from Section 5 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 5 of the ~~draft~~ Third edition of the *IFRS for SMEs Accounting Standard* and Section 5 of [INPAGINPAS](#) are as follows:

- [INPAGINPAS](#) Section 5 requires an NPO to produce a Statement of Income and Expenses that results in a surplus or deficit rather than allowing the choice available in Section 5 of the ~~draft~~ Third edition of the *IFRS for SMEs Accounting Standard* of either a single statement of comprehensive income or a separate income statement and statement of comprehensive income. References to the choice between these two statements have been removed throughout Section 5.
- The terms surplus and deficit are used in [INPAGINPAS](#) Section 5 rather than profit and loss.

- ~~INPAGINPAS~~ Section 5 requires that unrealised gains and losses arising from certain fair value adjustments are shown after surplus or deficit from operating activities on the Statement of Income and Expenses unless required to be shown in the Statement of Changes in Net Assets.
- ~~INPAGINPAS~~ Section 5 refers to holders of equity claims instead of 'owners of the parent' used in the ~~draft~~ Third edition of the *IFRS for SMEs* Accounting Standard.
- ~~Detailed The~~ requirements relating to the classification of expenses are not included in Section 5, as a new separate Section provides NPO-specific guidance for the approach to the analysis~~[to be published in Exposure Draft 3]~~.
- ~~INPAGINPAS~~ Section 5 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other Sections of ~~INPAGINPAS~~ rather than the *IFRS for SMEs* Accounting Standard.

## Section 6 – Statement of Changes in Net Assets (Status – Modified)

### Scope of this Section

- G6.1 This Section sets out requirements for presenting the changes in an NPO's net assets for a period.

### Presentation

- G6.2 The Statement of Changes in Net Assets presents an NPO's **surplus or deficit** for a **reporting period, gains or losses** that are not taken through the Statement of Income and Expenses (see paragraph G5.6), movements between funds, the effects of changes in **accounting policies** and corrections of **errors** recognised in the period, and the amounts of contributions by and distributions to holders of **equity claims** during the period. Note that this is except for some changes in fair values of hedging instruments (see Part II of Section 11 Financial Instruments).

- G6.3 An NPO shall present in the Statement of Changes in Net Assets for, **equity claims, restricted funds, and with restrictions, unrestricted funds without restrictions other reserves (eg revaluation reserves)** and **non-controlling interests** that together comprise net assets, a reconciliation between the **carrying amount** at the beginning and the end of the period, separately disclosing:

- surplus or deficit;
- for each component of net assets, the effects of changes in accounting policies and corrections of errors recognised in accordance with Section 10 *Accounting policies, estimates and errors*;
- for each component of net assets, changes resulting from gains or losses that are recognised directly in net assets (see paragraph G5.6);
- total income and expenses, to be a subtotal of a), b) and c), showing separately any amount relating to a non-controlling interest;
- changes resulting from movements between restricted funds and unrestricted funds~~funds with restrictions and funds without restrictions~~, and any of the other identified components; and
- changes resulting from movements in equity claims, including **distributions to holders of equity claims** and **contributions from holders of equity claims**.

Where components of net assets include items which will be reclassified in surplus or deficit when specific conditions are met (see Part II of Section 11) they shall be grouped separately from items which will not be reclassified subsequently.

- G6.4 An NPO shall provide a reconciliation of the **carrying amount** at the beginning and the end of the period, in line with G6.3, of any material subcomponents of net assets (such as restricted funds with restrictions and unrestricted funds without restrictions) in the notes to the accounts, which aggregate to the components shown on the primary statement Statement of Changes in Net Assets.

## Comparison of Section 6 with the *IFRS for SMEs Accounting Standard*

Section 6 of INPAGINPAS has been drawn from Section 6 of the *IFRS for SMEs Accounting Standard* but has been updated to be specific to the statement requirements for NPOs. The overall purpose of Section 6 is consistent with Section 6 of the ~~draft~~ Third edition of the *IFRS for SMEs Accounting Standard*. The main differences between Section 6 of the ~~draft~~ Third edition of the *IFRS for SMEs Accounting Standard* and the Section 6 of INPAGINPAS are as follows:

- INPAGINPAS Section 6 replaces the statement of changes in equity with a Statement of Changes in Net Assets and does not include any requirements for a statement of income and retained earnings.
- INPAGINPAS Section 6 amends the scope from requiring the presentation of changes in an entity's equity for a period to changes in an NPO's net assets, with the purpose amended to reflect the single statement approach.
- INPAGINPAS Section 6 prescribes the items to be presented on the face of the statement to allow the subtotalling of income and expenses consistent with the definition of comprehensive income.
- INPAGINPAS Section 6 requires a reconciliation of the opening and closing carrying amounts of any material subcomponent of equity net assets, restricted funds with restrictions, unrestricted funds without restrictions and non-controlling interests in the notes to the accounts.
- INPAGINPAS Section 6 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other Sections of INPAGINPAS rather than the *IFRS for SMEs Accounting Standard*.

## Section 7 – Statement of Cash Flows (Status – Updated)

### Scope of this Section

- G7.1 This Section sets out the information that is to be presented in a Statement of Cash Flows and how to present it. The Statement of Cash Flows provides information about the changes in **cash** and **cash equivalents** of an NPO for a reporting period, showing separately changes from **operating activities, investing activities** and **financing activities**.

## Cash equivalents

- G7.2 Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. They are held to meet short-term cash commitments instead of for investment or other purposes. Consequently, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an NPO's cash management, bank overdrafts are a component of cash and cash equivalents.

## Information to be presented in the Statement of Cash Flows

- G7.3 An NPO shall present a Statement of Cash Flows that presents **cash flows** for a reporting period classified by operating activities, investing activities and financing activities.

### Operating activities

- G7.4 Operating activities are the principal activities of the NPO. Consequently, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of surplus or deficit. Examples of cash flows from operating activities are:

- a) cash receipts from grants and donations (~~excluding grants and donations whose use is restricted to the acquisition or construction of property, plant and equipment, intangible assets and other long-term assets~~);
- b) cash receipts from the rendering of services and the sale of goods;
- c) cash receipts from royalties, fees, commissions and other **revenue**;
- d) cash payments to suppliers for goods and services;
- e) cash payments to and on behalf of employees;
- f) cash payments or refunds of income tax, unless they can be specifically identified with financing and investing activities;
- g) cash receipts and payments from investments, loans and other contracts held for dealing or trading purposes, which are similar to inventory acquired specifically for resale; and
- h) cash receipts and payments from advances and loans made to other parties where such transactions are the NPO's primary objective.

Some transactions, such as the sale of an item of property, plant or equipment, may give rise to a gain or loss that is included in surplus or deficit. However, the cash flows relating to such transactions are cash flows from investing activities. Where cash a grant or donation is received specifically for the acquisition or construction of **property, plant and equipment, intangible assets** and other long-term assets this should be separately disclosed.

### Investing activities

- G7.5 Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Examples of cash flows arising from investing activities are:



- ~~(a)~~ cash payments to acquire property, plant and equipment (including self-constructed property, plant and equipment), intangible assets and other long-term assets;
- ~~a)~~ ~~b)~~ ~~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;~~
- ~~(b)~~ cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
- ~~(c)~~ cash payments to acquire **equity** or debt instruments of other entities and interests in jointly controlled entities (other than payments for those instruments classified as cash equivalents or held for dealing or trading);
- ~~(d)~~ cash receipts from sales of equity or debt instruments of other entities and interests in jointly controlled entities (other than receipts for those instruments classified as cash equivalents or held for dealing or trading);
- ~~(e)~~ cash advances and loans made to other parties (except where such transactions are the NPO's primary objective which, consistent with paragraph G7.4(h), which should be treated as operating activities);
- ~~(f)~~ cash receipts from the repayment of advances and loans made to other parties (except where such transactions are the NPO's primary objective which, consistent with paragraph G7.4(h), which should be treated as operating activities);
- ~~(g)~~ cash payments for futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading, or the payments are classified as financing activities; and
- ~~(h)~~ cash receipts from futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge (see Part II of **Section 11 Other Financial Instrument Issues**), an NPO shall classify the cash flows of the contract in the same manner as the cash flows of the item being hedged.

### Financing activities

- G7.6 Financing activities are activities that result in changes in the size and composition of the ~~equity and~~ borrowings and equity claims of an NPO. Examples of cash flows arising from financing activities are:
- ~~(a)~~ cash proceeds from **contributions from holders of equity claims** (including the issue of shares, if applicable);
  - b) cash payments to holders of **equity claims** to acquire or redeem the NPO's equity claims;
  - c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;
  - d) cash repayments of amounts borrowed; and
  - e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance **lease**.

### Reporting cash flows from operating activities

- G7.7 An NPO shall present cash flows from operating activities using either:
- ~~(a)~~ the indirect method, whereby surplus or deficit is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash

- receipts or payments and items of income or expense associated with investing or financing cash flows; or
- ~~ii.b)~~ the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

### Indirect method

- G7.8 Under the indirect method, the net cash flow from operating activities is determined by adjusting surplus or deficit for the effects of:
- ~~i.a)~~ changes during the period in **inventories** and operating receivables and payables;
  - ~~ii.b)~~ non-cash items such as **depreciation, provisions, deferred tax**, accrued income (expenses) not yet received (paid) in cash, unrealised foreign currency gains and losses, undistributed profits of **associates** and donations of goods and services; and
  - ~~iii.c)~~ all other items for which the cash effects relate to investing or financing.

An NPO shall not include donations of non-cash items, for example, donated inventory in the statement of cash flows.

### Direct method

- G7.9 Under the direct method, net cash flow from operating activities is presented by disclosing information about major classes of gross cash receipts and gross cash payments. Such information may be obtained either:
- ~~a.a)~~ from the accounting records of the NPO, or
  - ~~b.b)~~ by adjusting income, expenses and other items in the **Statement of Income and Expenses** for:
    - i) changes during the period in inventories and operating receivables and payables;
    - ii) other non-cash items; and
    - iii) other items for which the cash effects are investing or financing cash flows.

### Reporting cash flows from investing and financing activities

- G7.10 An NPO shall present separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. The aggregate cash flows arising from acquisitions and from disposals of controlled entities or other **business** units shall be presented separately and classified as investing activities.

### Foreign currency cash flows

- G7.11 An NPO shall record cash flows arising from transactions in a foreign currency in the NPO's **functional currency** by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow. **Paragraph G30.19-22** explains when an exchange rate that approximates the actual rate can be used.

- G7.12 The NPO shall translate cash flows of a foreign **controlled entity** at the exchange rates between the NPO's functional currency and the foreign currency at the dates of the cash flows.

G7.13 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, to reconcile cash and cash equivalents at the beginning and the end of the period, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency must be presented in the Statement of Cash Flows. Consequently, the NPO shall remeasure cash and cash equivalents held during the reporting period (such as amounts of foreign currency held and foreign currency bank accounts) at period-end exchange rates. The NPO shall present the resulting unrealised gain or loss separately from cash flows from operating, investing and financing activities.

### Interest and capital distributions

G7.14 An NPO shall present separately cash flows from interest and **distributions to holders of equity claims** (including **dividends**) received and paid. The NPO shall classify cash flows consistently from period to period as operating, investing or financing activities.

G7.15 An NPO may classify interest paid and interest and distributions to holders of equity claims (including dividends) received as operating cash flows because they are included in **surplus or deficit from operating activities**. Alternatively, the NPO may classify interest paid and interest and distributions to holders of equity claims (including dividends) received as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

G7.16 An NPO may classify distributions to holders of equity claims paid as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, the NPO may classify distributions to holders of equity claims paid as a component of cash flows from operating activities because they are paid out of operating cash flows.

### Income tax

G7.17 An NPO shall present separately cash flows arising from income tax and shall classify them as cash flows from operating activities unless they can be specifically identified with financing and investing activities. When tax cash flows are allocated over more than one class of activity, the NPO shall disclose the total amount of taxes paid.

### Non-cash transactions

G7.18 An NPO shall exclude from the Statement of Cash Flows investing and financing transactions that do not require the use of cash or cash equivalents. An NPO shall disclose such transactions elsewhere in the **financial statements** in a way that provides all the relevant information about those investing and financing activities.

G7.19 Many investing and financing activities do not have a direct impact on current cash flows even though they affect the capital and asset structure of an NPO. The exclusion of non-cash transactions from the Statement of Cash Flows is consistent with the objective of a Statement of Cash Flows because these items do not involve cash flows in the current period. Examples of non-cash transactions are:

- a) the receipt of donated assets;
- b) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;

- c) the acquisition of an entity by means of an equity issue; and
- d) the conversion of debt to equity.

## Changes in liabilities arising from financing activities

- G7.20 An NPO shall disclose a reconciliation between the opening and closing balances in the Statement of Financial Position for liabilities arising from financing activities. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Statement of Cash Flows as cash flows from financing activities. The reconciliation shall include:
- a) changes from financing cash flows;
  - b) changes arising from obtaining or losing control of subsidiaries or other businesses;
  - c) the effect of changes in foreign exchange rates;
  - d) changes in fair values; and
  - e) other changes.

## Supplier finance arrangements

- G7.21 Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the NPO with extended payment terms, or the NPO's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as 'supply chain finance', 'payables finance' or 'reverse factoring arrangements'.

- G7.2122 An NPO shall disclose in aggregate for its supplier finance arrangements:
- a) the key terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an NPO shall disclose separately the terms and conditions of arrangements that have dissimilar key terms and conditions.
  - b) as at the beginning and end of the reporting period:
    - i) the carrying amounts, and associated line items presented in the NPO's statement of financial position, of the financial liabilities that are part of a supplier finance arrangement.
    - ii) the range of payment due dates (for example, 30–40 days after the invoice date) for both the financial liabilities disclosed in accordance with (i) and comparable operating payables that are not part of the supplier finance arrangement. Comparable operating payables are, for example, operating payables of the NPO with other NPOs similar objectives or jurisdictions as the financial liabilities disclosed in accordance with (i). If ranges of payment due dates are wide, an NPO shall disclose explanatory information about those ranges or divide them into narrower ranges.
  - c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed in accordance with (b)(i). Examples of non-cash changes include the effect of business combinations, exchange differences and other transactions that do not require the use of cash or cash equivalents (see paragraph G7.18).

## Components of cash and cash equivalents

G7.2123 An NPO shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts presented in the Statement of Cash Flows to the equivalent items presented in the Statement of Financial Position. However, the NPO is not required to present this reconciliation if the amount of cash and cash equivalents presented in the Statement of Cash Flows is identical to the amount similarly described in the Statement of Financial Position.

## Other disclosures

G7.2224 An NPO shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the NPO that are not available for use by the NPO. Cash and cash equivalents held by an NPO may not be available for use by the NPO because of, among other reasons, foreign exchange controls or legal restrictions (including restrictions imposed by donors). For example, exchange controls may mean that an NPO's trading operation in one country is unable to transfer profits to the controlling NPO in another country, or restrictions imposed by a donor may mean that funds have to be retained in a specified bank account until used to fund specific activities.

### Application Guidance: – Section 7 – Statement of Cash Flows – (Status – New)

## Reporting cash flows from operating activities

### Indirect method

~~AG7.1 An NPO may receive donations of non-cash items, for example donated inventory. Because these items are not cash items, they should not be included in the statement of cash flow.~~

~~The revenue recognition requirements and consequential impacts on cashflow will be developed in ED2.~~

## Comparison of Section 7 with the IFRS for SMEs Accounting Standard

Section 7 of ~~INPAGINPAS~~ has been drawn from Section 7 to the IFRS for SMEs Accounting Standard. The main differences between Section 7 to the ~~draft~~ Third edition of IFRS for SMEs Accounting Standard and Section 7 of ~~INPAGINPAS~~ are as follows:

- **INPAGINPAS** Section 7 requires the disclosure of information that is more typical of NPOs, including:
  - Cash receipts from grants and donations (~~excluding grant to purchase or construct assets~~) as part of operating cashflows
  - ~~Cash receipts from grants and donations to purchase or construct non-current assets as part of investing cashflows~~
  - Cash and cash equivalents not available for use by the NPO ~~to include~~ing restrictions by funders.
- **INPAGINPAS** Section 7 clarifies that loans and the repayment of loans as part of ~~its~~ NPOs programmes for service beneficiaries should be treated as operating cashflows.
- **INPAGINPAS** Section 7 replaces references to the two statements that capture all income and expenses with the Statement of Income and Expenses.
- **INPAGINPAS** Section 7 uses different terminology, referring specifically to NPOs, rather than entities more generally and to other Sections of **INPAGINPAS** rather than the IFRS for SMEs Accounting Standard. It also replaces dividends with distributions to holders of equity claims.

## Section 8 – Notes to the financial statements (Status – Updated)

### Scope of this Section

G8.1 This Section sets out the principles underlying information that is to be presented in the **notes** to the **financial statements** and how to present it. Notes contain information in addition to that presented in the **Statement of Financial Position**, the **Statement of Income and Expenses**, the **Statement of Changes in Net Assets** and the **Statement of Cash Flows**. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for **recognition** in those statements. In addition to the requirements of this Section, nearly every other Section of this **GuidanceStandard** requires disclosures that are normally presented in the notes.

### Structure of the notes

- G8.2 The notes shall:
- present information about the basis of preparation of the financial statements and the specific **accounting policies** used, in accordance with paragraphs **G8.5–G8.7**;
  - disclose the information required by this **GuidanceStandard** that is not presented elsewhere in the financial statements; and
  - provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.
- G8.3 An NPO shall, as far as practicable, present the notes in a systematic manner. An NPO shall cross-reference each item in the financial statements to any related information in the notes.
- G8.4 An NPO normally presents the notes in the following order:

- a) a statement that the financial statements have been prepared in compliance with **INPAGINPAS** (see paragraph **G3.3**);
- b) material accounting policy information (see paragraph **G8.5**);
- c) supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and
- d) any other disclosures.

## Disclosure of accounting policies

G8.5 An NPO shall disclose material accounting policy information. Accounting policy information is material if, when considered together with other information included in the NPO's financial statements, it can reasonably be expected to influence decisions that the **primary users** of **general purpose financial statements** make on the basis of those financial statements.

## Information about judgements

G8.6 An NPO shall disclose, along with material accounting policy information or other notes, the judgements, apart from those involving estimations (see paragraph **G8.7**), that management has made in the process of applying the NPO's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. **Examples of judgements that an NPO might be required to disclose include those made in determining:**

- a) appropriate classes of assets and liabilities in accordance with paragraph **G12.30** for which disclosures about fair value measurements are provided;
- b) that the NPO has **control** of another entity; and
- c) that the NPO has **joint control** of an arrangement or significant influence over another entity.

## Information about key sources of estimation uncertainty

G8.7 An NPO shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the **reporting date** that have a significant risk of causing a **material** adjustment to the **carrying amounts** of **assets** and **liabilities** within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- a) their nature; and
- b) their carrying amount as at the end of the **reporting period**.

## Comparison of Section 8 with the IFRS for SMEs Accounting Standard

Section 8 of **INPAGINPAS** has been drawn from Section 8 to the IFRS for SMEs Accounting Standard, with changes only to terminology and to align with the statements required by **INPAGINPAS**. The main differences between Section 8 to the ~~draft~~ Third edition of IFRS for SMEs Accounting Standard and Section 8 of **INPAGINPAS** are as follows:

- Reference to the choice of two statements for financial performance have been replaced with the single Statement of Income and Expenses required by [INPAGINPAS](#).
- [INPAGINPAS](#) Section 8 uses different terminology, referring specifically to NPOs, rather than entities more generally and to other Sections of [INPAGINPAS](#) rather than the IFRS for SMEs Accounting Standard.

## Section 10 – Accounting policies, estimates and errors (Status – Updated)

### Scope of this Section

G10.1 This Section provides guidance for selecting and applying the **accounting policies** used in preparing **financial statements**. It also covers changes in **accounting estimates** and correction of **errors** in prior period financial statements.

### Selection and application of accounting policies

G10.2 Accounting policies are the specific principles, bases, conventions, rules and practices applied by an NPO in preparing and presenting financial statements.

G10.3 If this [GuidanceStandard](#) specifically addresses a transaction, other event or condition, an NPO shall apply this [GuidanceStandard](#). However, ~~the an~~ NPO need not follow a requirement in this [GuidanceStandard](#) if the effect of doing so would not be **material**.

G10.4 If this [GuidanceStandard](#) does not specifically address a transaction, other event or condition, an NPO's management shall use its judgement in developing and applying an accounting policy that results in information that is:

- a) relevant to the decision-making needs of users; and
- b) reliable, in that the financial statements:
  - i) represent faithfully the financial position, income and expenses, other changes in net assets, and **cash flows** of ~~the an~~ NPO;
  - ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
  - iii) are neutral, ie free from bias;
  - iv) are prudent; and
  - v) are complete in all material respects.

G10.5 In making the judgement described in paragraph [G10.4](#), management shall refer to, and consider the applicability of, the following sources in descending order:

- a) the requirements and guidance in this [GuidanceStandard](#) dealing with similar and related issues; and
- b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in [Section 2 Concepts and pervasive principles](#).

G10.6 In making the judgement described in paragraph [G10.4](#), management may also consider the requirements and guidance in other authoritative sources of accounting guidance dealing with similar and related issues:



- a) primarily for exchange transactions, the IFRS for SMEs Accounting Standard, **full IFRS Accounting Standards** (where the requirements or guidance do not conflict with the concepts and principles in Section 2);
- b) primarily for non-exchange transactions, **IPSAS** (where the requirements or guidance do not conflict with the concepts and principles in Section 2); or
- c) primarily for NPO-specific transactions not adequately addressed by the IFRS for SMEs Accounting Standard, full IFRS Accounting Standards or IPSAS, jurisdictional-level accounting standards intended to be applied by NPOs where the requirements or guidance do not conflict with the concepts and principles in Section 2 (including those standards superseded by INPAGINPAS).

In considering the relevance of other authoritative sources of accounting guidance, an NPO shall have regard to the specificity of the source (as a source that deals with the specific circumstances is likely to be more relevant than one from which the NPO must draw analogies), and the continued relevance of the source (as the passage of time may diminish the relevance of certain sources).

### Consistency of accounting policies

G10.7 An NPO shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless this GuidanceStandard specifically requires or permits categorisation of items for which different policies may be appropriate. If this GuidanceStandard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

### Changes in accounting policies

G10.8 An NPO shall change an accounting policy only if the change:

- a) is required by changes to this GuidanceStandard; or
- b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the NPO's financial position, income and expenses, other changes in net assets or cash flows.

G10.9 The following are not changes in accounting policies:

- a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring;
- b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were not material; or
- c) a change to the cost model when a reliable measure of **fair value** is no longer available (or vice versa) for an asset that this GuidanceStandard would otherwise require or permit to be measured at fair value.

G10.10 If this GuidanceStandard allows a choice of accounting treatment (including the measurement basis) for a specified transaction or other event or condition and an NPO changes its previous choice, that is a change in accounting policy.

G10.11 The initial application of a policy to revalue assets in accordance with Section 17 **Property, Plant and Equipment** is a change in an accounting policy to be dealt with as a revaluation in accordance with **Section 17**. Consequently, a change from the cost model to the

reevaluation model for a class of **property, plant and equipment** shall be accounted for prospectively, instead of in accordance with paragraphs **G10.12–G10.13**.

### Applying changes in accounting policies

G10.12 An NPO shall account for changes in accounting policy as follows:

- a) an NPO shall account for a change in accounting policy resulting from a change in the requirements of this **GuidanceStandard** in accordance with the transitional provisions, if any, specified in that amendment; and
- b) an NPO shall account for all other changes in accounting policy **retrospectively** (see paragraph **G10.13**).

### Retrospective application

G10.13 When a change in accounting policy is applied retrospectively in accordance with paragraph **G10.12**, ~~the an~~ NPO shall apply the new accounting policy to comparative information for prior periods to the earliest date for which it is practicable, as if the new accounting policy had always been applied. When it is **impracticable** to determine the individual-period effects of a change in accounting policy on comparative information for one or more prior periods presented, ~~the an~~ NPO shall apply the new accounting policy to the **carrying amounts** of assets and liabilities as at the beginning of the earliest period for which **retrospective application** is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of **net assets** for that period.

### Disclosure of a change in accounting policy

G10.14 When an amendment to this **GuidanceStandard** has an effect on the current period or any prior period, or might have an effect on future periods, an NPO shall disclose the following:

- a) the nature of the change in accounting policy;
- b) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
- c) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- d) an explanation if it is impracticable to determine the amounts to be disclosed in (b) or (c).

Financial statements of subsequent periods need not repeat these disclosures.

G10.15 When a voluntary change in accounting policy has an effect on the current period or any prior period, an NPO shall disclose the following:

- a) the nature of the change in accounting policy;
- b) the reasons why applying the new accounting policy provides reliable and more relevant information;
- c) to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:
  - i) for the current period;
  - ii) for each prior period presented; and
  - iii) in the aggregate for periods before those presented.
- d) an explanation if it is impracticable to determine the amounts to be disclosed in (c).

Financial statements of subsequent periods need not repeat these disclosures.

## Accounting estimates

G10.16 An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, ~~an the~~ NPO develops an **accounting estimate** to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

G10.17 An NPO uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques (for example, techniques used to measure the **depreciation** expense for an item of property, plant and equipment, applying **Section 17—Property, Plant and Equipment**) and valuation techniques (for example, techniques used to measure the fair value of an asset or liability applying **Section 12—Fair Value Measurement**).

## Changes in accounting estimates

G10.18 An NPO may need to change an accounting estimate if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience.

G10.19 The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates, unless they result from the correction of prior period errors. A change in the measurement basis applied is a change in an accounting policy and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

G10.20 An NPO shall recognise the effect of a change in an accounting estimate, other than a change to which paragraph **G10.21** applies, in **surplus or deficit** in:

- a) the period of the change, if the change affects that period only; or
- b) the period of the change and future periods, if the change affects both.

G10.21 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets, the NPO shall recognise it by adjusting the carrying amount of the related asset, liability or net assets item in the period of the change.

## Disclosure of a change in accounting estimates

G10.22 An NPO shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period. If it is practicable for the NPO to estimate the effect of the change in one or more future periods, the NPO shall disclose those estimates.

## Corrections of prior period errors

G10.23 Prior period errors are omissions from, and misstatements in, an NPO's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

G10.24 Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts and fraud.

G10.25 To the extent practicable, an NPO shall correct a material prior period error retrospectively in the first financial statements authorised for issue after its discovery by:

- a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

G10.26 When it is impracticable to determine the effects of an error on comparative information for one or more prior periods presented, the NPO shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period).

## Disclosure of prior period errors

G10.27 An NPO shall disclose the following about prior period errors:

- a) the nature of the prior period error;
- b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
- c) to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented; and
- d) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c).

Financial statements of subsequent periods need not repeat these disclosures.

### Comparison of Section 10 with the IFRS for SMEs Accounting Standard

Section 10 of **INPAGINPAS** has been drawn from Section 10 of the IFRS for SMEs Accounting Standard, with changes mainly to terminology and to align with the statements required by **INPAGINPAS**. The main differences between Section 10 to the ~~draft~~ Third edition of IFRS for SMEs Accounting Standard and Section ~~8-10~~ of **INPAGINPAS** are as follows:

- Additional guidance is provided in **INPAGINPAS** Section 10 in case an NPO ~~have~~has a transaction, event or condition not covered in other Sections of **INPAGINPAS**. The

guidance specifies alternative authoritative sources and circumstances that should be considered where appropriate.

- ~~INPAGINPAS~~ Section 10 uses different terminology, referring specifically to NPOs, rather than entities more generally and to other Sections of ~~INPAGINPAS~~ rather than the IFRS for SMEs Accounting Standard. It also refers to income and expenses rather than financial performance.

## Section 35 – Narrative reporting (New)

### Scope of this Section

- G35.1 This Section sets out narrative reporting requirements for NPOs. It provides guidance on the ~~performance information and financial statement commentary~~ narrative reporting information that is to be presented by an NPO in the same general purpose financial report as its financial statements. The narrative report is published along with the general purpose financial statements to form the general purpose financial report but is not a part of these general purpose financial statements.
- G35.2 This Section sets out the minimum narrative reporting requirements s for NPOs applying ~~INPAG-INPAS~~. This It includes the principles for all narrative information and the minimum requirements for the categories of information to be covered.
- ~~G35.3~~ Where-When an NPO is able to go beyond ~~this~~ these minimum requirements s and presents s additional information ~~to meet the needs of users of its general purpose financial report~~, it may do so provided that ~~this-the~~ minimum requirements hasve been met. The principles and high-level requirements of the Section permit a flexible approach. An NPOs shall are able to report in a manner that best meets the needs of their-its primary users.
- ~~G35.4~~ When an NPO is required to comply with jurisdictional legislative or equivalent narrative reporting requirements, these disclosures should be combined with those specified by this section to avoid duplication, where possible.

### Principles

- G35.35 An NPO shall present narrative reporting information that is useful for accountability and decision-making purposes in the same general purpose financial report as its financial statements. ~~An NPO needs to assess the narrative reporting information that would be of use to its primary users. and that~~ An NPOs shall use this assessment should to inform the selection and the type of information reported and the format of its presentation. Narrative reporting information will-enables users to assess the performance of the NPO and provide context to the information included in the financial statements.
- G35.46 The ~~performance information and financial statement commentary~~ narrative reporting information presented shall be for the same reporting NPO and reporting period as the financial statements.

~~G35.7~~ An NPO's ~~shall ensure that the~~ narrative reporting information ~~is fair~~ shall be and balanced. Information is balanced if it is not skewed, emphasised, de-emphasised or otherwise presented to make it more likely that primary users will receive that information favourably or unfavourably.

G35.58 When selecting narrative reporting information in a general purpose financial report, an NPO shall apply the qualitative characteristics and the ~~pervasive-cost~~ constraints on useful information identified in **Section 2 Concepts and pervasive principles**. The narrative report shall:

- a) provide faithful representation of the NPO's operations and activities;
- b) provide relevant information that is capable of making a difference in the decisions made by users, ie it is material;
- c) provide information that is comparable between reporting periods;
- d) provide information that can be verified;
- e) be provided on a timely basis; and
- f) be understandable by the users of the general purpose financial reports.

This will result in narrative reporting information that is useful to users of the NPO's general purpose financial report.

~~G35.9~~ A reported item in the narrative report is material if its exclusion or misstatement would affect the decision and assessments made by users of the general purpose financial report. As such materiality depends not just on size but also on the nature of the information provided.

~~G35.7~~ Exceptionally an NPO shall not disclose aspects of performance information and financial statement commentary that would compromise the safety or wellbeing of individuals working/volunteering for the NPO, or those to whom it provides goods and services, because the information is sensitive and/or could prejudice the ability of the NPO to deliver its mission. An NPO will remain in compliance with the requirements of INPAG where this exception is utilised. When a sensitive information exception has been used, the NPO should disclose that the narrative report has been prepared in accordance with the requirements of this paragraph but is not required to provide any information that would have the effect of highlighting the nature or substance of the sensitive information. An NPO shall present performance information and financial statement commentary related to those operations and activities that does not result in sensitive information.

## Information to be included in the narrative report

G35.810 An NPO shall present information:

- a) ~~present information to enable users to understand what the on the its~~ performance objectives ~~of the NPO are~~ and what it has done during the reporting period in working towards those performance objectives; and
- b) present commentary to discuss and analyse ~~the NPO's its~~ financial statements.

G35.9~~11~~ ~~In providing performance information and financial statement commentary, a~~An NPO shall provide ~~narrative reporting users with~~ information related to the following ~~topics~~categories:

- a) an overview of the NPO;
- b) performance reporting;
- c) financial objectives and strategies;
- d) analysis of the NPO's financial statements; and
- e) principal risks and uncertainties.

### **An overview of the NPO**

G35.1~~02~~ An NPO shall provide an overview to present contextual information ~~that enables users to understand the NPO for the narrative report~~. The ~~information provided as part of the overview shall~~include ~~consider responses to the following questions~~:

- a) Who are we? – a description of the legal form of the NPO, how it is structured and what governance arrangements apply to it.
- b) What do we exist for? – a description of the purpose for which the NPO exists, including any formal mission and vision statements.
- c) What do we do? – a description of the NPO's main activities, including significant relationships the NPO has with other entities.

### **Performance reporting**

G35.1~~13~~ An NPO shall present information on ~~to enable users to understand~~:

- a) ~~what~~ the performance objectives of the NPO ~~are~~ and what it intended to achieve during the reporting period; and
- b) what it has done in working towards those performance objectives ~~and including~~ what it has achieved during the reporting period.

G35.1~~24~~ The NPO shall provide performance measures and descriptions ~~that enable the NPO to demonstrate to its users~~ its performance for the reporting period. The performance measures and descriptions (including, for example, those relating to the meeting of service, project or activity objectives) will depend on the NPO and its performance objectives, but must have regard to:

- a) **Quantitative measures** that provide a numerical measurement by which to assess performance – for example, the quantity of a particular good or service provided by an NPO, or ratings by service users on a scale of 1–10.
- b) **Qualitative measures** that provide a non-numerical measurement by which to assess performance – for example, whether the goods and services provided by an NPO were in accordance with a particular quality standard, or ratings by service users of high/medium/low.

- c) **Qualitative descriptions** that provide a non-numerical description by which to assess performance – for example, descriptions by individuals supported by the NPO of improvements made to their wellbeing from open-ended questions in interviews.

G35.135 An NPO ~~will need~~shall to exercise judgement to ensure that it provides information that is useful for accountability and decision-making purposes to users of the general purpose financial report. The principles in paragraph G35.8 will guide these judgements.

### **Financial objectives and strategies**

G35.146 An NPO shall ~~discuss~~provide information on its objectives and strategies relating to its financial position, income and expenses, net assets and cash flows. ~~This should be done~~This information shall in a way that enables users of the financial statements:

- a) ~~to understand the NPO's financial objectives and strategies;~~
- ba) ~~to~~ identify the resources that must be managed by the NPO to achieve ~~them~~its financial objectives and strategies; and
- eb) demonstrate how these financial objectives and strategies support the achievement of the NPOs performance objectives.

G35.1517 ~~Where relevant, a~~ An NPO ~~should~~shall also ~~discuss~~report significant changes in its financial objectives and strategies from the previous period or periods, and the impact this may have on the achievement of its performance objectives.

### **Analysis of the NPO's financial statements**

G35.1618 An NPO shall include an analysis of significant changes and trends in its financial position, income and expenses, net assets and cash flows. An NPO applies ~~judgement should be applied to~~ ensure~~provide~~ a focus on significant and important financial statement items, ~~and~~ The NPO shall not simply reiterate the information presented in the financial statements. Specifically, the analysis ~~should~~shall not repeat the disclosures made in accordance with Section 8, but these disclosures may inform the analysis.

G35.19 An NPO's narrative report shall clearly present the financial statement analysis to demonstrate the coherence with items in the financial statements. Any adjustments made to information from the financial statements in producing the financial statement analysis shall be disclosed along with the nature and reasons for the adjustment.

G35.1720 As part of this analysis, the NPO ~~should~~shall provide information on the impact ~~that these~~of significant changes and trends in its financial position, income and expenses, net assets and cash flows have on the achievement of its performance objectives.

### **Principal risks and uncertainties**

G35.1821 \_\_\_\_\_ An NPO shall ~~discuss~~provide information on the principal risks and uncertainties that affect the achievement of its performance objectives and its financial position, income and expenses, net assets and cash flows. This sh~~ould~~all include:



- a) an explanation of how these risks and uncertainties relate to the performance objectives and financial objectives and strategies of the NPO;
- b) an explanation of changes in those risks and uncertainties since the last reporting date; and
- c) how the NPO manages risks and uncertainties.

~~G35.19—This information will help users to evaluate the impact of those risks and uncertainties on the achievement of the NPO's performance objectives and its financial position, income and expenses, net assets and cash flows in the current period, as well as expected longer term outcomes.~~

## Presentation

G35.20~~2~~ Narrative information shall be clearly identified. Information provided in the narrative report shall adhere to the principles specified in paragraphs G35.5–G35.9 and be presented in a clear and concise manner.

~~G35.21~~3~~ NPOs should develop a format that meets the information needs of their users while complying with the requirements of this Section. An NPO shall consider the format of the information that it provides when applying the requirements of this Section.~~

G35.2~~4~~ Cross-referencing of narrative reporting information to the financial statements will enable users to understand and assess the narrative reporting information within the context of the financial statements.

G35.2~~3~~5 In addition to cross-referencing of information to the financial statements within the general purpose financial report, an NPO may also consider it beneficial to cross-reference to information that is held outside of the general purpose financial report. For example, it may be appropriate to provide users with additional detail on performance objectives and to reduce the volume of information provided in the general purpose financial reports.

G35.24~~26~~ ~~Where-When~~ an NPO does cross-reference to information held outside of the general purpose financial report, it ~~must-shall~~ ensure that:

- a) a complete set of narrative reporting information is provided to users in the general purpose financial report in accordance with this Section – an NPO shall not simply provide references to information held elsewhere; and
- b) the cross-referenced information held outside of the general purpose financial report is, and will remain, unchanged and available to users of the general purpose financial report.

## Comparative information and consistency of reporting

G35.25~~27~~ The usefulness of narrative reporting information to users is improved through the provision of comparative information and consistent reporting by an NPO.

G35.26~~28~~ Comparative information shall be provided by an NPO for the preceding reporting period for amounts and descriptive information reported in the current reporting period. ~~The provision of comparative information shall be consistent with the principles in Section 3 Financial statement presentation (see paragraph G3.14).~~

G35.29 When the information is narrative or descriptive, judgement may be required in determining what and how to disclose comparative information.

G35.2730 Narrative reporting information shall ~~also~~ be reported consistently by an NPO. ~~Where-When~~ changes are made to what an NPO reports or how an NPO reports its narrative reporting information, the reasons for and the nature and effect of these changes shall be explained.

G35.31 When changes are required to narrative reporting information, for example, if an NPO changes its missional purposes or measures performance in a different way the NPO shall provide the reason for the change and explain its impact on reported information.

G35.2832 If an NPO becomes aware of material prior period errors, ~~be-whether~~ this ~~is~~ related to numerical or descriptive information, it shall correct these by restating the comparative information for any prior period(s) presented in the general purpose financial reports and disclose an explanation of the error.

G35.33 A material prior period error occurs either when narrative reporting information has either been materially misstated or omitted altogether in a previous general purpose financial report. When an NPO becomes aware that a material prior period error has occurred the NPO shall correct this in the next general purpose financial report it produces by restating comparative information for any prior periods presented and by disclosing an explanation of the error.

## Disclosure of judgements

G35.2934 An NPO will use judgement in the selection and presentation of narrative reporting information that is reported in accordance with this Section. An NPO shall disclose those judgements that are most relevant to users' understanding of the NPO's narrative reporting information.

## Reporting of other information

G35.305 An NPO may choose or be required to present additional information in its general purpose financial report beyond the ~~performance information and financial statement narrative reporting information commentary included- required~~ in this Section. ~~Where-When~~ it does so, the additional information shall, as far as possible, be presented in compliance with the requirements of this Section (principles, presentation, comparative information, consistency of reporting, and disclosure of judgements).

G35.36 An NPO shall consider reporting other relevant information that goes beyond the categories listed in paragraph G35.10 where this enhances the understanding of the narrative reporting information for the users of the financial report. This could include environmental, social and governance (ESG) information, and/or broader sustainability reporting.

G35.37 When other information is included in the narrative report in accordance with paragraph G35.35, this shall follow the requirements, as far as possible, of Section 35. When providing such other information NPOs shall ensure that it does not obscure the information required by paragraphs G35.10 to G35.22.

G35.38 If an NPO decides it will be useful to provide other information in the narrative report, it should, if possible, be based on standards or guidance that are prescribed elsewhere, or sector established practices and norms such as international standards for sustainability reporting, governance codes or requirements or recognised performance indicators.

G35.39 When other information is provided, the basis of preparation shall be described. Any standards, practices or other approaches used in the provision of other information shall be disclosed.

G35.40 The basis of preparation and the standards, practices and other approaches used for the reporting of other information shall be consistently applied. When other information is no longer relevant or useful its use shall be discontinued. When it is discontinued, the reason it is no longer reported shall be disclosed in the narrative report for the reporting periods including comparative periods in which it has been discontinued.

## Application Guidance: Section 35 – Narrative reporting (New)

~~AG35.1 Section 35 *Narrative Reporting* sets out the principles and high-level requirements for reporting performance information and financial statement commentary by NPOs. As INPAG will be applied internationally by a diverse range of NPOs, it is impractical to determine a detailed set of requirements and a specific reporting format for a narrative report that would be appropriate for all NPOs. The principles and high-level requirements of the Section instead permit a flexible approach. NPOs are able to report in a manner that best meets the needs of their users. At the same time all NPOs are required to report a base level of information that is useful to users.~~

## Performance information and objectives

~~AG35.2 Performance information required by paragraphs G35.11–G35.13 gives an NPO the opportunity to provide users with an understanding of why the NPO exists, what it intends to achieve now and in the longer term, and how it goes about doing this, including what it has done in the reporting period to achieve its objectives. Performance information is best supported by performance measures and descriptions (see paragraph IG35.17). These can be presented in a variety of ways including charts, maps, tables and infographics, and need not just rely on narrative descriptions.~~

~~AG35.3 Performance objectives should be linked to the discussion of what the NPO exists for that is included within the overview. They will be derived from the purpose of the NPO, and should indicate what the NPO intends to achieve now and in the longer term and how it goes about doing this. Reporting should be on the objectives that the NPO executive/management has set to monitor the activities or performance of the NPO. Performance objectives should not be created purely for the purpose of the narrative report.~~

~~AG35.4 A key decision will be deciding on which aspects of performance the NPO wishes to report. NPOs should focus on the needs of users of the general purpose financial report to make this judgement. The principles in paragraph G35.5 will guide these judgements, particularly the relevance of the information. Many NPOs will already~~

provide performance information outside of their general purpose financial report to groups such as donors. While NPOs may be able to use the information that is contained in such reports, they should ensure that the information presented is not too detailed and that it complies with the high-level reporting principles.

## Financial objectives and strategies

AG35.5—As per paragraphs G35.14 and G35.15, NPOs should provide sufficient information on financial objectives and strategies so that users can understand the NPO's financial priorities, the resources it needs to achieve them, and how these relate to its performance objectives. Given that NPOs exist primarily to deliver a benefit to the public rather than to generate financial returns for investors, financial objectives and strategies are likely to be derived from the NPO's performance objectives.

AG35.6—For example, an NPO may have a performance objective of delivering a certain volume of services over a financial period and has volatile incoming resources. To ensure that the NPO has sufficient resources to deliver this volume of services, it may have a reserves policy that requires it to hold six months equivalent of expenditure in unrestricted reserves or funds. To achieve this the NPO may have a strategy of increasing both the amount and percentage of unrestricted donations it receives compared to those that can only be spent on a specific project.

## Discussion and analysis of the financial statements

AG35.7—Financial statement commentary required by paragraphs G35.16 and G35.17 gives an NPO the opportunity to discuss and analyse the financial statements. The commentary can focus on the significant items, transactions and events that are presented in the NPO's financial statements and the factors that have influenced them. This provides context to the financial statements for users, thus ensuring that they are useful for accountability and decision-making purposes.

AG35.8—The focus of the analysis of financial statements should be on significant changes and trends, and the achievement of its performance objectives, both in this period and the future. An explanation should be provided of the impact that these changes and trends have on the NPO's:

- financial position;
- income and expenses;
- net assets; and
- cash flows.

For example, how a significant amount of income from holding financial assets has enabled the NPO to increase its unrestricted cash reserves and how this will permit it to increase the number of members of the public it can support in the next financial year.

AG35.9—The NPO should not simply reiterate or replicate the information in the financial statements. The focus should be on enabling the primary users of the general purpose financial reports to gain a better understanding of the financial position, income and expenses and cash flows of the NPO. Judgement will be required to identify and present

the significant items, transactions and events that will provide this understanding, with users provided with a clear link between the financial statement analysis and items within the financial statements. Any adjustments to information from the financial statements in producing the financial statement analysis must be disclosed along with the nature and reasons for the adjustment.

## **Comparative information and consistency of reporting**

AG35.10 Comparative information is required by paragraphs G35.25–G35.28. Users' understanding of performance and financial information is usually improved when comparative information for the preceding reporting period is included. Where the information provided is numerical, it should be relatively easy for an NPO to provide the comparative information. Where it cannot provide comparative information an NPO must follow the requirements of Section 3 regarding consistency. Where the information is narrative or descriptive, judgement may be required in determining what and how to disclose comparative information.

AG35.11 Users' understanding of performance and financial information is also improved when an NPO reports in a consistent manner over time what it reports and how it reports it. Consistency of reporting can be supported by thinking carefully about what users require when first considering the performance and financial information that will be reported and how it will be presented. Where changes are required, for example if an NPO changes its primary objective or measures performance in a different way, consistency of reporting is supported if the reason for the change and its impact on reporting is explained.

AG35.12 An item is material if its exclusion or misstatement would affect the decision and assessments made by users of the general purpose financial report. As such materiality depends not just on size but also on nature. A material prior period error occurs either where performance information or financial statement commentary has either been materially misstated or omitted altogether in a previous general purpose financial report. Where an NPO becomes aware that a material prior period error has occurred it needs to correct this in the next general purpose financial report it produces by restating comparative information for any prior periods presented and by disclosing an explanation of the error.

## **Reporting of other information**

AG35.13 Paragraph G35.30 permits the inclusion of additional information beyond the mandatory core in paragraphs G35.8–G35.19. Where possible, an NPO should disclose other relevant information to enhance understanding for the users of the financial report, that goes beyond the minimum core requirement of this Guidance. This could include environmental, social and governance (ESG) information, climate related disclosures, and/or broader sustainability reporting.

## **Judgements**

AG35.14 As required by paragraph G35.29, NPOs should disclose the judgements that have had the most significant effect on the selection, measurement and presentation of performance information and financial statement commentary. Only those that are

~~most significant to the information reported and are relevant to the users understanding of the information provided. This might include for example a decision by an NPO to disclose performance information by region or activity, or why an NPO utilises a certain financial ratio to determine if it has sufficient funds to continue to provide services.~~

## Section 36 – Fund accounting

### Scope of this Section

- G36.1 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. ~~INPAG-INPAS~~ uses the term general fund. Unless other funds exist, the general fund will contain all of all the historic surpluses and deficits of an NPO.
- G36.2 This section sets out the characteristics of a fund for the purposes of ~~INPAG-INPAS~~ and how each fund shall be presented in the **general purpose financial statements**.

### Characteristics of a fund

- G36.3 A pre-requisite for fund accounting is an understanding by an NPO of the different funds it holds. A fund other than the general fund may exist for a variety of reasons. Most commonly it will be:
- an operating choice by an NPO about how it manages itself;
  - a requirement ~~as a result of~~because of jurisdictional law relating to NPOs;
  - a legal or equivalent requirement arising from arrangements with grantors or donors; or
  - a result of the publicly communicated actions by the NPO that have created reasonable expectations that an NPO will use resources ~~will be used~~ for a specific purpose.
- G36.4 For the purposes of ~~INPAG-INPAS~~ a separate fund will exist where:
- there is a legal or equivalent requirement to separately track resources and the use of those resources; or
  - there are reasonable expectations by an individual stakeholder or a group of stakeholders that an NPO will track resources used for a specific set of activities ~~will be tracked~~.
- G36.5 An NPO shall keep sSeparate 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.

- G36.6 An NPO shall determine whether it has only one fund or multiple funds. An NPO that does not identify any additional funds after applying paragraph G36.4 will have one fund which will be the general fund.
- G36.7 The income, expenses, assets, and liabilities recorded against each fund shall only relate to the activities undertaken to further the specific purposes of the fund. These can include direct costs, shared costs and support costs as defined in **Section 24** Part II.
- G36.8 Where a fund exists in accordance with paragraph **G36.4** it shall be presented as either ~~part of a restricted funds fund~~ **with restrictions** or **an unrestricted funds without restrictions**. An assessment shall be carried at each **reporting date** to determine whether each individually identified fund shall be presented as ~~part of a restricted funds with restrictions~~ (see paragraphs **G36.9–G36.1316**) or ~~part of an unrestricted funds without restrictions~~ (see paragraphs **G36.1417–G36.1721**).

### **Restricted Funds with restrictions**

- G36.9 ~~An NPO fund shall be presented a fund~~ as a **restricted fund** ~~with restrictions~~ when one of the following criteria are met:
- use of the resources in the fund is limited to a specific purpose or activity ~~as a consequence of because of an~~ externally imposed legal or equivalent ~~arrangements requirement~~. This includes the acceptance of privately communicated terms by the grantor or donor that limit the use of resources to a specific purpose or activity; or
  - an NPO has made an externally communicated public commitment at or before the launch of a fundraising campaign that the **NPO will use the** resources obtained through the campaign ~~will be used~~ for a specific purpose, creating a valid expectation on the use of resources.
- G36.10 ~~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.~~
- G36.11** It is possible that an NPO has many individual funds that have restrictions. The number of funds will be determined by the operational requirements of each NPO. Figure ~~AG36~~**G36.1** sets out the key decision points.
- ~~G36.112~~ A reasonable allocation of support costs associated with managing ~~the a~~ fund shall be ~~presented as part of charged to~~ a fund, even if inclusion of such costs is ~~not permitted ineligible~~ under the terms of any ~~arrangement grant agreement~~ that has resulted in the creation of a fund, ~~or where such a grant agreement is part of a fund~~.
- ~~G36.1213~~ A restricted fund shall show ~~all of all~~ 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.

G36.14 Negative balances shall be reviewed at the reporting date to determine if ~~there it~~ is a temporary shortfall that will be addressed in a future **reporting period** or whether ~~it there~~ is a permanent shortfall ~~that needs to be addressed by the NPO transferring funds from funds without restrictions.~~

G36.15 ~~Where there is a realistic expectation that the NPO will receive future income to cover a shortfall or that it will incur additional expenses, the NPO shall carry forward the balance. Where future income is not likely to be received to cover the shortfall, the NPO shall make good the shortfall from its unrestricted funds and disclose the reasons for this shortfall in line with paragraph G36.26(c).~~

G36.1316 When a fund that was previously presented as ~~with restrictions~~ **a restricted fund** is no longer required because the reason it was established no longer exists (eg purpose achieved or all funds used), any balance on the fund whether positive or negative shall be transferred to **unrestricted** funds ~~without restrictions~~ and the fund closed where this is legally ~~permissible~~ **allowed**. Where not currently legally ~~permissible~~ **allowed** the **NPO will continue to report the** balance on the fund ~~will be reported~~ until it can be closed.

### **Unrestricted fFunds without restrictions**

G36.1417 ~~Funds-Unrestricted funds without restrictions~~ are those funds that **the governing body of an NPO can be used** at ~~the its~~ discretion ~~of the governing body of an NPO~~ to further ~~its the NPO's~~ **missional purposes**. The general fund is an **unrestricted** fund ~~without restrictions~~.

G36.14518 An NPO's governing body can **internally** designate funds for **a** specific **internal** purposes. This can include setting aside funds for a future project or commitment, such as investment in new equipment to deliver the NPO's **missional objectives**. The ~~NPOse internally designated funds~~ shall ~~be presented~~ **these internally designated funds** as **unrestricted** funds ~~without restrictions~~ as the NPO's governing body has the discretion to alter any such allocations.

G36.14619 ~~Funds-Unrestricted funds without restrictions~~ shall include:  
(a) any fund that **an NPO's governing body** has ~~been~~ created by internal designation by ~~an NPO's governance body~~; and  
(b) any other fund that is not presented as an **unrestricted** fund ~~with restrictions~~.

AG36.1720 ~~An NPO may receive a grant or donation where the grantor expresses a form of non-binding preference as to the use of the funds, which falls short of imposing a legal or equivalent restriction requirement. Where this does not create a reasonable expectation on the use of the resources by the stakeholder, the funds NPO shall be included the funds as part of unrestricted funds without restrictions.~~

G36.1721 Reserves that result from the application of other sections of INPAG, such as the revaluation of **property, plant and equipment**, form part of an NPO's funds. ~~These NPOs shall treat these~~ reserves ~~shall be treated~~ as unrestricted unless any reserve movement relates to a **restricted** fund ~~with restrictions~~. In these circumstances **an NPO shall split** the reserve ~~shall be split~~ to show any element that is restricted. ~~These NPOs shall show these~~ reserves ~~shall be shown~~ separately to **restricted** funds ~~with restrictions~~ and **unrestricted** funds ~~without restrictions~~.



## Transfers between funds

G36.1822 A transfer between funds may only be made where this is legally permissible.

G36.1923 An NPO may make a transfer between restricted funds ~~with restrictions~~ and unrestricted funds ~~without restrictions may be made~~ for several reasons, including:

- (a) to make good the shortfall on a restricted fund ~~with restrictions~~;
- (b) to transfer a non-current asset ~~purchased from a fund with restrictions~~ that is the NPO now held-holds for a general rather than a restricted purpose ~~from a restricted fund~~;
- (c) where the grantor or donor releases the balance on a restricted fund ~~with restrictions has been released by the grantor or donor and can~~ to be used for any purpose; or
- (d) where the NPO can use the balance on a restricted fund ~~with restrictions can be used~~ for an alternative purpose without legal or regulatory consequences.

G36.2024 The total transfers recorded between restricted funds ~~with restrictions~~ and unrestricted funds ~~without restrictions~~ in the reporting period shall always net to nil.

## Disclosures

G36.2125 In deciding on the most suitable form of presentation, an NPO shall ~~consideration shall be given to~~ the volume and complexity of the funds held by the NPO.

G36.2226 The **notes** to the **financial statements** shall disclose:

- (a) information on individual fund balances, including the purpose of each fund;
- (b) details of the movements on funds during the reporting period, showing as a minimum total income, total expenses, total other changes, and movements between funds disaggregated by each fund required in paragraph G36.2126(a), and reconciling the opening and closing fund balances;
- (c) details of the reasons for any transfers between restricted funds ~~with restrictions~~ and unrestricted funds ~~without restrictions~~;
- (d) an explanation of balances on any restricted fund ~~with restrictions~~ where the purpose of the fund has ceased and the balance has not or cannot be transferred to unrestricted funds ~~without restrictions~~; and
- (e) details of the planned use of any designated funds (where disclosed), explaining the purpose of the designation.

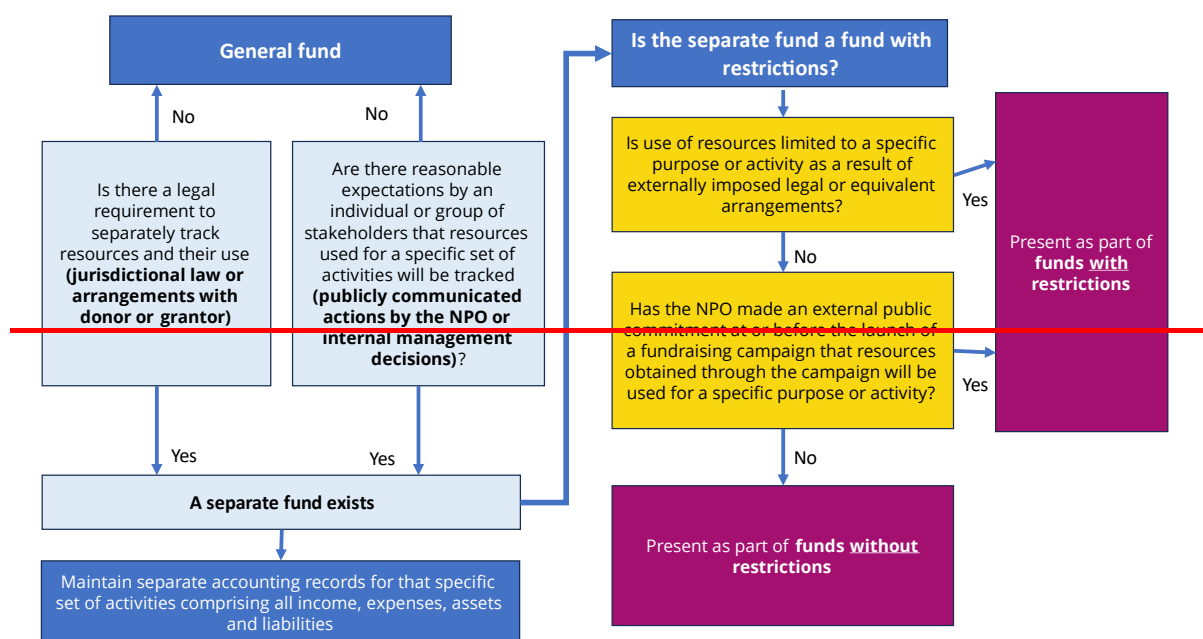
G36.2327 NPOs may aggregate ~~s~~Small funds that are individually immaterial ~~may be aggregated~~ where they have a similar purpose. If it is not possible to aggregate small funds they shall be shown individually.

## Application Guidance: Section 36 – Fund accounting

### Scope of the section

AG36.1—~~An NPO needs to determine whether it has funds other than the general fund. It also needs to determine whether or not any of the funds it has identified are funds with restrictions. Figure AG36.1 describes these considerations.~~

Figure AG36.1: Decision tree to identify a separate fund and whether the separate fund has restrictions



### Characteristics of a fund

AG36.2— Although each fund is not a separate **reporting entity**, separate accounting records must be kept within an NPO’s accounting system. An NPO must be able to present each fund separately, even if it uses the ability to aggregate small funds as set out in paragraph G36.22. An NPO will be able to demonstrate its tracking of the use of resources in a fund through regular management reporting.

AG36.3— Many grant arrangements may meet the criteria to be a fund. Where a grant does meet the criteria to be accounted for as a separate fund, it is expected that an NPO is able to identify non-current assets, work-in-progress, and other grant specific asset and liabilities associated with each grant. Payables, receivables and **cash** associated with each fund should also be tracked. At the end of the grant arrangement any remaining cash or other assets must be identified as it is possible they will need to be returned to the grantor or is available for other purposes.

AG36.4— A fund may exist where stakeholders have a reasonable expectation about how specific resources will be used. An external stakeholder will have a reasonable expectation that the use of resources will be separately accounted for where there is a legal or equivalent requirement or where such an expectation can be derived from a specific public commitment. An internal stakeholder (those with authority within the NPO such as the governing body) will have a reasonable expectation on the use of resources when decisions have been made to designate funds for a specific purpose. This may create a separate fund even though it is not a fund with restrictions as per paragraph AG36.17.

### Funds with restrictions

AG36.5— INPAG Section 2 defines funds with restrictions as:

~~Funds that are required to be expended, invested or retained by the NPO for a specific purpose or activity as a consequence of externally imposed legal or equivalent arrangements placed on the NPO by a resource provider, or arising from an external public commitment in relation to a specific fundraising campaign.~~

~~AG36.6—As a consequence a restriction arises where resources can only be lawfully used for a specific purpose or a grantor or donor requires that the resources it provides are applied to specific purposes, activities, assets or resources. These requirements limit in varying degrees the choices an NPO has about how to achieve its missional objectives. **Enforceable grant arrangements** (EGAs) limit the use of resources and other funding arrangements (OFAs) may include limitations that reduce an NPO's operational choices.~~

~~AG36.7—OFAs can result in a separate fund that is assessed as being a fund with restrictions. It is the substance of a transaction rather than legal form that will determine whether it is presented as with restrictions. The presentation requirements are independent of the accounting treatment which is dependent on the existence of a present obligation.~~

~~AG36.8—Where an NPO makes an external public commitment about the use of resources at or before fundraising commences, the campaign shall be shown as a fund with restrictions. This commitment creates a valid/reasonable expectation and places a specific moral and/or ethical obligation on the NPO to treat the resources as part of funds with restrictions. In some jurisdictions it may also result in a regulatory obligation. Where an external public commitment is not made at or before fundraising commences, any fund created is not likely to be a fund with restrictions.~~

~~AG36.9—The existence of an external public commitment to use resources generated through a fundraising campaign for a specific purpose shall not on its own create a **contingent liability**. For a contingent liability to exist the criteria for the creation of a contingent liability as set out in Section 21 *Provisions and contingent liabilities* must be met.~~

~~AG36.10 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 shall follow the principles set out in Section 24 Part II *Classification of expenses*. Such costs shall be allocated even where grant arrangements limit their eligibility to be recovered as part of the grant arrangement. This provides transparency about the total costs of an activity.~~

~~AG36.11 A fund may have resources contributed from more than one source. These could include grants that limit the use of resources, and grants that have no limitations on the use of resources and from the NPO's own resources (funds without restrictions). Any fund that meets either of the criteria in paragraph G36.9 shall be treated as a fund with restrictions irrespective of the source of funds.~~

~~AG36.12 There may be circumstances where there is a difference between the income and expenses recognised against a fund. Where there is a realistic expectation that future income will be received to cover a shortfall or that additional expenses will be incurred, the balance shall be carried forward.~~

## **Funds without restrictions**

~~AG36.16 A decision by an NPO's governing body to designate some of its unrestricted funds for a specific purpose shall not create a fund with restrictions. The designation of resources can be used to explain how the NPO's funds without restrictions are intended to be used. Clarity over the extent of funds without restrictions is important in understanding the resilience of an NPO to external factors.~~

~~AG36.17 An NPO may receive a grant or donation where the grantor expresses a form of non-binding preference as to the use of the funds, which falls short of imposing a legal restriction. Where this does not create a reasonable expectation on the use of the resources by the stakeholder, the funds shall be included as part of funds without restrictions.~~

## Transfers between funds

~~AG36.18 In some jurisdictions, legislation or regulations may prevent the transfer of any surplus or deficit on a fund with restrictions to funds without restrictions. Where this is the case any balance on the fund shall not be transferred until the NPO can legally make such a transfer.~~

## Disclosures relating to EGAs

~~AG36.19 An EGA that meets the criteria to be a fund is expected to be presented as part of funds with restrictions because of the obligations in the grant arrangement. Transactions associated with **enforceable grant obligations** (EGOs) that are yet to be satisfied will be included within assets and liabilities.~~

~~AG36.20 Disclosure of the income and expenses relating to an EGA in the movement on funds note provides transparency over the EGOs met in the reporting period. Information about material EGOs is required to be disclosed in accordance with Section 23 Part I Revenue from grants and donations.~~

~~AG36.21 The disclosure of funds with restrictions that are not EGAs will enable the 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 per~~

## Section 37 Supplementary information

### Scope of this Section

~~G37.1 This Section shall be applied by an NPO if it prepares and distributes one or more Supplementary statements in accordance with INPAS Practice Guide 1 – *Supplementary statements for donor reporting* (INPAS Practice Guide 1). These supplementary statements must be used for to discharge accountability purposes by the NPO to its stakeholders, including donors. An NPO that does not prepare and distribute one or more supplementary statements under INPAS Practice Guide 1 is not required to apply this Section.~~

~~Section 37 specifies the supplementary information that shall be disclosed by NPOs that produce one or more Supplementary statements in accordance with INPAS Practice Guide 1 – Supplementary statements.~~

G37.2 ~~An NPO shall disclose whole of NPO supplementary information when paragraph G37.1 applies. Supplementary information is the additional information that is not required by this Standard to be presented elsewhere in the general purpose financial statements prepared required under INPAG by this Standard that but is required information required to enable for the preparation of a by the format of the whole of NPO Supplementary statement as prescribed by INPAS Practice Guide 1. The This information shall conform to the format of the prescribed in INPAG INPAS Practice Guide 1 Supplementary statement the INPAS Practice Guide 1. An NPO does not have to present the information using the format of the supplementary statement and information does not have to be provided in a single disclosure note.~~

G37.3 An NPO may adopt the requirements of this Section, including the publication a whole of entity Supplementary statement, that conforms to the format prescribed in INPAS Practice Guide 1 irrespective of whether even if it has not produced one or more Supplementary statements in accordance with INPAS Practice Guide 1 the INPAS Practice Guide 1.

### **Reporting Boundary**

G37.4 ~~Supplementary information shall be prepared using the NPO reporting boundary required by paragraph G9.2 of this Standard.~~

### **Recognition and measurement of supplementary information**

G37.45 ~~Supplementary supplementary Information to be disclosed in accordance with this Section required by this Section shall be produced using the relevant INPAG INPAS recognition and measurement principles of this Standard.~~

G37.5 ~~Exceptionally, if an NPO departs from these recognition and measurement principles, an NPO shall disclose by way of note,;~~  
~~—— the alternative recognition and measurement principles it has used, and~~  
~~—— explain why it has been necessary to depart from the INPAG INPAS recognition and measurement principles in order to produce the supplementary information.~~

### **Presentation Disclosure of supplementary Supplementary information Information**

G37.6 ~~Supplementary information shall be prepared using the same whole of NPO reporting boundary as the general purpose financial statements prepared in accordance with paragraph G9.2.~~

G37.7 ~~Exceptionally, if an NPO produces supplementary information using a different NPO reporting boundary, an NPO shall;~~  
~~—— disclose by way of note the alternative reporting boundary it has used,~~  
~~—— provide a reconciliation between the boundary used for the supplementary information and the general purpose financial report, and~~  
~~explain why it has been necessary to depart from the reporting entity boundary to produce the supplementary information.~~

~~G37.86 An NPO shall disclose the amounts for all the classes of **income** and **expenses** that are required by the prescribed format of the Supplementary statement in INPAS Practice Guide 1 where they are not disclosed elsewhere in the financial statements. When preparing supplementary information, An NPO shall disclose all of the information required to meet the **classifications** of **income** and **expenses** that are required in INPAGINPAS Practice Guide 1 Supplementary statements. An NPO shall disclose Disclosures shall be made for the amounts for each categoryclass of income and expenses, where the amount is **material**.~~

~~G37.9 Where an NPO separately presents support costs in a Supplementary statement produced in accordance with INPAGINPAS Practice Guide 1 Supplementary statements, it shall disclose in a note to the **financial statements** its total expenses on support activities.~~

~~G37.107 In meeting the requirements of this Section, an NPO shall disclose all the classes of income and expenses that are required by the prescribed format in INPAGINPAS Practice Guide 1 Supplementary statements where they are not otherwise disclosed in the financial statements. Each ~~piece~~ ~~item~~ of supplementary information may be disclosed individually or as part of a whole of NPO Supplementary statement.~~

~~G37.118 NPOs When an NPO discloses supplementary information required by this Section it is ~~are~~ not required to repeat ~~the~~ disclosures already made elsewhere in the financial statements. When an NPO adopts this approach, G37.9 Unless a whole of NPO Supplementary statement is produced, A ita NPOs shall identify, in each of the relevant disclosures made in accordance with other Sections of INPAGthis StandardINPAS, the relevant Supplementary statement class of income and/or expenses to which that disclosure relates, category unless a single whole of NPO Supplementary statement is disclosed.~~

~~G37.129 An NPOs ~~are~~ is encouraged, but not required, to produce a single whole of entity Supplementary statement using the format in INPAS INPAGINPAS Practice Guide 1 Supplementary StatementsPractice Guide 1. When an NPO adopts this approach, the information shall be ~~conform~~ ~~presented information~~ in accordance with ~~to~~ the format prescribed in the INPAS Practice Guide 1.~~

~~G37.10 When an NPO separately presents support costs in a Supplementary statement produced in accordance with INPAS Practice Guide 1, it shall disclose its total support costs as supplementary information.~~

### **Basis of reporting the supplementary information disclosures**

~~G37.11 An NPO shall disclose supplementary information in accordance with the recognition and measurement requirements of this Standard. Supplementary information shall therefore be prepared and disclosed as follows:~~

- ~~a) total income shall be consistent with total income presented in the Statement of Income and Expenses;~~
- ~~b) total expenses shall be consistent with total expenses as presented in the Statement of Income and Expenses;~~

- c) foreign exchange gains and losses shall be consistent either with the amounts presented separately in the Statement of Income and Expenses or the Statement of Changes in Net Assets or both;
- d) transfers between funds shall sum to zero across the NPO; and
- e) any other financial movements must equal other amounts presented in the Statement of Income and Expenses or amounts presented in the Statement of Changes in Net Assets that are not included in (a) to (c).

G37.14~~32~~ Supplementary information or a whole-of-NPO Supplementary Statement shall be consistent with the total movement in funds. It shall therefore not disclose movements in equity claims or any other components of net assets that are not part of funds.

G37.13 Exceptionally, if an NPO produces supplementary information using a reporting boundary that differs from the boundary required by paragraph G9.2 or using recognition and measurement principles which are not consistent with this Standard it shall disclose:

- a) the alternative reporting boundary or recognition and measurement principles used;
- b) a quantitative and qualitative explanation of any of the differences for each of the items in paragraph G37.11 (a) to (e);
- c) why it has been necessary to depart from the **reporting NPO** boundary or the recognition and measurement principles prescribed by this Standard.

~~G37.14 Supplementary information or a whole of NPO Supplementary Statement shall be consistent with the total movement in funds. It shall therefore not disclose movements in equity claims or any other components of net assets that are not part of funds.~~

### **Inventory and capital costs**

G37.154 An NPO shall only provide a separate information disclosure for the supplementary information for ~~inventory and capital cost section~~ capital and inventory costs of the Supplementary Statement when it has opted to use the Inventory and Capital costs part of the Supplementary Statement in preparing and distributing supplementary statements in accordance with the optional approach in under INPAS Practice Guide 1.

G37.165 When an NPO has ~~provided inventory and capital costs in its~~ used the Inventory and Capital Costs section in its Supplementary statements in prepared and distributed using INPAS Practice Guide 1, it shall ~~include separately~~ disclose ~~in its whole of entity supplementary information~~ the acquisition costs for inventory and capital items ~~total amount of inventory and capital costs~~ for the reporting period.

## **Section 38 – Transition to **INPAGINPAS****

### **Scope of this section**

G38.1 This section applies to a **first-time adopter of this **Guidance Standard****, regardless of whether its previous accounting framework was **IFRS** or **IPSAS** based **accounting standards** or another set of generally accepted accounting principles (GAAP) such as its national accounting standards or another framework such as the local income tax basis.

G38.2 An entity that has applied **INPAGINPAS** in a previous **reporting period**, but whose most recent previous annual **financial statements report** did not contain an explicit and unreserved statement of compliance with **INPAGINPAS**, must either apply this section or apply **INPAGINPAS** retrospectively in accordance with Section 10 *Accounting policies, estimates and errors* as if the NPO had never stopped applying **INPAGINPAS**. When such an NPO does not elect to apply this section, it is still required to apply the disclosure requirements in paragraph G38.15 in addition to the disclosure requirements in Section 10.

### First-time adoption

G38.3 A first-time adopting NPO shall apply this Section in its first financial report that conforms to this **Guidance Standard**.

G38.4 An NPO's first financial report that conforms to this **Guidance Standard** is the first annual financial report in which the NPO makes an explicit and unreserved statement in that financial report of compliance with **INPAGINPAS**. A financial report prepared in accordance with this **Guidance Standard** is an NPO's first such financial report if, for example, the NPO:

- (a) did not present a financial report for previous periods;
- (b) presented its most recent previous financial statements under national requirements that are not consistent with this **Guidance Standard** in all respects; or
- (c) presented its most recent previous financial statements in conformity with **IFRS Accounting Standards or IPSAS Standards**.

G38.5 ~~Where a~~ An NPO that makes an explicit and unreserved statement of full compliance with **INPAS** in its financial report of compliance with **INPAGINPAS** it must meet all of the requirements of paragraphs G38.7 to G38.19, **providing both financial statements and a narrative report**. As part of transitional arrangements, for the first two years following the date of first adoption of **INPAGINPAS** an NPO may make an explicit and unreserved statement in its financial report of compliance with the **INPAGINPAS** requirements for the financial statements only, ~~rather than a statement of compliance with the full requirements of INPAGINPAS. Where an NPO makes an explicit and unreserved statement in its financial report of compliance with INPAGINPAS it must meet all of the requirements of paragraphs G38.7 to G38.19.~~ Exceptions are not permitted for investments in **associates** or **beneficial interests** joint ventures held by the NPO.

G38.6 After two years an NPO shall make an explicit and unreserved statement of compliance with all of the requirements of **INPAGINPAS**. If the full requirements are not met within the two years following the date of adoption of **INPAGINPAS**, the NPO shall explain that it has not met the full requirements of **INPAGINPAS** and is unable to make an explicit and unreserved statement of compliance. This shall be the case even if the financial statements comply with **INPAGINPAS**. In these circumstances the NPO shall follow the requirements of G38.2. It may also make the attestation permitted by G38.20.

G38.7 Paragraph G3.18 defines a complete set of financial statements and Section 35 describes the narrative reporting requirement.

G38.8 Paragraph G3.14 requires an NPO to disclose, in a complete set of financial statements, comparative information in respect of the previous comparable period for all monetary



amounts presented in the financial statements, as well as specified comparative narrative and descriptive information that form the **notes** to the financial statements. An NPO may present comparative information in respect of more than one comparable prior period. Consequently, an NPO's **date of transition to INPAGINPAS** is the beginning of the earliest period for which the NPO presents full comparative information in accordance with the financial statement requirements of this [GuidanceStandard](#) in its first financial report.

## Procedures for preparing financial statements at the date of transition

- G38.9 Except as provided in paragraphs G38.11–G38.13, an NPO shall on its date of transition to [INPAGINPAS](#) (ie the beginning of the earliest period presented):
- recognise all **assets** and **liabilities** whose **recognition** is required by [INPAGINPAS](#);
  - not recognise items as assets or liabilities if this [GuidanceStandard](#) does not permit such recognition;
  - reclassify items that it recognised under its previous financial reporting framework as one type of asset, liability or component of **equity**, but are a different type of asset, liability or component of **net assets** under this [GuidanceStandard](#);
  - apply this [GuidanceStandard](#) in measuring all recognised assets and liabilities; and
  - apply this [GuidanceStandard](#) in determining the split of accumulated funds, including the general fund, between **funds with restrictions** and **funds without restrictions**. The general fund is a fund without restrictions.
- G38.10 The **accounting policies** that an NPO uses on adoption of this [GuidanceStandard](#) may differ from those that it used for the same date using its previous financial reporting framework. The resulting adjustments arise from transactions, other events or conditions before the date of transition to this [GuidanceStandard](#). Consequently, an NPO shall recognise those adjustments directly in the general fund (unless they relate to funds with restrictions or another category of net assets) at the date of transition to this [GuidanceStandard](#).
- G38.11 On first-time adoption of this [GuidanceStandard](#), an NPO shall not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following transactions:
- derecognition of financial assets and financial liabilities.** Financial assets and liabilities derecognised under an NPO's previous accounting framework before the date of transition shall not be recognised upon adoption of [INPAGINPAS](#). Conversely, for financial assets and liabilities that would have been derecognised under [INPAGINPAS](#) in a transaction that took place before the date of transition, but that were not derecognised under an NPO's previous accounting framework, an NPO may choose (a) to derecognise them on adoption of [INPAGINPAS](#) or (b) to continue to recognise them until disposed of or settled.
  - hedge accounting. An NPO shall not change its hedge accounting before the date of transition to [INPAGINPAS](#) for hedging relationships that no longer exist at the date of transition. For hedging relationships that exist at the date of transition, the NPO shall follow the hedge accounting requirements of Part II of Section 11 *Other financial instrument issues*, including the requirements for discontinuing hedge accounting for hedging relationships that do not meet the conditions of Part II of Section 11.
  - accounting estimates.**
  - discontinued operations.**

- (e) measuring **non-controlling interests**. The requirements of paragraph G5.8 to allocate **surplus or deficit** between non-controlling interest and **equity claims** shall be applied prospectively from the date of transition to **INPAGINPAS** (or from such earlier date as this **GuidanceStandard** is applied to restate **business combinations**—see paragraph G38.12(a)).
- (f) loans at below-market rate of interest. A first-time adopting NPO shall apply the requirements in Section 11 *Financial instruments* prospectively to loans existing at the date of transition to this **GuidanceStandard**. Consequently, if a first-time adopting NPO did not, under its previous GAAP, recognise and **measure** a loan on a basis that is consistent with this **GuidanceStandard**, it shall use its previous GAAP **carrying amount** of the loan at the date of transition to this **GuidanceStandard** as the carrying amount of the loan at that date and shall not recognise the benefit of any loan at a below-market rate of interest as a **grant**.
- (g) completed **contracts** with customers. An NPO shall not restate contracts that were completed before the date of transition to **INPAGINPAS**. A completed contract is a contract for which the NPO has transferred all of the goods or services identified in accordance with its previous GAAP.
- (h) **enforceable grant arrangements** (EGAs) and other funding arrangements (OFAs). An NPO shall not restate EGAs or OFAs that were completed before the date of transition to **INPAGINPAS** or were due to be completed within 12 months of the transition date. A completed EGA is a grant arrangement where the NPO has completed all of the **enforceable grant obligations** (EGOs), (ie met the requirements in relation to the specified outcomes, activities or use of resources). A completed OFA is a grant arrangement where all of the resources provided have been used.

G38.12 An NPO may use one or more of the following exemptions in preparing its first financial statements that conform to this **GuidanceStandard**:

- (a) business combinations. A first-time adopting NPO may elect not to apply Section 19 *Business combinations and goodwill* to business combinations that were effected before the date of transition to this **GuidanceStandard**. However, if a first-time adopter restates any business combination to comply with Section 19, it shall restate all later business combinations.
- (b) **fair value** as deemed cost. A first-time adopter may elect to measure an item of **property, plant and equipment** (including heritage assets), an **investment property**, an **intangible asset**, **financial asset** (including endowments) or **inventory** on the date of transition to this **GuidanceStandard** at its fair value and use that fair value as its deemed cost at that date.
- (c) revaluation as deemed cost. A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment (including heritage assets), an investment property, an intangible asset or inventory at, or before, the date of transition to this **GuidanceStandard** as its deemed cost at the revaluation date.
- (d) event-driven fair value **measurement** as deemed cost. A first-time adopter may have established a deemed cost in accordance with its previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event, for example, a valuation of the **business**, or parts of the business, for the purposes of a planned sale. If the measurement date:
  - (i) is at or before the date of transition to this **GuidanceStandard**, the NPO may use such event-driven fair value measurements as deemed cost at the date of that measurement.

- (ii) is after the date of transition to this [GuidanceStandard](#), but during the periods covered by the first financial statements that conform to this [GuidanceStandard](#), the event-driven fair value measurements may be used as deemed cost when the event occurs. An NPO shall recognise the resulting adjustments directly in funds without restrictions (or, if appropriate, another category of net assets) at the measurement date. At the date of transition to this [GuidanceStandard](#), the NPO shall either establish the deemed cost by applying the criteria in paragraph G38.12(b)–(c) or measure those assets and liabilities in accordance with the other requirements in this section.
- (e) cumulative translation differences. Section 30 *Foreign currency translation* requires an NPO to classify some translation differences as a separate component of net assets. A first-time adopter may elect to deem the cumulative translation differences for all **foreign operations** to be zero at the date of transition to [INPAGINPAS](#) (ie a 'fresh start').
- (f) **separate financial statements**. When an NPO prepares separate financial statements, paragraph G9.26 requires it to account for its beneficial interests in **controlled entities**, associates and **jointly controlled entities** either:
  - (i) at cost less **impairment**;
  - (ii) at fair value with changes in fair value recognised in surplus or deficit; or
  - (iii) using the equity method following the procedures in paragraph G14.8.

If a first-time adopter measures such a beneficial interest at cost, it shall measure that beneficial interest at one of the following amounts at the date of transition:

- (i) cost determined in accordance with Section 9 *Consolidated and separate financial statements*; or
- (ii) deemed cost, which shall be either fair value at the date of transition to [INPAGINPAS](#) or previous GAAP carrying amount on that date.
- (g) **compound financial instruments**. Paragraph G22.13 requires an NPO to split a compound financial instrument into its liability and components due to equity claims at the date of issue. A first-time adopter need not separate those two components if the liability component is not outstanding at the date of transition to this [GuidanceStandard](#).
- (h) deferred income tax. A first-time adopter may apply Section 29 *Income tax* prospectively from the date of transition to [INPAGINPAS](#), while applying the exception in paragraph 29.3A retrospectively.
- (i) **service concession arrangements**. A first-time adopter is not required to apply paragraphs G34.21–G34.25 to service concession arrangements entered into before the date of transition to this [GuidanceStandard](#).
- (j) extractive activities. A first-time adopter using full cost accounting under previous GAAP may elect to measure oil and gas assets (those used in the exploration, evaluation, development or production of oil and gas) on the date of transition to [INPAGINPAS](#) at the amount determined under the NPO's previous GAAP. The NPO shall test those assets for **impairment** at the date of transition to this [GuidanceStandard](#) in accordance with Section 27 *Impairment of assets*.
- (k) arrangements containing a **lease**. A first-time adopter may elect to determine whether an arrangement existing at the date of transition to [INPAGINPAS](#) contains a lease (see paragraph G20.3) on the basis of facts and circumstances existing at that date, instead of when the arrangement was entered into.
- (l) decommissioning liabilities included in the cost of property, plant and equipment. Paragraph G17.11(c) states that the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and

restoring the site on which it is located, the obligation for which an NPO incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce **inventories** during that period. A first-time adopter may elect to measure this component of the cost of an item of property, plant and equipment at the date of transition to **INPAGINPAS**, instead of on the date(s) when the obligation initially arose.

- (m) operations subject to rate regulation. If a first-time adopter holds items of property, plant and equipment or intangible assets that are used, or were previously used, in operations subject to rate regulation (ie to provide goods or services to customers at prices/rates established by an authorised body) it may elect to use the previous GAAP carrying amount of those items at the date of transition to this **GuidanceStandard** as their deemed cost. If an NPO applies this exemption to an item, it need not apply it to all items. The NPO shall test those assets for impairment at the date of transition to this **GuidanceStandard** in accordance with Section 27.
- (n) **severe hyperinflation**. If a first-time adopter has a **functional currency** that was subject to severe hyperinflation:
  - (i) if its date of transition to this **GuidanceStandard** is on, or after, the **functional currency normalisation date**, the NPO may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to this **GuidanceStandard** and use that fair value as the deemed cost of those assets and liabilities at that date; and
  - (ii) if the functional currency normalisation date falls within a 12 month comparative period, an entity may use a comparative period of less than 12 months, provided that a complete set of financial statements (as required by paragraph G3.18) is provided for that shorter period.
- (o) revenue. A first-time adopter is permitted to apply Section 23 Revenue from Contracts with Customers either retrospectively or prospectively in accordance with paragraph **A27**. The entity shall treat references to the date of initial application, in paragraphs **A27**, **A32**, **A35** and **A36**, as referring to the date of transition to this Standard. The first-time adopter is not required to provide the disclosure in paragraph **A31**.

G38.13 If it is **impracticable** for an NPO to make one or more of the adjustments required by paragraph G38.9 at the date of transition, the entity shall apply paragraphs G38.9–G38.12 for such adjustments in the earliest period for which it is practicable to do so, and shall identify which amounts in the financial statements have not been restated. If it is impracticable for an NPO to provide any of the disclosures required by this **GuidanceStandard**, including those for comparative periods, the omission shall be disclosed.

## Disclosures

### Explanation of transition to **INPAGINPAS**

G38.14 An NPO shall explain how the transition from its previous financial reporting framework to this **GuidanceStandard** affected its reported **financial position**, financial performance and **cash flows**.

- G38.15 An NPO that has applied INPAGINPAS in a previous period, as described in paragraph G38.2, shall disclose:
- (a) the reason it stopped applying INPAGINPAS or was unable to meet the full requirements of INPAGINPAS;
  - (b) the reason it is resuming the application of INPAGINPAS; and
  - (c) whether it has applied this section or has applied INPAGINPAS retrospectively in accordance with Section 10.

## Reconciliation

- G38.16 To comply with paragraph G38.14, an NPO's first financial report prepared using this GuidanceStandard shall include:
- (a) a description of the nature of each change in accounting policy;
  - (b) reconciliations of its net assets determined in accordance with its previous financial reporting framework to its net assets determined in accordance with this GuidanceStandard for both of the following dates:
    - (i) the date of transition to this GuidanceStandard; and
    - (ii) the end of the latest period presented in the NPO's most recent annual financial statements determined in accordance with its previous financial reporting framework.
  - (c) a reconciliation of the surplus or deficit determined in accordance with its previous financial reporting framework for the latest period in the NPO's most recent annual financial statements to its surplus or deficit determined in accordance with this GuidanceStandard for the same period.
- G38.17 If an NPO becomes aware of **errors** made under its previous financial reporting framework, the reconciliations required by paragraph G38.16(b) and (c) shall, to the extent practicable, distinguish the correction of those errors from changes in accounting policies.
- G38.18 If an NPO did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to this GuidanceStandard.
- G38.19 An NPO must meet the minimum narrative reporting requirements set out in Section 35 *Narrative reporting* to make an explicit and unreserved statement of compliance with INPAGINPAS narrative reporting. Information in respect of the previous comparable period for amounts and descriptive information that forms the narrative report shall be provided. An NPO may present comparative information in respect of more than one comparable prior period. If it is impracticable for an NPO to provide comparative information due to undue cost or effort, the omission shall be disclosed.
- G38.20 An NPO that is not able to express compliance with the full requirements of INPAGINPAS shall include an attestation that it is working towards compliance with INPAGINPAS. The attestation shall include the Sections of INPAGINPAS yet to be fully implemented.

## Comparison of Section 38 with the IFRS for SMEs Accounting Standard

Section 38 of **INPAGINPAS** has been drawn from Section 35 of the IFRS for SMEs Accounting Standard. The main differences between Section 35 of the draft Third edition of the IFRS for SMEs Accounting Standard and Section 38 of **INPAGINPAS** are as follows:

- The requirement for narrative reporting as part of the first-time adoption requirements has been added. To provide clarity, the text differentiates between narrative information that can form part of the notes to the financial statements from the narrative report.
- **INPAGINPAS** requires minimum narrative reporting information as well as the financial statements. Compliance with **INPAGINPAS** therefore requires compliance with the narrative reporting requirements in addition to the financial statements. To aid the transition **INPAGINPAS** allows NPOs to produce a compliance statement for the financial statements only for the first two years. After this period an NPO will not be eligible to express compliance with **INPAGINPAS** until it produces the narrative reporting information.
- The ability to use fair value as deemed cost on first-time adoption has been expanded to include financial assets such as endowments as well as inventories. The text clarifies that heritage assets can also be measured at fair value on first-time adoption.
- **INPAGINPAS** requires that accumulated funds are split between funds with restrictions and funds without restrictions. This requirement has been added to the information that is required on first-time adoption.
- Amendments have been made to the list of transactions that do not require the retrospective application of **INPAGINPAS**. A change has been made to the text regarding government loans to expand it to include all loans below-market rate of interest. A new set of transactions have been added for **enforceable grant arrangements** (EGAs) and other funding arrangements (OFAs). Where an EGA or OFA has been completed or it is due to be completed within no more than 12 months of the transition date, a retrospective change is not required.
- The exemption related to shared-based payments has been deleted. Share-based payments are not proposed to be included in **INPAGINPAS** and references elsewhere have also been deleted.
- **INPAGINPAS** Section 38 uses different terminology, referring specifically to NPOs rather than entities more generally, and has been updated to be consistent with other sections of **INPAGINPAS** rather than the *IFRS for SMEs Accounting Standard*.

## Basis for conclusions

### Section 2 – Concepts and pervasive principles

**The use of the IFRS Conceptual Framework and the IPSASB's Public Sector Conceptual Framework**  
**History and background**

- BC2.1 ~~INPAGINPAS utilisesuses~~ the IFRS for SMEs Accounting Standard as its foundational framework. Where ~~the existing IFRS for SMEs Accounting Standard has not comprehensively or appropriately addressed~~ NPO-specific financial reporting issues ~~have not been comprehensively or appropriately dealt with in the existing IFRS for SMEs Standard, or where there is no related Section in the IFRS for SMEs Standard providing financial reporting guidance,~~ INPAGINPAS may differ from the IFRS for SMEs Standard. ~~In INPAS has been developed using accordance with~~ the “Process for developing the International Non-Profit Accounting Guidance through changes to the IFRS for SMEs Standard [\[ADD LINK\]](#)”. This allows for the use of:
- IFRS Accounting Standards and ~~its~~ ~~their~~ conceptual framework (the IASB’s revised Conceptual Framework for Financial Reporting March 2018); and
  - International Public Sector Accounting Standards (IPSAS) and ~~its~~ ~~their~~ conceptual framework (the IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities ~~October 2014~~ December 2023)
- where this can ~~provide~~ offer more appropriate financial reporting guidance in the NPO context.
- BC2.2 A number of responses to the IFR4NPO Consultation Paper indicated that the conceptual basis of the IFRS for SMEs Accounting Standard was inappropriate for NPOs as it is based on the needs of users of general purpose financial statements of for-profit entities and not NPOs. At the time that the IFR4NPO Consultation Paper was ~~released~~ issued it was also the case that the Section on Concepts and pervasive principles contained in the IFRS for SMEs Accounting Standard published in 2015 did not reflect changes made to the conceptual framework that underpins IFRS Accounting Standards. The Third edition of the IFRS for SMEs Accounting Standard, ~~which has~~ now, however, incorporated the changes made to the conceptual framework that underpins IFRS Accounting Standards.
- BC2.3 The Consultation Paper explained that there are insufficient resources available to the IFR4NPO project to develop an entirely new conceptual framework for NPO financial reporting. ~~INPAS uses relevant aspects of~~ As such it was necessary to use those aspects of the IASB’s Conceptual Framework that ~~have been incorporated~~ were included into the IFRS for SMEs Accounting Standard where these are suitable for use in the NPO context. ~~INPAS also draws upon the~~ The IPSASB’s Conceptual Framework ~~was also drawn upon~~ to ~~establish~~ provide the concepts and principles needed to develop financial reporting guidance for NPOs where these are not ~~comprehensively or appropriately dealt with~~ comprehensively or appropriately addressed in the existing IFRS for SMEs Accounting Standard.
- BC2.4 As such ~~there are~~ aspects of both the IASB and IPSASB’s conceptual frameworks ~~that were have been utilised~~ used in developing Section 2 *Concepts and pervasive principles* for INPAGINPAS.

## The objective of non-profit organisations’ general purpose financial reports

**Primary users of general purpose financial reports and their information needs**

- BC2.5 The ~~IFR4~~NPO Consultation Paper focused on the external stakeholders, to whom NPOs are accountable, and their information needs. ~~These Stakeholders~~ were identified as service users, resource providers, regulators, and broader society. ~~Feedback from~~Some respondents ~~indicated were also of the view~~ that ~~recognition had not been given to~~ internal stakeholders who are ~~internal stakeholders were also~~ are important in the NPO context. Examples of internal stakeholders provided by these respondents ~~of internal stakeholders~~ included those charged with governance, staff, and members.
- BC2.6 ~~-~~Stakeholders who may traditionally be seen as internal in nature are important for NPOs. ~~With specific reference to general purpose financial reporting,~~ ~~H~~owever, the conceptual bases of international frameworks for general purpose financial reporting define primary users as those that do not possess the authority to require an entity to disclose the information they need. ~~Many of t~~The internal stakeholders raised by respondents to the Consultation Paper, including those charged with governance and staff, are likely to possess the authority to require an entity to disclose information to meet their own specific information needs.
- BC2.7 The Practitioner Advisory Group and the Technical Advisory Group (TAG) discussed internal stakeholders as primary users. ~~Group members acknowledged~~ ~~It was agreed~~ that ~~they~~ internal stakeholders would be likely to possess the authority to require an NPO to disclose the information they need for accountability and decision-making purposes. In this regard, they are akin to some external stakeholders, ~~in particular~~ regulatory ~~bodies~~ bodies, and major donors, who are also likely to possess this authority in certain circumstances.
- BC2.8 International financial reporting frameworks indicate that those who possess the authority to require an entity to disclose the information they need are not the primary users of general purpose financial reports even if they may find the information contained within them useful. ~~The Secretariat was of the view that As such~~ ~~It was~~ ~~therefore concluded in Exposure Draft 1 that~~ the primary users of NPO general purpose financial reports ~~were deemed to be~~ ~~they~~ are the public to whom the NPO provides services and goods or for whom it carries out activities and those resource providers who do not possess the authority to require an NPO to disclose the information they need for accountability and decision-making purposes.
- BC2.9 Exposure Draft 1 (ED1) described P ~~primary users~~ ~~as also~~ ~~as also~~ include ~~including~~ those that fulfil oversight functions on behalf of the public and resource providers. This ~~is~~ ~~likely~~ ~~was~~ ~~expected~~ to include elected representatives and public officials who have a duty to represent the interests of members of the public who depend on goods and services provided by the NPO, or the activities that they carry out, who are provided with services and goods by the NPO or who provide it with financial and other resources.
- ~~BC 2.10~~ ~~Respondents supported the view expressed in the Consultation Paper that the information needs of these primary users cannot be met only through the reporting of financial information contained in general purpose financial statements. As indicated in the Preface, general purpose financial reports are needed to provide users with a meaningful understanding of an NPO's nature, objectives, strategy, risks, and performance.~~
- BC2.10 Respondents to ED1 agreed with the range of primary users and the description of their needs in Section 2. They agreed that the user categories covered the breadth of



stakeholders that use general purpose financial reports, including the public that depend on the goods and services provided by NPOs.

BC2.11 Respondents commented on the diverse types of donors, providers of grants and other funders and the differing information needs of these users depending on the circumstances. The needs of donors (and other funders) are complex because in some circumstances they may only have access to generally available information and in other circumstances they may be able to require information to be tailored to meet their particular needs. Both of the project's advisory groups underlined the importance of donors and other funders as primary users. Donors and other funders are likely to be acting as primary users when using the information for purposes such as due diligence but not when they have the rights to require special purpose financial reports.

BC2.12 In response to feedback on the initial Consultation Paper, the INPAS Secretariat agreed to consider the development of separate guidance to meet the specific needs of individual donors. INPAS Practice Guide 1 *Supplementary Statements for donor reporting* was subsequently developed to allow NPOs to present key financial information about a specific activity, project or grant (or projects/grants). This is intended to be useful for grantor accountability purposes and provide a harmonised approach to special purpose reports. The Practice Guide together with Section 2 and its Implementation Guidance address the differing needs of donors as users.

BC2.13 Respondents commented on the role of those "fulfilling oversight roles", which highlighted confusion with their roles as regulators and as a consequence whether they were primary users. The Secretariat is of the view that Governments in their role as regulators have the authority to require NPOs to disclose information they need for accountability and decision-making purposes and therefore are not primary users in this context. Conversely, when they represent the interests of members of the public who depend on goods and services provided by an NPO or the activities they carry out, or resource providers, then they are acting as primary users. This has been clarified in Section 2.

BC2.14 In response to requests for additional clarifications, the Secretariat has amended Section 2 to include explicit reference to lenders and other creditors and the Section 2 Implementation Guidance addresses the information requirements of resource providers and the public that benefit from an NPO's activities.

### **Qualitative characteristics of information in general purpose financial reports**

BC2.1415 The qualitative characteristics of financial information are set out in conceptual frameworks to identify the types of information that are likely to be most useful to users of financial reports for accountability and decision-making. The qualitative characteristics provide a coherent framework for determining the decision usefulness of financial reporting information, guidance on what to do when qualitative characteristics may be in conflict, and overall cost-benefit constraints on financial reporting.

BC2.1216 The *IFRS for SMEs* Accounting Standard provides explanations of the qualitative characteristics of information in financial statements. These qualitative characteristics

match those of the revised IASB Conceptual Framework which underpins the development of IFRS Accounting Standards. They are also consistent with the broader scope of general purpose financial reporting ~~that is recognised~~ in the IPSASB's Conceptual Framework.

BC2.137 The qualitative characteristics in the ~~IASB Conceptual Framework that are now reflected in the IFRS for SMEs Accounting Standard~~ are appropriate in the NPO context. ~~As such these qualitative characteristics were deemed to be~~ They are therefore considered appropriate for use in the concepts and pervasive principles of the ~~INPAG~~INPAS.

### **Materiality**

BC2.18 ~~The Exposure Drafts for the development of INPAS have led to questions over the application of materiality to the various proposals and issues on which comments were sought. For example, respondents to Exposure Drafts 2 and 3 have raised issues relating to low value inventory items and to the fund accounting proposals, including whether thresholds should be set. As a pervasive~~In principle ~~the Secretariat is of the view that materiality guidance should~~does not need to be repeated for each of the INPAS sections. Consequently, additional Implementation Guidance is included in Section 2, drawing on the IASB's Practice Note 2 *Making Materiality Judgements*.

BC2.19 The Implementation Guidance covers the following issues:

- ~~The assessment of primary users' information requirements, including the importance of the need to consider both existing and potential users.~~
- ~~That materiality is pervasive to the application of INPAGS across general purpose financial reports, ie that it applies to recognition, measurement, presentation and disclosure.~~
- ~~That materiality factors are both quantitative and qualitative, including a discussion of how those factors might apply.~~
- ~~The impact of materiality on presentation and disclosure, and~~
- ~~How materiality interacts with regulatory requirements.~~

BC2.20 ~~MA's materiality is a pervasive issue for general purpose financial reports, and it will be important that when taking decisions about materiality an NPO should~~considers users' needs.

### **Undue cost or effort exemption**

BC 2.14 ~~The revised IFRS for SMEs Accounting Standard retains an undue cost or effort exemption. As there are Sections of the IFRS for SMEs Accounting Standard that have not yet been examined except for terminology changes as part of the IFR4NPO project, the undue cost or effort exemption was retained.~~

BC2.1521 ~~The revised IFRS for SMEs Accounting Standard retains an undue cost or effort exemption. Implementation Guidance was~~has been developed to promote ~~In order to assist NPOs in the correct use of the undue cost or effort exemption, Implementation Guidance was developed.~~ This Implementation Guidance notes that the exemptions relate to the cost or effort required to obtain or determine the information necessary to comply with a requirement which will depend on the NPOs specific circumstances,

management's judgement on the costs and benefits from applying that requirement, and the information available at the time of the assessment.

BC2.1622-~~\_\_\_\_\_~~ ~~#The Implementation Guidance~~ also makes clear that NPOs should not treat the undue cost or effort exemptions as accounting policy choices and that NPOs need to disclose when they have used the exemption and the reasons why applying the requirement would in management's judgement involve undue cost or effort.

~~BC2.23 Respondents to ED1 expressed agreement with the approach to the undue cost or effort exemption in Section 2. However, they also highlighted tensions related to its use. While the exemption aims to ease the reporting burden, concerns were expressed about the practical challenges arise, including the need for subjective judgments and assessing costs versus benefits. Respondents also raised concerns about potential misuse. The Secretariat aAcknowledgesing that technical skills are required to make such judgments but sees there is no NPO-specific reason to remove the exemption from INPAS.~~

## **General purpose financial reports and ~~T~~the reporting NPO**

### **The reporting NPO**

BC2.1724 ~~\_\_\_\_\_~~ The Consultation Paper considered the definition of the reporting NPO ~~in terms of the financial reporting definition~~ and its links to both the definition of control and the sometimes complex operational structures of NPOs. This included the use of local offices or administrative units that operate as branches of the NPO, ~~that might be established by NPOs that can be established~~ to reach local communities and the recipients of the goods and services provided by NPOs.

BC2.1825 ~~\_\_\_\_\_~~ ~~The Exposure Draft 1 therefore provides provided~~ additional guidance to assist in the identification of the reporting NPO ~~after. The Secretariat discussedion this guidance with focus groups, which have been discussed with focus groups and included in Application Guidance. This-The guidance~~ can assist in identifying an NPO as a reporting entity where there is no legal entity nor a group/parent structure.

BC2.1926 ~~\_\_\_\_\_~~ Implementation Guidance ~~includes and~~ illustrative examples ~~which were also developed. These~~ examine different ~~types of~~ operating structures. ~~These examples and~~ provide suggestions for the questions and analysis ~~may be undertaken needed~~ to determine the ~~boundary and transactions included in the~~ reporting NPO's ~~financial statements~~.

BC2.207 ~~The Consultation Paper also considered in its alternatives the use of the definition of control when looking at the reporting entity and the operational structures used, including branches.~~ The Basis for Conclusions for Section 9 *Consolidated and Separate Financial Statements* provides a commentary on ~~the conclusions on that issue control in an NPO context, which is relevant in determining the reporting NPO.~~

BC2.218 As noted in the Preface, the decision on which entities are required or permitted to use the ~~INPAGINPAS~~ rests with legislative and regulatory authorities and standard setters in individual jurisdictions. As such, the reporting NPO for the purpose of applying the ~~INPAGINPAS~~ could also be any entity that relevant authorities deem to be an NPO and

~~that is required or chooses to prepare general purpose financial reports require or permit it to prepare general purpose financial reports.~~

## The elements of financial statements

### Net assets and equity claims in an NPO context

BC2.2229 The *IFRS for SMEs* Accounting Standard follows the IASB Conceptual Framework in including equity as an element of financial statements. ~~Equity is defined in these standards. The *IFRS for SMEs* Accounting Standard and the IASB Conceptual Framework define equity~~ as the residual interest in the assets of the entity after deducting all its liabilities, and it effectively encompasses all net assets. The term equity implies a formal ownership structure with holders of equity being entitled to financial returns and the residual of net assets based on that ownership. This is unlikely to reflect the reality of the majority of NPOs, where such considerations either will not exist or such ownership interests are likely to be inconsequential.

#### Equity/Net Assets

BC2.2330 Although the term 'equity' and its association with ownership is unlikely to be relevant for most NPOs, ~~ED1 took the position that~~ there does need to be an element that reflects the possibility of a party external to the NPO having a financial interest in the net assets of the NPO.

~~BC2.34 This is needed where amounts are set aside for future distribution to holders of equity claims. NPOs will need to transfer funds set aside for future distribution to holders of equity claims prior to distribution. This is to ensure that NPO financial statements do not understate equity claims following distribution.~~

BC2.2431 The IPSASB faced a similar challenge in the development of its Conceptual Framework. It decided that reference to ownership was appropriate in the public sector context. The IPSASB Conceptual Framework defined ownership contributions as an element, which establish~~es~~ or increase~~s~~ an interest in the net assets of an entity, and ownership distributions, which return or reduce that interest. ~~The~~ ~~The Secretariat examined the~~ approach taken by the IPSASB ~~has been examined~~ and the possibility of the development of an element defined as contributed capital ~~was considered for INPAG~~ to reflect that parties external to the NPO may have a financial interest in the net assets of the NPO. ~~Net assets was not initially considered to be a financial statement element.~~

BC2.2532 Following discussion with the ~~project's Technical Advisory Group~~ ~~TAG members,~~ ~~the Secretariat's initial decision was to the retention retain~~ of the element of equity ~~was deemed preferable rather than to the the creation of a dcreate a~~ definition of a new element ~~that ultimately to~~ reflected the same underlying concept. ~~ED1 therefore included As such,~~ equity ~~was included~~ as a financial statement element, with the Application Guidance providing additional detail on its use in the NPO context.

~~BC 2.26 NPOs will often be provided with financial resources where the provider of those resources restricts the use to specific purposes or activities. INPAG includes these~~

financial resources as funds with restrictions. Funds with restrictions are to be used by NPOs when there are externally imposed funding or other legal arrangements governing the use of financial resources. Other financial resources, including those that the NPO internally designates itself to specific purposes or activities, are included within funds without restrictions. Funds with restrictions and funds without restrictions will reflect accumulated surpluses. They are presented as a component of net assets but are not a separate financial statements element.

~~BC2.27 Net assets comprise funds with and without restrictions, as well as equity where it exists. Exceptionally, an NPO may also need to recognise and present non-controlling interests. As this is expected to be rare, detail on such interests were not included specifically in Section 2. Where an NPO does recognise and present any non-controlling interest, this will also form part of net assets.~~

~~BC2.2834 \_\_\_\_\_ Net assets are an arithmetical total not initially and were not considered to be a financial statement element. Amounts may be set aside for future distribution to holders of equity claims. These amounts will be included within funds with restrictions only if there is an externally imposed basis for them being set aside. This could be for example a legal requirement that holders of equity claims are guaranteed a specific return on their contributions of equity. Otherwise they will be disclosed in funds without restrictions. NPOs will need to transfer Ffunds set aside for future distribution to holders of equity claims will need to be transferred to equity prior to distribution. This is to ensure that NPO financial statements do not understate equity claims is not understated following distribution.~~

~~BC2.2933- \_\_\_\_\_ Although the majority of the Technical Advisory Group TAG members agreed with this the overall approach to the inclusion of equity as an element and the use of funds with restrictions and funds without restrictions restricted and unrestricted funds to present accumulated surpluses, one member disagreed. They were concerned that the elements might not adequately capture there were transactions and economic events that might not be adequately captured by the elements, and in particular equity as defined in the NPO context. SMCs 2(d) and 2(e) Two SMCs sought seek stakeholder views on this position.~~

~~BC2.34 Most respondents were supportive of the proposals for equity included in ED1. However, there were several who disagreed for a number of different reasons. Some argued that equity as defined could not exist for an NPO at all as this would mean the entity was for-profit. Others noted that INPAS should use the same definition of equity as IFRS for SMEs Accounting Standard (ie the residual interest in the assets of the entity after deducting all its liabilities), with no need to introduce a separate concept for NPOs.~~

~~BC2.35 While not agreeing with all these responses, on reflection tThe Secretariat acceptedagreed that there were issues with the ED1 proposals, which. These became particularly apparent following the Secretariat's initial work on modifying Section 22 Liabilities and equity for the NPO contextto align with other INPAS Sections. At the heart of this issue was the need for clarity on the characteristics of equity instruments for NPOs, and the extent to which these provide ownership and/or entitlement to the net assets of an NPO. Questions then arise about what kinds of financial instrument might be classified as a liability or equity, and how equity as defined in Section 22 of the IFRS for SMEs Accounting Standard interacts with the proposed INPAS definitionSection 2.~~

BC2.36 The Secretariat conducted a survey to gain a better understanding of what kinds of equity instruments NPOs might have and what entitlements they give to holders of equity claims. This provided a range of responses. While some respondents indicated that there was the possibility of share capital or a similar form of equity, these did not appear to provide an entitlement to anything other than a return of funds. As such they appeared more similar conceptually to liabilities.

BC2.37 The Secretariat further examined the interplay between ownership and equity and the position of net assets. This included focusing on the extent to which external parties obtained control over the NPO when they provide funding to the NPO in addition to and whether this the establishment of a financial interest in the net assets of the NPO.

BC2.38 TAG members agreed that the Secretariat needed to revisit the guidance related to equity included in ED1. They also agreed that INPAS defines net assets as a financial statements element and that the Secretariat should examine the definition of equity.

BC2.39 The Secretariat subsequently updated the definition of net assets as a financial statement element, so that it is 'the residual available to the NPO to achieve its objectives after deducting all its liabilities from its assets'. They proposed that INPAS include eEquity claims were to be a part of net assets when the holders of equity claims have established a financial interest in parts of the net assets of the NPO exist because of equity arrangements.

BC2.40 TAG members were supportive of the changes but felt that and rather than redefine equity concluded it would be preferable to refer to equity claims instead in the NPO context. The Secretariat agreed with the definition of eEquity claims were defined as the financial interest in the net assets of an NPO that is due to holders of those claims. ED3 also included Application Guidance was added to reflect these changes. Respondents to ED3 supported these revised definitions.

BC2.41 Exceptionally, an NPO may also need to recognise and present non-controlling interests. As the Secretariat expects such circumstances to be rare, Section 2 did not include a detailed description of such interests. Where an NPO does recognise and present any non-controlling interest, this will also form part of net assets. The Preface and Section 10 set out the additional sources of guidance that can be used should an NPO have a non-controlling interest.

### **Fund accounting**

BC 2.42 NPOs are often provided with financial resources where the provider of those resources restricts the use to specific purposes or activities. INPAS includes these financial resources as restricted funds. Net assets comprise restricted and unrestricted funds, as well as equity claims where they exist. Restricted funds will include these amounts only if there is an externally imposed basis for them being set aside. This could be, for example, a legal requirement which guarantees a specific return on the contributions of provided by holders of equity claims. Unrestricted funds are other financial resources, including those that the NPO internally designates itself to specific purposes or activities. Restricted and unrestricted funds will reflect accumulated surpluses or deficits. An NPO will present funds as a component of net assets, but they are not a separate financial statements element.

BC2.43 Section 36 Fund accounting includes the definition of restricted and unrestricted funds. The Basis for Conclusions for Section 36 explains the rationale for the development of a section on fund accounting. The Secretariat amended the relevant part of section 2 to include the title "Fund accounting" and to focus on the need to identify funds and their subsequent classification for presentation purposes.

BC2.44 TAG members deliberated how net assets is impacted by donations that cannot be converted to income. While these donations are initially recognised through revenue, their subsequent inclusion in net assets was discussed but not agreed. The Secretariat recognise that there might be amounts held in net assets which cannot be converted into income. The Secretariat would also note that tThese types of donations, are often described as endowment funds, but that endowment funds have not been addressed in the first edition of INPAS.

### Service potential

BC-2.3045 Although, not a priority area, following feedback from respondents to the consultation paper, INPAS includes service potential as a part of the recognition criteria in the relevant sections of INPAS. Service potential is not a concept explicitly recognised in the IASB Conceptual Framework. However, the IPSASB, Public Sector Conceptual Framework makes direct reference to it, although it is included in the IPSASB's Public Sector Conceptual Framework. It was Section 2 includes service potential in the definitions of the elements included, where appropriate, in the definition of elements for INPAS. This is because it is service potential is relevant for assets that are held by an NPO holds not to generate cash flows, but rather for the services that can be provided by the asset can provide. The Secretariat also amended the measurement basis of value in use to include the concept of service potential. As part of measurement, value in use as a potential measurement basis was amended to incorporate the concept of service potential.

BC2.3148 Details of Further information about how service potential will apply in the NPO context are not part of Exposure Draft 1. The topic will be covered Exposure Draft 2 covered in Section 23 as where it relates to revenue and in Exposure Draft 3 as Section 13 it relates to for inventory. Although, not a priority area, following feedback from respondents to the consultation paper, INPAS includes service potential as a part of the recognition criteria in the relevant sections of INPAS. As a result of feedback from respondents to the Consultation Paper Section 17 Property, Plant and Equipment is not currently proposed to be updated. This will, however, be a priority area should resources allow.

BC2.46 The Secretariat acknowledged that this Service potential is a more subjective concept than economic benefits, where resources are a measurement of cash inflows or a reduction of cash outflows. Concerns about the -subjectivity of the term service potential were raised in response to ED1. The Secretariat acknowledged that this is a more subjective concept than economic benefits, where resources are a measurement of cash inflows or a reduction of cash outflows. The Secretariat is of the view that service potential is a better expression of the resources embodied in assets used to provide services which do not generate economic returns. This is consistent with IPSAS 46 Measurement which includes the measurement of the operational capacity of an asset.

BC2.47 Respondents also, raised concerns about the description of service potential and provided suggestions for alternative terms, including that it did not specifically refer to the provision of goods. The description of service potential in Section 2 explicitly refers to the provision of goods as well as services and the Secretariat concluded that no changes were required.

BC2.48 The Secretariat is of the view that the primary reason for holding assets and the type of assets used by an NPO need to be considered in their recognition and measurement of assets used by NPOs should consider the primary reasons for holding the assets and the type of assets used. It is often the case that NPOs hold assets not to generate financial returns but to provide or support services. Where an NPO holds an asset for its service potential rather than its ability to generate cash flows, its recognition and measurement should provide information on the value of the asset's service potential to the NPO. Where an NPO holds an asset for its ability to generate cash flows then its recognition and measurement should provide information on its economic capacity. Implementation Guidance has been added to illustrate the concept of service potential.

BC2.49 The proposal to define separate 'service potential' as a distinct concept from 'economic benefit,' with 'economic benefit' only relating to cash inflows and outflows was disagreed with by one respondent not universally supported on the basis. They were of the view that 'economic benefit' encompasses more than just cash flows and would include service potential. The TAG discussed this issue and there were different views provided. However, on balance TAG members were of the view that INPAS should describe service potential as a separate concept such that it can be taken forward in the future development of INPAS and to making clear the relationship with the same or similar terms in other GAAPs.

## **Recognition and derecognition**

BC2.3250 Feedback from the Consultation Paper was that users of general purpose financial reports do not associate the financial performance of NPOs with profit and loss, but there is general acceptance of the many accept the concept of a surplus or deficit. There was also feedback to request simplicity in the presentation of information. On this basis the INPAGINPAS Statement of Income and Expenses is focused s on surplus and deficit and not comprehensive income as permitted in the *IFRS for SMEs* Accounting Standard. Further explanation is provided in the The Basis for Conclusions to Sections 3, 5 and 6 provides further explanation.

BC2.3351 As a consequence, the Secretariat has made amendments were made to the recognition process of the IFRS for SMEs Accounting Standard and specifically to address in which primary financial statements NPOs transactions are recognised d transactions. These amendments ensure recognition of that income and expenses that contribute to surplus and deficit are recognised in the Statement of Income and Expenses, and income and expenses that do not contribute to surplus and deficit are instead recognised in the Statement of Changes in Net Assets.



## Presentation in **General Purpose Financial Reports**

BC2.3452 Presentation concepts and principles in both the *IFRS for SMEs Accounting Standard* and the IASB's Conceptual Framework ~~are focussed~~ primarily on the primary financial statements, whereas presentation in the IPSASB Conceptual Framework has a wider scope encompassing financial reports outside the core financial statements. ~~The Secretariat used the This~~ IPSASB Conceptual Framework ~~was utilised~~ in developing additional presentation concepts and principles for ~~INPAGINPAS~~.

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## Section 3 – Financial statement presentation

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### **Presentation Background and history**

- BC3.1 The format and content of financial statements is fundamental to how the stakeholders understand and interpret financial information ~~is presented to stakeholders~~. ~~This presentation of the financial statements~~ is particularly important when revenue can only be used for particular purposes. A detailed description of the issue was included as Issue 7: Financial statement presentation in Part 2 of the IFR4NPO Consultation Paper.
- BC3.2 Feedback was sought on how financial statements should be presented to help the user's understanding of an NPO's activities and whether there should be disclosure of material categories of income and expenses and/or transactions. The Consultation Paper also sought views on how unrestricted and restricted funds should be presented in the main financial statements and notes (including reserves), the role of fund accounting and how any requirements might align with donor reporting requirements.
- BC3.3 The Consultation Paper proposed three alternatives for developing guidance for the presentation of NPO financial statements. The first was to retain the requirements in the international standards (IFRS Accounting Standards, the *IFRS for SMEs Accounting Standard* and IPSAS) unchanged and provide supplementary guidance. The second was to build on the *IFRS for SMEs Accounting Standard* and to add the use of fund accounting which would require, as a minimum, that income is split between restricted and unrestricted income on the face of the income statement. The third alternative included a new requirement to provide supplementary donor or project statements for material funds or projects in addition to proposals for fund accounting in alternative two.
- BC3.4 There was no consensus as to the preferred alternative, with roughly a third supporting each alternative, but accountability and meeting users' needs were highlighted as important issues. Approximately two thirds of respondents supported alternatives that included the use of fund accounting. Some responses suggested that fund accounting is essential to ensure the stewardship of funds with restrictions and provide clarity regarding the NPO's free reserves position at year-end. Other responses suggested that fund accounting often results in more complex financial statements that readers find difficult to understand, and that it may not be suitable for all NPOs. It is acknowledged that adopting fund accounting could result in more complex financial statements, but on balance consider this risk is justified by the need to provide information that supports the proper stewardship of funds with restrictions. This information is also needed for a full understanding of NPOs' financial statements.

### **Restricted and unrestricted funds**

BC3.5 A slight amendment to terminology ~~from the Consultation Paper is was~~ proposed ~~in the development of the draft INPAS,~~ as the term 'restricted' can be used alongside other accounting terms (eg restricted cash) and potentially have a different meaning to 'restricted' in the context of NPOs, where the focus is on restrictions placed by fund providers, ~~particularly and~~ grantors. As a consequence, the ~~financial statements~~ ~~Consultation Paper~~ included proposals for the separation of 'funds with and without restrictions', ~~in a number of places. A with a~~ definition of ~~funds with restrictions and funds without restrictions is~~ provided in Section 2 *Concepts and pervasive principles*. ~~However, there was feedback in the consultation process -INPAS Secretariat considered that this approach made the terminology too cumbersome. -and The Secretariat agreed with points raised and so reverted to the use of restricted and unrestricted funds for ease of use.~~

BC 3.6 Respondents to the consultation raised concerns about the potential complexity and increased length of financial statements that could occur with the introduction of fund accounting. ~~As a consequence~~ ~~Consequently,~~ it ~~is was~~ proposed to require separate presentation of income and expenses, ~~net and net~~ assets (and changes in net assets) for the aggregates of ~~restricted funds with restrictions and unrestricted funds without restrictions~~ only. Any additional disclosures are to be driven by the usefulness of the information based on the nature of the NPO and the materiality of the information to the understanding of the users of ~~General general Purpose purpose Financial financial Reports reports~~.

BC3.7 The separate presentation of ~~funds with restrictions and funds without restrictions~~ ~~restricted and unrestricted funds will is expected to~~ provide useful information to users of the financial statements without imposing the costs associated with full fund accounting on NPOs. Respondents commented that requiring the presentation of ~~funds with restrictions and funds without restrictions~~ ~~restricted and unrestricted funds~~ beyond the ~~income and expenses statement~~ *Statement of Income and Expenses* and net assets could be challenging for some NPOs and would add little value for readers of the financial statements.

BC3.8 However, some NPOs may have the capacity to implement full fund accounting and may consider that this would improve the usefulness of their financial statements. Such NPOs are permitted to provide this additional information, in line with the additional disclosures permitted for all financial statements.

~~BC3.9 Issues were raised about capital grants and donated assets in responses from stakeholders. As a consequence~~ ~~Consequently,~~ additional presentation requirements have been included in the *Statement of Income and Expenses* and *Statement of Cash Flows* to provide transparency over such items, where they are material to an NPO's financial statements.

### **Deferred rRevenue**

BC 3.109 The Consultation Paper sought feedback on the approach to deferring revenue as part of considerations about the presentation of the financial statements. ~~Proposals for revenue recognition and measurement will be included in Exposure Draft 2 (ED2) and are not considered further here. Consequently, the presentation of deferred revenue~~

~~included in ED1 is subject to change, depending on the accounting for revenue that is adopted. The approach to revenue recognition is considered in Section 23 Revenue.~~

~~BC3.10 Respondents raised issues about the transparency of capital grants and donated assets. Consequently, additional presentation requirements have been included in the Statement of Income and Expenses and Statement of Cash Flows to provide transparency over such items, where they are material to an NPO's financial statements.~~

### **Additional supplementary information**

~~BC3.11 As discussed above in BC3.3, the third alternative for the presentation of financial statements proposed supplementary donor or project information on major funds. Some respondents acknowledged that if a donor statement could be developed that would meet the reporting and auditing requirements of major donors, this could lead to an overall reduction in the reporting burden.~~

~~BC3.12 The INPAG Secretariat will explore this further with the IFR4NPO Donor Reference Group. This process is expected to take some time, and consequently proposals will be developed for inclusion in Exposure Draft 3 (ED3) at the earliest. The INPAG/INPAS Secretariat is of the view agreed that supplementary donor or project statements would be helpful and optional non-mandatory, additional guidance has been developed, permitted but not required. INPAS Practice Guide 1 – Supplementary statements for donor reporting (INPAS Practice Guide 1) is non mandatory guidance issued alongside INPAS. INPAS Practice Guide 1 enables NPOs to present key financial information about a specific activity, project or grant (or projects/grants) in a way that could be useful to the grantor for accountability purposes, as well as meaningful to primary users through being reconcilable to general purpose financial reports produced under INPAS.~~

~~BC3.13 Where a standardised reporting format cannot be developed in time, it is proposed, as part of ED3, to develop generic guidance setting out the issues NPOs will need to consider in preparing their own donor or project statements should they choose to do so.~~

### **Compliance with INPAS**

~~BC3.13 Section 3 specifies that the disclosure requirements when adopting INPAS for the first time are prescribed by Section 38 Transition to INPAS. Jurisdictions may permit INPAS to be adopted over time, or an NPO may adopt a transition path for full adoption such that not all requirements of the INPAS are met immediately. This timeline may differ to that permitted in INPAS.~~

~~BC3.14 In such circumstances, the disclosure requirements in Section 38 may not be appropriate, and an NPO should consider what disclosures will be necessary to enable users to understand the financial statements, in addition to any disclosures that are required by the relevant regulator.~~

BC3.15 Section 3 requires that financial statements are not described as complying with INPAS unless they comply with all the requirements of this Standard. NPOs in a jurisdiction may not be able or permitted to fully adopt INPAS but might adopt some of its specifications to ensure that a transaction is fairly presented. Where this is the case an NPO will not be able to state that it is compliant with INPAS. However, it will be useful if the material accounting policies of an NPO in such circumstances identify which transactions have followed INPAS requirements and the impact that this has had on the transactions and the individual line items.

BC3.16 ED1 sought views on the approach to compliance, which was consistent with the *IFRS for SMEs Accounting Standard*, albeit for general purpose financial reports covered by INPAS. Respondents provided suggestions regarding the approach to transition for the narrative reporting requirements, including suggesting separate assurance arrangements. The approach to compliance for both the financial statements and the narrative report was subsequently addressed in the transitional requirements in Section 38.

### **Comparative information**

BC3.17 Some respondents to the Consultation Paper proposed limiting the comparative information provided in respect of fund accounting (for example, the provision of comparative information for movements in fund balances). Technical Advisory Group (TAG) members questioned the removal of comparatives given the beneficial information they provide.

### **Statement names and terminology** **Identification of the financial statements**

BC3.18 Along with responses from the consultation, the INPAS Secretariat received input from various stakeholders and reviewed a number of academic reports. Collectively, these pointed to concerns about the understandability of financial statements. Consequently, the INPAS Secretariat considered the number and scope of the financial statements.

BC3.19 Following this review, it was proposed that the Statement of Income and Expenses totals to surplus or deficit and that some of the items that under the *IFRS for SMEs Accounting Standard* are shown in the Statement of comprehensive income (other comprehensive income), are presented in a Statement of Changes in Net Assets. Presenting these items outside the Statement of Income and Expenses is expected to deliver some simplification. As not all Sections of the *IFRS for SMEs Accounting Standard* are being reviewed in the first edition of INPAS, some items, predominantly some changes arising from fair value adjustments will be shown in the Statement of Income and Expenses. Many NPOs will not have these fair value adjustments.

BC3.20 The Statement of Changes in Net Assets discloses information that is equivalent to that found in statements prepared under the *IFRS for SMEs Accounting Standard*, such as other comprehensive income. It will also show the movement between restricted and unrestricted funds.

BC3.21 Not all members of the Technical Advisory Group TAG supported the decision to depart from the presentation used in the *IFRS for SMEs Accounting Standard*. Instead, they

supported the retention of the Statement of Comprehensive Income. They also had some concerns over the presentation of some items in the Statement of Changes in Net Assets.

BC3.1422 The Consultation Paper proposed the use of the term 'Statement of Financial Performance' for the statement that contains the NPO's income and expenses and sought feedback on this proposal. Around two thirds of those that responded to this question supported the use of this term.

BC3.1523 The main reason given by those that did not support the use of the term was that NPOs' performance is not judged on whether they make surpluses or deficits, but whether they meet their aims and objectives (~~social performance~~). Using the term 'financial performance' could imply that this is the main measure of NPOs' performance, which is not the case. It is therefore proposed that the term Statement of Income and Expenses is used as it may be better understood.

BC3.1624 Based on feedback, surplus or deficit is preferred to profit or loss to show the difference between income and expenses. This is seen as more relevant for users of NPO financial statements.

BC3.1725 The other key area of terminology where a proposal has been made to add NPO context to a term relates to the description of what is traditionally equity. Equity is a term that is used in for-profit standards. Equity is defined in the for-profit standards as the residual interest in the assets of the entity after deducting liabilities. This will include items that don't meet the definition of a liability such as share capital and will also include retained earnings and reserves, for example the revaluation reserve (sometimes called revaluation surplus).

BC3.1826 In for-profit entities, all the residual interest in the assets of the entity after deducting liabilities are ultimately due to external parties who would be described as owners. This form of ownership with entitlement to all the residual interest of the entity does not exist for NPOs, but it is possible that some entities that meet the definition of an NPO have some form of equity claims on the organisation, either from historic set-up or because of jurisdiction specific legislation/regulation.

BC3.1927 Exposure Draft 1 (ED1)It is therefore proposed to retain the term equity but describe it in the NPO context and include it as an element that is a component of a Section in NPO financial statements named '**net assets**'. Net assets will typically comprise equity, funds with restrictions, and funds without restrictions. Equity would include all forms of equity claims including any shares that have been issued. However, several respondents disagreed with the term equity and subsequent outreach led to the development of Exposure Draft 3 (ED3) proposals for net assets to replace equity as an element with equity claims being a component of net assets – see BC2.33-BC2.40. This was supported by respondents to ED3.

BC3.208 Respondents to ED1 significantly supported the new terminology, though comments were made about the use of the term equity (see BC3.19 above).Some respondents indicated the terminology should not be mandatory. However, Section 3 specifically permits the use of different names for the statements provided they are not misleading

BC3.20219 This discussion of these responses to the Consultation Paper are also discussed as appropriate in Sections 4--10.

## **Fair presentation**

~~BC3.2122 Along with responses from the consultation, the INPAGINPAS Secretariat has received input from various stakeholders and has reviewed a number of academic reports. Collectively, these point to concerns about the understandability of financial statements. As a consequence~~ Consequently, the INPAGINPAS Secretariat has considered the number and scope of the financial statements.

~~BC3.2223 Following this review, it is proposed that the Statement of Income and Expenses statement totals to surplus or deficit and that some of the items that under the IFRS for SMEs Accounting Standard are shown in the Statement of Comprehensive Income (Other Comprehensive Income), are presented in a Statement of Changes in Net Assets. Presenting these items outside the Statement of Income and Expenses is expected to deliver some simplification. As not all Sections of the IFRS for SMEs Accounting Standard are being reviewed as part of the first phase of INPAGINPAS, some items, predominantly some changes arising from fair value adjustments will need to continue to be shown in the Statement of Income and Expenses. Many NPOs will not have these fair value adjustments.~~

~~BC3.2324 The Statement of Changes in Net Assets is proposed to disclose information that will allow the information is equivalent to that found in statements prepared under the IFRS for SMEs Accounting Standard, such as other comprehensive income. It will also show the movement between restricted and unrestricted funds.~~

~~BC3.2425 Not all members of the Technical Advisory Group supported the decision to depart from the presentation used in the IFRS for SMEs Accounting Standard. Instead, they supported the retention of comprehensive income. They also had some concerns over the presentation of some items in the Statement of Changes in Net Assets. As some of these items will be dependent on the requirements of other Sections of INPAG that are scheduled for ED2 or ED3, these requirements will be reviewed once the remaining Sections of INPAG are complete.~~

## **Compliance with INPAS**

~~BC3.26 Section 3 specifies that the disclosure requirements when adopting INPAS for the first time are prescribed by Section 38 Transition to INPAS. Jurisdictions may permit INPAS to be adopted over time, or an NPO may adopt a transition path for full adoption such that not all requirements of the INPAS are met immediately. This timeline may differ to that permitted in INPAS.~~

~~BC3.27 In such circumstances, the disclosure requirements in Section 38 may not be appropriate, and an NPO should consider what disclosures will be necessary to enable users to understand the financial statements, in addition to any disclosures that are required by the relevant regulator.~~

~~BC3.29 Section 3 requires that financial statements are not described as complying with INPAS unless they comply with all the requirements of this Standard. NPOs in a jurisdiction may~~

~~not be able or permitted to fully adopt INPAS but might adopt some of its specifications to ensure that a transaction is fairly presented. Where this is the case an NPO will not be able to state that it is compliant with INPAS. However, it will be useful if the material accounting policies of an NPO in such circumstances identify which transactions have followed INPAS requirements and the impact that this has had on the transactions and the individual line items.~~

~~BC3.30 ED1 sought views on whether the approach to compliance which was consistent with the IFRS for SMEs Accounting Standard, albeit for general purpose financial reports covered by INPAS. Respondents were significantly of the view that largely there were not unintended consequences, though there were some suggestions regarding the approach to transition for the narrative reporting requirements with other respondents suggesting separate assurance arrangements. The Secretariat is of the view that the approach to compliance for both the financial statements and the narrative report is covered by the transitional requirements in Section 38.~~

## **Comparability**

~~BC3.2531 Some responses to the Consultation Paper proposed limiting the comparative information provided in respect of fund accounting (for example, the provision of comparative information for movements in fund balances). The Technical Advisory Group questioned the removal of comparatives given the beneficial information they provide. It was agreed that the matter of comparatives would be considered in later topics, and proposals finalised in Exposure Draft 3 (ED3). A specific matter for comment on comparatives (SMC 4 b)) is included to inform these later considerations.~~

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## **Section 4 – Statement of Financial Position**

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### **Information to be presented in the statement of financial position**

#### **Equity/Net Assets**

~~BC4.1 Significant consideration was given to the term equity and its use. Equity is a term that is used in for-profit standards and is also included in the standards for public sector entities. Equity is defined in the for-profit standards as the residual interest in the assets of the entity after deducting liabilities. This includes items that don't meet the definition of a liability such as share capital and will also include retained earnings and reserves, for example the revaluation reserve (sometimes called revaluation surplus).~~

~~BC4.2 The standards for the public sector recognise that some entities may have share capital. The IPSAS Conceptual Framework does not define equity as a financial statement element but does discuss the terms 'net assets/equity' and 'net financial position' as equivalent terms to the 'equity' section of the balance sheet of for-profit financial statements. IPSAS 1 – *Presentation of Financial Statements* also uses the term 'net assets/equity' which it defines as contributed capital (with ownership contributions and ownership distributions defined as financial statement elements), accumulated surplus or deficit, reserves and non-controlling interests.~~

BC4.3 Non-profit organisations have a variety of different legal structures, including incorporated entities, trusts, or various forms of unincorporated entity. It is possible that some entities that meet the definition of an NPO have some form of equity claims on the organisation, either from historical set-up or because of jurisdiction specific legislation/regulation.

BC4.4 The use of the term contributed capital was considered to describe these arrangements for NPOs, but the retention of the term equity was initially deemed preferable, and included in Exposure Draft 1 (ED1). As with the IFRS for SMEs Accounting Standard, equity was defined as a financial statement element but because of the different concept of ownership, equity in the NPO context did not equate to a residual interest encompassing all the NPO's net assets

BC4.5 Several respondents to ED1 disagreed with the term equity, and together with feedback from subsequent outreach an alternative approach was set out in Exposure Draft 3 (ED3). ED3 proposed that net assets replaced equity as an element with equity claims being a component of net assets – see [BC2.334-BC2.401](#).

BC4.6 ED3 proposed that equity claims are a component of net assets that refer to distributions of future economic benefits or service potential by the NPO during its life, such distributions being at the discretion of the NPO; and distributions of any excess assets over liabilities in the event of the NPO's dissolution where this excess has not otherwise been distributed to another NPO or entity with a similar purpose. This approach was supported by respondents to ED3.

BC4.7 To reflect the NPO context and to recognise the various arrangements that might exist, the net assets in an NPO's financial statements comprise equity claims, -restricted funds and unrestricted funds, other reserves (for example revaluation reserves) and, exceptionally, non-controlling interests. Net assets -includes all forms of equity claims including any shares that have been issued. Restricted and unrestricted funds together represent the accumulated surplus or deficit of the NPO.

BC4.8 It is considered much less likely, although not impossible for an NPO to have share capital. Consequently, the information required to be presented in the financial statements places less emphasis on share capital, and it is not a mandatory line description in the Statement of Financial Position. However, disclosures must be made where it is relevant.

BC4.9 Similarly non-controlling interests are expected to be unlikely, but not impossible for NPOs. Given the nature of such interests, the requirement to disclose on the face of the financial statement has been maintained, but is expected to be used rarely in practice.

BC4.10 Further information on the definition of net assets is available in Section 2 *Concepts and pervasive principles*.

### **Endowments**

BC4.11 Endowments are typically donations of cash or other assets to an NPO to be used as an investment, with the investment income being made available for the NPO to use, either for a specific purpose or more generally. Because of the complexity associated with endowments, and potentially differing treatments under different legal frameworks, detailed requirements for endowments are not included in the first edition of INPAS.



## Funds with and without restrictions Restricted and unrestricted funds Information to be presented in the Statement of Financial Position or in the notes

### Restricted and unrestricted funds

BC4.12 The Consultation Paper asked whether ~~unrestricted and~~ restricted funds ~~(that are to can only be used for specific NPO purposes)~~ and ~~unrestricted funds (that are to be used for specific NPO purposes)~~ should be presented in the main financial statements and notes (including reserves). It asked for feedback on how this would align with donor reporting requirements and the role of fund accounting.

BC4.13 Respondents to the Consultation Paper supported the split between restricted and unrestricted funds. In addition, consultation respondents supported the provision of information about the purposes for which reserves (funds) are being held as this would be useful to users of the financial statements.

BC4.514 Exposure Draft 1 (ED1) included these requirements. asked whether sStakeholders agreed that not all categories of asset and liability balances should be split between those with and those without restrictions. Respondents agreed with the proposal.

BC4.215 The level of disclosure in the Statement of Financial Position ~~is was proposed to behas therefore been~~ limited to a split between restricted funds ~~with restrictions~~ and unrestricted funds ~~without restrictions~~ on the face of the statement. Taking this approach ~~will provides~~ users with important information about the level of funds available to the NPO, which is key to financial resilience.

BC4.16 However, ~~for some NPOs, some~~ users' needs may only be fully met by providing an analysis of ~~funds with restrictions~~ restricted funds, where these exist. Section 36 Fund accounting details the disclosure requirements for individual funds. This includes, ~~for material funds, the purpose of the fund and movements on the fund in the financial reporting period.~~ Such information may be provided in the notes to the financial statements. It was also

BC4.17 TAG Technical Advisory Group members agreed that NPOs should not be prevented from presenting ~~this information~~ an analysis of funds on the face of the statements where they considered this would be useful to the users of their financial statements.

BC4.3 Detailed proposals regarding the accounting for income with restrictions, which will impact on funds, ~~will be~~ included in Section 23 Revenue and Section 36 Fund accounting developed as part of the topics on non-exchange revenue and grant expenses that will be included in Exposure Draft 2 (ED2). Income with restrictions may include income from endowments.

~~Endowments are typically donations of cash or other assets to an NPO to be used as an investment, with the investment income being made available for the NPO to use, either for a specific purpose or more generally. Because of the complexity associated with endowments, and potentially differing treatments under different legal frameworks,~~

~~detailed requirements for endowments will not, for the time being, be included in INPAGINPAS.~~

~~BC4.4 In addition to the split between funds with restrictions and funds without restrictions, restricted and unrestricted funds consultation respondents also supported the provision of information about the purposes for which reserves are being held as this would be useful to users of the financial statements. This requirement is being carried forward from the existing requirement in the *IFRS for SMEs Accounting Standard*.~~

~~BC4.5 Exposure Draft 1 (ED1) asked whether stakeholders agreed that not all categories of asset and liability balances should be split between those with and those without restrictions. Respondents agreed with the proposal.~~

### ***Equity/Net Assets***

~~BC4.56 In reviewing the content of the Statement of Financial Position, consideration has been given to whether to include the term equity and its use. Equity is a term that is used in for-profit standards and is also included in the standards to be used by public sector entities. Equity is defined in the for-profit standards as the residual interest in the assets of the entity after deducting liabilities. This includes items that don't meet the definition of a liability such as share capital and will also include retained earnings and reserves, for example the revaluation reserve (sometimes called revaluation surplus). Equity is defined as a financial statement element. However, feedback to Exposure Draft 1 (ED1), where several respondents disagreed with the term equity, and subsequent outreach led to the development in Exposure Draft 3 (ED3) of proposals for net assets to replace equity as an element with equity claims being a component of net assets – see BC2.33-BC2.40. This was supported by respondents to ED3.~~

~~BC4.6 The standards for the public sector recognise that some entities may have share capital. The *IPSAS Conceptual Framework* does not define equity as a financial statement element but does discuss the terms 'net assets/equity' and 'net financial position' as equivalent terms to the 'equity' section of the balance sheet of for-profit financial statements. *IPSAS 1 – Presentation of Financial Statements* also uses the term 'net assets/equity' which it defines as contributed capital (with ownership contributions and ownership distributions defined as financial statement elements), accumulated surplus or deficit, reserves and non-controlling interests.~~

~~BC4.7 Non-profit organisations have a variety of different legal structures, including incorporated entities, trusts, or various forms of unincorporated entity. It is possible that some entities that meet the definition of an NPO have some form of equity claims on the organisation, either from historical set-up or because of jurisdiction specific legislation/regulation.~~

~~BC4.8 The use of the term contributed capital was considered to describe these arrangements for NPOs, but the retention of the term equity was deemed preferable, with a description of equity in the NPO context included in AG 2.6-AG2.9. As with the *IFRS for SMEs Accounting Standard*, equity is defined as a financial statement element but because of the different concept of ownership, equity in the NPO context does not equate to a residual interest encompassing all the NPO's net assets. ED3 proposed that equity claims are deemed to be the component of net assets which refer to distributions of future economic benefits or service potential by the NPO during its life, such distributions being~~

~~at the discretion of the NPO; and distributions of any excess assets over liabilities in the event of the NPO's dissolution where this excess has not otherwise been distributed to another NPO or entity with a similar purpose.~~

~~BC4.9 — Instead, to reflect the NPO context and to recognise the various arrangements that might exist, it is proposed that the net assets in an NPO financial statements comprise equity claims, funds with restrictions, funds without restrictions, restricted funds and unrestricted funds, and, exceptionally, non-controlling interests. Equity Net assets would includes all forms of equity claims including any shares that have been issued. Funds with restrictions and funds without restriction. Restricted and unrestricted funds would together be represent the accumulated surplus or deficit of the NPO.~~

~~BC4.10 — It is considered much less likely, although not impossible for an NPO to have share capital. As a consequence. Consequently, the information required to be presented in the financial statements places less emphasis on share capital, and it is not a mandatory heading line description in the Statement of Financial Position. However, disclosures must be made where it is relevant.~~

~~BC4.11 — Similarly non-controlling interests are expected to be unlikely, but not impossible for NPOs. Given the nature of such interests, the requirement to disclose on the face of the financial statement has been maintained, but is expected to be used rarely in practice.~~

~~BC4.12 — Further information on the definition of equity net assets is available in Section 2 Concepts and pervasive principles.~~

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## Section 5 – Statement of Income and Expenses

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### **Statement name**Background and history

BC5.1 The Consultation Paper covered a number of aspects of financial statement presentation including the term that should be used for the primary statement that covers the income and expenses of an NPO. The Consultation Paper proposed the use of the term 'Statement of Financial Performance'.

BC5.2 Around two thirds of respondents supported the use of the term 'Statement of Financial Performance' although many of these respondents did not provide a rationale for supporting the term. However, there were a number of disagreements with the proposal. The main reason given by those that did not support the use of the term was that NPOs' performance is not judged on whether they make surpluses or deficits, but whether they meet their aims and objectives (~~social performance~~).

BC5.3 Respondents were concerned that using the term 'financial performance' could imply that this is the main measure of an NPOs' performance. Alternative terms proposed by respondents were considered. The ~~most commonly suggested~~ most suggested alternative terms were 'income and expenses statement' and 'statement of financial activities' as these terms ~~were considered to be~~ were better understood by NPO stakeholders.

BC5.4 Alternatives were discussed with the project advisory groups, and it was agreed that Statement of Income and Expenses was best understood by stakeholders and had the benefit of simplicity.

BC5.5 Nevertheless, NPOs ~~will~~ have the flexibility to use a different term for the Statement of Income and Expenses in their financial statements if an alternative would ~~best better~~ explain the financial statement or where this this was required to comply with local regulations.

~~BC5.6 — In ED1 the separate presentation of funds with restrictions and funds without restrictions on the Statement of Income and Expenses was required. In view of the feedback from the ED1 consultation process and considerations in the development of Section 36, it is proposed to remove this requirement as the disclosures required by Section 36 supersede the original proposals. This is expected to simplify the information presented in the Statement of Income and Expenses.~~

## **Key financial information Presentation of income and expenses**

### **Surplus and deficit**

BC5.656 The INPAGINPAS Secretariat received a substantial amount of feedback that profit or loss was not an appropriate term for non-profit organisations. In discussion with stakeholders and advisory groups, the term surplus or deficit was considered to be more appropriate. ~~As a consequence~~ Consequently, this term has been adopted in the financial statements. This removes the implication that there is any profit or loss and is more focused on the arithmetic difference between income and expenses.

### **Classification of expenses**

~~BC5.76 — The presentation of expense information is included in Section 5 of the IFRS for SMEs Standard. This topic was identified as a priority issue for NPOs and was included as topic 8 in the Consultation Paper. This topic will be considered as part of Exposure Draft 3 (ED3) is addressed in Section 24 Part II Classification of Expenses. As a consequence, the text from the IFRS for SMEs Standard has not yet been updated with the requirements yet to be determined. This text will be updated at part of ED3, and a new INPAG Section will be created to provide more guidance on expense analysis and disclosure.~~

## **Income and expenses with restrictions**

### **Statement format**

BC5.87 The Consultation Paper sought views on how financial statements should be presented to help the user's understanding of an NPO's activities. This included feedback on the disclosure of material categories of income and expenses and/or transactions. The Consultation Paper also asked about the presentation of restricted and unrestricted funds.

### **Income and expenses with restrictions**

BC5.98 Most of the feedback received related to the use of fund accounting, which has implications for the presentation of income with, and without, restrictions and its

related expenses rather than on the disclosure of material categories of income and expenses.

BC5.109 The majority of respondents to the Consultation Paper supported the separate presentation or disclosure of restricted and unrestricted funds. Respondents felt that this was an important aspect of accountability and meeting users' needs. ~~As a consequence~~ Consequently, Exposure Draft 1 (ED1) it is proposed that the Statement of Income and Expenses shows separately, through two columns, an aggregation of those incomes and expenses with restrictions and, separately, an aggregation of those incomes and expenses without restrictions.

BC5.610 ~~ED1 proposed the separate presentation of funds with restrictions and funds without restrictions on the Statement of Income and Expenses. In view of the feedback from the ED1 consultation process and considerations in the development of Section 36, Exposure Draft 3 (ED3) subsequently proposed to remove this requirement as the disclosures required by Section 36 supersede the original proposals. It also reflected feedback from the ED1 and associated outreach about the ease of understanding of what could potentially be a complex statement. This Removing this requirement is~~ expected to simplify the information presented in the Statement of Income and Expenses.

BC5.11 ~~The significant majority of respondents to ED3 supported the proposal removal of that the mandatory requirement for funds with and without restrictions on the face of the Statement of Income and Expenses is removed. Respondents that disagreed cited the fundamental importance of restricted and unrestricted funds, concerns about the ability to explain the surplus or deficit in a period, the ability to understand the resources available to an NPO, having the information 'at a glance', and compliance with donor and regulatory requirements.~~

BC5.12 ~~The Secretariat considered the feedback. It is of the view that~~ However, the Statement of Income and Expenses when taken together with the Movement of Funds note and disclosures related to individual funds provides sufficient transparency of restricted and unrestricted funds. However, given this feedback, ~~about possible misunderstanding and the desire to get an early high level view of restricted and unrestricted funds~~ the Secretariat explored with the Practitioner Advisory Group (PAG) the benefit to having a summary of restricted and unrestricted funds on the face of the Statement of Income and Expenses.

BC5.13 ~~Given the feedback~~ PAG members provided feedback that this would add clutter to the presentation of the Statement of Income and Expenses. ~~the Secretariat does not propose to mandate any~~ Consequently, fund information is not required on the Statement of Income and Expenses. but has added fFurther Implementation Guidance to illustrate how an NPO could present additional financial information about restricted and unrestricted funds if an NPO is of the view that this would be useful to the primary users of its financial statements.

BC5.1194 There was some discussion in response to the Consultation about the need for comparatives, and concerns about the complexity of the financial statements if comparatives are mandated alongside fund accounting requirements. This was considered by the project advisory groups, ~~and whilst w~~ While acknowledging the

potential for complexity, the advice was that comparative information is important for users to understand the financial statements. ~~However, this was particularly an issue for the original proposals for with the removal of the requirement of a columnar analysis of restricted and unrestricted funds in ED1 significantly addresses this concern. As a consequence, it is proposed that comparatives are required for aggregated income and expenses with restrictions; and aggregated income and expenses without restrictions only. It is proposed that comparatives will not be mandated for the disaggregation of these balances, but can be provided where this is helpful to the understanding of the NPO's financial statements.~~

~~BC5.12—As part of Exposure Draft 2 (ED2), guidance will be developed on revenue from grants and donations and grant expenses, which will include the accounting for income and expenses that might have restrictions. Possible impacts on this Section include additional items of revenue and expenses to be presented, subtotals for transactions arising from exchange transactions and non-exchange transactions and/or possible requirements regarding offsetting revenue and fundraising expenses.~~

### Single statement

~~BC5.13~~2015 In response to issues raised about the understandability of financial statements, ~~it is proposed that~~ the Statement of Income and Expenses gives prominence to the income and expenses in the reporting period and focuses less on the impact of revaluations of items held in the Statement of Financial Position. ~~This will mean that~~ ~~income~~ Income and expenses and the effects of realised gains and losses (such as from the sale of an asset) are the focus of the Statement of Income and Expenses.

~~BC5.14—As not all Sections of the IFRS for SMEs Standard are being reviewed as part of this initial set of guidance, the Guidance may require that some unrealised gains or losses are shown in the Statement of income and expense, particularly those losses or gains from adjustments to fair value. These will be shown in a separate Section in the Statement of Income and Expenses.~~

~~BC5.15~~21—With this focus, it is proposed that all ~~o~~Other comprehensive income and expenses items ~~be~~ are presented in a Statement of Changes in Net Assets. This statement would ~~provides~~ a subtotal of transactions that form Other ~~other~~ Comprehensive comprehensive income in IFRS based standards, so that equivalent information to the Statement of comprehensive income could be found. This would ~~be~~ a departure from the IFRS for SMEs Accounting Standard which provides a choice of whether ~~O~~other Comprehensive income is in a single statement that includes all types of income and expense.

BC5.16 ~~As a consequence of these changes it is proposed that t~~The Statement of Income and Expenses ~~should show~~presents components of surplus or deficit by separately showing 'surplus or deficit from operating activities', share of surplus or loss from associates, gains or losses on the disposal of assets, unrealised gains from foreign exchange differences, unrealised gains or loss through fair value adjustments (if any) and then a total surplus or deficit. Although these aggregations are presented differently from the IFRS for SMEs Accounting Standard their location is consistent with the income statement and the accounting treatment for items in profit or loss. The presentation of foreign exchange differences is being considered as part of Exposure Draft 2.

BC5.17 Other comprehensive income and expenses items are presented in a Statement of Changes in Net Assets. This statement provides a subtotal of transactions that form other comprehensive income in IFRS based standards. With this approach the equivalent information to the Statement of comprehensive income can be found.

### **Classification of expenses**

BC5.18 The presentation of expense information is included in Section 5 of the *IFRS for SMEs* Standard. This topic was identified as a priority issue for NPOs and was included as topic 8 in the Consultation Paper. This topic is addressed in **Section 24 Part II Classification of Expenses.**

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## **Section 6 - Statement of Changes in Net Assets**

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### **Statement structurePresentation**

- BC6.1 The Consultation Paper did not directly seek feedback on the Statement of Changes in Net Assets. Amendments to this statement arose as a result of feedback on other financial statements and from stakeholder feedback about the understandability of financial statements.
- BC6.2 ~~It is proposed that the Statement~~The Statement of Income and Expenses ~~should be~~has been simplified by excluding items referred to in the *IFRS for SMEs* Accounting Standard as 'Other Comprehensive Income'. As a consequence, other INPAS Sections ~~of INPAGINPAS would now~~ require some items of income and expenses to be presented in a Statement of Changes in Net Assets rather than in an 'Other Comprehensive Income' section of the Statement of Income and Expenses.
- BC6.3 ~~The INPAGINPAS Secretariat noted that t~~This approach might mean that information that was previously available in the *IFRS for SMEs* Accounting Standard based statement formats would be harder to find. As a consequence~~consequence, it is proposed~~INPAS addresses this by requiring that the Statement of Changes in Net Assets:
- commences with the Surplus or deficit from the Statement of Income and Expenses;
  - adds or subtracts the items that would be unrealised gains and losses found in 'Other Comprehensive Income' in the statements prescribed by the *IFRS for SMEs* Accounting Standard; and
  - produces a sub total of a) and b).
- BC6.4 This approach ~~will generate~~s a subtotal that ~~would provide~~s equivalent information to the Statement of ~~comprehensive~~Comprehensive income~~Income. This would be a departure from the *IFRS for SMEs* Accounting Standard, which provides a choice of whether Other Comprehensive Income is in a single statement that includes all types of income and expense, but does not require its inclusion in the Statement of Changes in Net Assets.~~

- BC6.5 To support understandability of this statement ~~it is proposed to subdivide~~ the Statement of Changes in Net Assets is subdivided into the following sections:
- movements arising from unrealised gains and losses (other than those prescribed in ~~the Guidance~~ this Standard to be taken through the Statement of Income and Expenses);
  - movements between funds and reserves (including movements between restricted funds ~~with restrictions~~ and unrestricted funds ~~without restrictions~~);
  - movements arising from contributions from holders of equity claims or distributions to holders of equity claims; and
  - other changes in net assets.

These subsections ~~would~~ provide a reconciliation of the opening and closing carrying amount of components of net assets.

BC6.6 The approach to the Statement of Changes in Net Assets was supported by respondents to the Exposure Draft 1 (ED1).

BC6.7 ED1 described the Statement of Changes in Net Assets as presenting 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. However, during the review process for Section 6 the Secretariat considered that for identified a change needed for consistency of with the requirements of approach with Part II of **Section 11 Financial instruments**. This relating to some changes in fair values of hedging instruments, where items are subsequently reclassified into surplus or deficit (profit or loss), it would be necessary to include the requirements in the IFRS for SMEs Accounting Standard for the requires a separate grouping of these transactions from transactions which aren't reclassified, which will subsequently be reclassified into surplus or deficit (profit or loss). This amendments were, however, has been reflected in Section 6 because of the approach to the treatment of other comprehensive income discussed in paragraphs BC6.2 –BC6.3.

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## Section 7 – Statement of Cash Flows

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### Section Update Background and history

BC7.1 No major revisions have been made to the principles established in the *IFRS for SMEs* Accounting Standard for the Statement of Cash Flows. As this Section has not been fully reviewed, any updates have been limited to terminology, use of language specific to NPOs or alignment with updates to other INPAS Sections 1-10. This Section is marked as updated to show that it has not been fully reviewed as yet.

BC7.2 ED1 included proposals to include in investing activities 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. Views were more mixed on this issue though overall respondents were supportive. However, TAG advised that instead that the guidance to include capital grants in investing activities would be removed, and replaced with guidance that such grants, where material, be disclosed separately. The Secretariat agrees that this is consistent with international standards approaches to investing activities.



## **Reporting to donors**

BC7.2 The Statement of Cash Flows was included in the scope of topic 7 – *Presentation of financial statements* in part 2 of the Consultation Paper, primarily to consider whether the ~~cash flow~~Statement of Cash Flows could be used as a basis for an additional statement for inclusion in general purpose financial reporting to meet the needs of donors and funders. This was based on feedback that donors and funders frequently require cash-based information to meet their reporting requirements.

## **Development of INPAG Practice Statement 1 – Supplementary Statements**

BC7.3 The possibility of an additional donor/project statement was included in alternative 3 ~~of~~for this topic. Around one third of respondents supported the development of a donor/project statement. It was acknowledged that if donors are willing to rely on such statements, and not require special-purpose financial reports, this could reduce burdens, costs and complexity. However, other respondents felt that donors' requirements are best met by special-purpose financial reports, not general-purpose financial reports. There was also a concern that any proposals would only be helpful to some NPOs and that this could come at the cost of additional complexity.

BC7.4 The objective of producing supplementary project/programme information as part of the NPO's general purpose financial statements requires coordinated outreach with donors, which was supported by consultation respondents. ~~As a result, the development of a supplementary information statement will be explored with the IFR4NPO Donor Reference Group.~~

BC7.5 Respondents to the consultation supported the availability of guidance on the form and content of supplementary information ~~if it is required~~ as it would assist consistency. A guidance-based approach would allow each organisation to balance the cost/benefit of preparing supplementary information in its own context. As a consequence, respondents were of the view that reporting on material projects should be optional and not a mandatory requirement. ~~Given the likely varied circumstances of each non-profit organisation,~~ The INPAGINPAS Secretariat supported this approach and INPAS Practice Guide 1 – Supplementary statements for donor reporting was developed.

## **Information to be presented in the Statement of Cash Flows**

BC7.6 ED1 included proposals to include 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 as investing activities. Views from respondents were mixed although overall respondents were supportive. However, based on the feedback TAG Technical Advisory Group members advised that the requirement to include capital grants in investing activities should be removed, and replaced with guidance that such grants, where material, be disclosed separately. This is consistent with international standards approaches to investing activities.

## **Supplier Finance Arrangements**

BC7.7 The International Accounting Standards Board issued an Addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard on 28 March 2024. This provides new guidance on supplier finance arrangements.

~~BC7.8 Views were sought on the new content from the Practitioner Advisory Group (PAG) and the Technical Advisory Group (TAG). The PAG were of the view that the use of supplier finance arrangements was not common by NPOs.~~

~~BC7.9 TAG members considered the documented approach used by the project in deciding whether to make amendments to the *IFRS for SMEs* Accounting Standard. They were of the view that had the new text been in the original document, no significant amendments would have been proposed.~~

~~BC7.10 The additional text has therefore been retained in full, with amendments made to reflect the terminology used in INPAGINPAS and ensure alignment with other Sections. A specific matter for comment has been included relating to this additional text.~~

~~BC7.108 The majority of respondents agreed with the approach in Section 7, but a concern was raised about the proportionality of the disclosures by one respondent. It was one respondent proposed to remove the disclosure of amounts settled by finance providers with suppliers. They noted that having considered it for their national GAAP for entities of a similar size there was support were, concerns were raised that obtaining the required information and having it audited would be onerous and costly. The INPAS Secretariat supported this proposal based on the need for proportionality for INPAS users.~~

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## **Section 8 - Notes to the financial statements**

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### **Background and history**

BC8.1 Section 8 does not specify the notes to the financial statements required in respect of specific assets, liabilities, revenue, or expenses. Such requirements are set out in the sections of INPAGINPAS dealing with those items, and the rationale for any revisions to those requirements is set out in the Basis for Conclusions to those sections.

~~BC8.2 No major revisions have been made to Section 8 (which covers the general requirements for the notes to the financial statements) in ED1. Any updates have been limited to terminology or use of language specific to NPOs, or to reflect revisions to the financial statement requirements in other sections of INPAGINPAS.~~

BC8.32 The Consultation Paper did not include specific proposals relating to the general requirements for the notes to the financial statements, and where respondents commented on the notes, these comments related to specific disclosures rather than the general principles set out in Section 8.

BC8.43 The approach to the notes to the financial statements set out in Section 8 of the *IFRS for SMEs* Accounting Standard is consistent with the approach to the notes in full IFRS

Accounting Standards and in IPSAS. These requirements have been ~~reviewed~~ reviewed, and it was concluded that there are no NPO-specific issues that require addressing. The requirements in the *IFRS for SMEs* Accounting Standard have therefore been retained in ~~INPAG~~ INPAS.

~~BC8.4~~ No major revisions have therefore been made to ~~Section 8~~ Section 8, with any updates limited to terminology or use of language specific to NPOs, or to align with other INPAS sections.

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## Section 10 - Accounting policies, estimates and errors

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### Background and history

BC10.1 The Consultation Paper did not include specific proposals relating to accounting policies, estimates and errors, and respondents did not raise any issues.

BC10.2 The approach to the accounting policies, estimates and errors set out in ~~Section 10~~ Section 10 of the *IFRS for SMEs* Accounting Standard is consistent with the approach to the issues in full IFRS Accounting Standards and in IPSAS. These requirements have been ~~reviewed~~ reviewed, and it was concluded that there are no NPO-specific issues that need addressing. The requirements in the *IFRS for SMEs* Accounting Standard have therefore been retained in ~~INPAG~~ INPAS, with the exception of ~~except for~~ text relating to the use of accounting standards (see paragraphs ~~BC10.3~~ BC10.3 to BC ~~10.5~~ 10.5). Any other updates have been limited to changes in terminology or use of language specific to NPOs ~~and alignment with other INPAG Sections~~ and alignment with other INPAG Sections.

### Selection and application of accounting policies

BC10.3 The *IFRS for SMEs* Accounting Standard permits an entity to refer to full IFRS Accounting Standards in developing accounting policies for transactions, other events, or conditions not addressed in the *IFRS for SMEs* Accounting Standard. This approach has been retained in ~~INPAG~~ INPAS, but ~~it is~~ noted that NPOs may encounter transactions, other events or conditions that are not addressed in full IFRS Accounting Standards.

BC10.4 Transactions, other events, or conditions not addressed in full IFRS Accounting Standards may involve transactions that are not commercial in nature (non-exchange transactions such as grants and donations), which may be addressed in IPSAS.

~~BC10.5~~ The ~~INPAG~~ INPAS Secretariat therefore decided that where there are no specific requirements or guidance in either the *IFRS for SMEs* Accounting Standard or full IFRS Accounting Standards, NPOs may refer to IPSAS in developing an appropriate accounting policy ~~where there are no specific requirements or guidance in either the *IFRS for SMEs* Accounting Standard or full IFRS Accounting Standards~~. Permitting NPOs to refer to a relevant IPSAS ~~only~~ where there are no requirements or guidance in either the *IFRS for SMEs* Accounting Standard or full IFRS Accounting Standards, is intended to maximise consistency with ~~the concepts and principles set out in Section 2~~ Section 2 ~~Concepts and pervasive principles~~ Concepts and pervasive principles.

BC10.56 The ~~INPAG~~ INPAS Secretariat noted that ~~it~~ there may be transactions, other events or conditions that are not addressed in any international standard. In such cases, it was

agreed that it would be appropriate for NPOs to refer to national standards that have addressed such transactions, other events or conditions where the accounting treatment in those national standards are consistent with the concepts and principles set out in Section 2.

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## Section 35 – Narrative reporting

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### Consultation Paper feedback on narrative reporting Background and history

- BC35.1 The IFR4NPO Consultation Paper proposed in Part 1 that one of the core premises of the INPAGINPAS, in order to meet GuidanceStandardits objectives, would be the inclusion of non-financial reporting information, also known as narrative reporting. This would lead to NPOs producing general purpose financial reports rather than just general purpose financial statements.
- BC35.2 A detailed description of the issue was included as part of Issue 10: Narrative Reporting in Part 2 of the Consultation Paper. This highlighted the importance of non-financial information for NPOs to demonstrate accountability and stewardship to stakeholders, and the difficulty caused by varying disclosure requirements globally.
- BC35.3 Respondents to Part 1 of the Consultation Paper provided feedback on what they deemed the challenges would be from guidance that included the expected challenges from the inclusion of non-financial information reporting requirements for NPOs. At a conceptual level, respondents highlighted issues such as scope, timing of introduction, prescription and flexibility, the reliability and integrity of data, and integration with existing performance reporting. A number of practical challenges were also raised, including NPO capacity and capability, costs and expertise, and subjectivity in reporting.
- BC35.4 For Part 2, respondents were asked to provide feedback on the description of the issue, the alternative treatments proposed, and whether the guidance should be set at the level of an overarching framework and high-level principles, or include more specific reporting requirements. Respondents to Part 2 were supportive of the description of the issue (96% agreed) and were mainly in agreement with the list of alternatives identified (77% agreed). Substantive comments received from respondents included a need for a fuller understanding of user's needs to determine how they can be met, which could require a solution not presented as an alternative. There was also support for narrative reporting to focus on an NPO's objectives, its impact, the effectiveness of the organisation's governance structures and processes, and broader sustainability issues, rather than being restricted to financial statement analysis.
- BC35.5 With respect to the alternatives put forward in the Consultation Paper, there was little support for the do-nothing alternative, which was widely seen as a missed opportunity. There was relatively even support amongst those providing a preference for the other alternatives, with the approach based on the Integrated Reporting Framework (50%) being slightly more favoured than an approach based on IASB/IPSASB guidance (37%).

BC35.6 Those favouring the IASB/IPSASB guidance approach ~~indicated were of the view~~ that it would complement the information in the financial statements and would be less complicated for NPOs to apply. Those favouring the Integrated Reporting Framework approach felt that, although more ambitious, it offered an opportunity for NPOs to apply emerging best practice and to deliver standardised narrative reporting based on stakeholder needs.

BC35.7 With respect to whether guidance should be set at the level of an overarching framework and high level principles, or if specific reporting requirements or recommendations should be required instead, the majority of respondents noted that the diversity of NPOs and jurisdictions pointed to the need for a framework and principles-based solution. Some of these respondents noted, however, that this would need to be backed by detailed guidance on how to apply the framework and principles.

### **Compulsory Mandatory reporting requirements**

BC35.8 Analysis of the Consultation Paper responses supported a framework and principles-based approach that provides ~~a~~ mandatory core of narrative reporting requirements that could be applied by all NPOs. ~~The approach proposed is was intended to be adaptable, so that NPOs wishing to go beyond this core could do so provided that the mandatory topics and elements important to users of all NPO general purpose financial reports were met. The proposed approach is designed to ensure a base level of consistency and comparability amongst all NPOs applying the INPAGINPAS, while providing NPOs the freedom to move beyond this to meet the needs of the users of their general purpose financial reports.~~

BC35.9 Concerns were raised by ~~the IFR4NPO project's~~ Technical Advisory Group, ~~the (TAG) member and~~ Practitioner Advisory Group ~~(PAG) members~~ and by attendees at additional outreach events, that requiring all NPOs to comply with narrative reporting requirements could act as a barrier to the adoption of ~~INPAGINPAS~~.

BC35.10 While feedback from these groups was that the narrative reporting proposals could bring significant benefit to both the users of ~~the~~ NPOs' general purpose financial reports and the NPOs themselves, ~~it is the case that~~ international guidance in this area is not mandatory and there are only a few jurisdictions that mandate NPOs ~~to undertake this type of reporting~~ to produce general purpose financial reports ~~and undertake this type of reporting~~.

BC35.11 ~~As such, whilst the~~ Exposure Draft 1 (ED1) contained ~~eds~~ proposals for a mandatory core of narrative reporting ~~The approach proposed was intended to be adaptable, so that NPOs wishing to go beyond this core could do so provided that the mandatory topics and elements important to users of all NPO general purpose financial reports are met. This Section was designed to ensure a base level of consistency and comparability amongst all NPOs applying the INPAS, while providing NPOs the freedom to move beyond this to meet the needs of the users of their general purpose financial reports. and included a specific matter for comment has been included to gain additional feedback on whether this should be mandatory for all NPOs.~~

BC35.12 A small number of respondents to ED1 suggested differential reporting either for smaller NPOs, or to make use of efficiencies within groups. Other respondents

discussed the resource implications for the introduction of INPAS with one suggesting that narrative reporting should be separated from the main INPAS guidance on general purpose financial statements. The Secretariat considered ~~this~~ ~~these responses~~ but was of the view that the benefits of increased transparency and accountability of having a consistent minimum mandatory core of reporting that could be applied by all outweighed any form of differential reporting. Noting that INPAS is not intended for very small NPOs, ~~t~~. The Secretariat was also of the view that any form of differential reporting might also make Section 35 more complex.

## Transition period

BC35.1913 It ~~is~~ ~~was~~ recognised that for some NPOs, the narrative reporting required by ~~INPAG~~ ~~INPAS~~ might represent a challenge, particularly if the NPO is also transitioning to accrual accounting at the same time. Extensive guidance was developed to assist in implementing these requirements through the implementation guide and implementation examples. The option for an extended transition period of two years was supported by a focus group on narrative reporting, and ~~this is being~~ ~~was~~ considered alongside other feedback as evidence of support for an extended transition period.

BC35.14 Respondents to ED1 supported the transition period though there was some limited debate about its length. This was also subject to consultation as a part of Exposure Draft 3, where it was proposed in a new Section 38 *Transition to INPAS*, that for the first two years following the date of first adoption of INPAG an NPO may make an explicit and unreserved statement in its financial report of compliance with the INPAG requirements for the financial statements only rather than a statement of compliance with the full requirements of INPAG. Further comments about transition to INPAS are provided in the Basis for Conclusions for Section 38.

## Narrative reporting proposal

### Scope

BC35.2415 ~~The narrative report focuses on the information needs of the primary users of an NPO's general purpose financial report as described in Section 2 Concepts and pervasive principles. Other users for example, the NPO's employees, or members of the public not benefitting from the activities of the NPO might also find information in the narrative report useful. However, those other users might have special or additional reporting information requirements. Meeting these information requirements is not an objective of an NPO's narrative report.~~

BC35.126 The narrative reporting requirements ~~were~~ ~~have been~~ developed as a mandatory framework, using a principles approach based on the existing ~~IASB Practice Statement and IPSASB Recommended Practice Guidelines (RPGs) and jurisdictional-level frameworks international and national guidance~~. The ~~IASB Practice Statement and IPSASB RPGs and jurisdictional-level frameworks international and national guidance~~ ~~were~~ ~~as~~ used instead of the Integrated Reporting Framework as ~~they are~~ ~~it is~~ expected to be less complicated for NPOs to apply and will complement the information in the financial statements rather than require NPOs to also apply broader integrated reporting principles.

BC35.13- In developing ~~these proposals~~this Section, the requirements of the international and national guidance~~IASB Practice Statement, IPSASB RPGs and jurisdictional level frameworks~~ were tailored to meet the needs of users of NPO general purpose financial reports and to reflect the capacity and capability of the NPOs that the ~~INPAGINPAS~~ is initially aimed at.

~~BC35.14 Under the proposals for narrative reporting, NPOs would need to:~~

- ~~• present information to enable users to understand what the performance objectives of the NPO are and what it has done during the reporting period in working towards those performance objectives; and~~
- ~~• present commentary to discuss and analyse the NPO's financial statements.~~

### Principles

BC35.168 ~~Sitting alongside their mandatory requirements is was a proposal that this~~The information in the narrative report is to be presented in accordance with certain principles including:

- ~~•~~ the performance information and financial statement commentary ~~being should~~ be for the same reporting NPO and reporting period as the financial statements;
- in selecting and presenting the performance information and financial statement commentary the NPO should apply the qualitative characteristics and pervasive constraints on information in Section 2 *Concepts and pervasive principles*;
- the NPO should also ensure that the performance information and financial statement commentary presented is fair and balanced; and
- non-disclosure of aspects of performance information and financial statement commentary would be permitted where an NPO engages in 'sensitive' activities. This would mean that where the activities of the NPO would be compromised by aspects of the narrative report, for example specific humanitarian aid programs, this can be omitted.

~~BC35.19 Respondents broadly agreed with the proposals for the information to be presented using these principles (though see below commentary on sensitive information) and were concerned. However, comments were made about the need to ensure that there was is separation of the information presented in the narrative report and the financial statements. Augmented provisions have therefore been included to be clear that~~Clarifications were therefore made that information to be presented in the narrative report must be separate from the financial statements and the explanatory notes.

~~BC35.20 A respondent also suggested that the description of the narrative report should be changed to NPO annual report. The Secretariat considered this but was of the view that narrative report probably best encapsulates the reporting requirements, (though NPOs did not have to describe the report as such) NPOs are however, permitted to use alternative terms if this will be better understood by users of its financial statements.~~

~~BC35.21 The narrative report focuses on the information needs of the primary users of an NPO's general purpose financial report as described in Section 2 *Concepts and pervasive principles*. Other users for example, the NPO's employees, or members of the public not benefitting from the activities of the NPO might also find information in the narrative~~

~~report useful. However, those other users might have special or additional reporting information requirements. Meeting these information requirements is not an objective of an NPO's narrative report.~~

### **Information to be included in the narrative report**

~~BC35.1521 Reporting on these two areas was integrated where possible to reduce repetition and reflect their integrated nature, with the~~The proposals requiring~~ed that NPOs are required to provide mandatory narrative reporting information as a minimum on the following defined topics~~categories (originally described as topics:

- **Overview of the NPO** – contextual information that enables users to understand the NPO such as legal form, structure, governance, purpose, mission, vision, main activities and significant relationships.
- **Performance information** – information on performance objectives and plans and what has been achieved with measures and descriptions to demonstrate performance being a mix of quantitative measures, qualitative measures and qualitative descriptions.
- **Financial objectives and strategies** – ~~users with an understanding of the NPO's~~information on an NPO's financial objectives and strategies in relation to its financial position, income and expenditure, net assets and cash flows and how these support the achievement of its performance objectives.
- **Analysis of financial statements** – information on significant changes and trends and how these impact on the achievement of its performance objectives.
- **Description of principal risks and uncertainties** – information on principal risks and uncertainties and how these relate to the NPO's performance objectives and financial objectives and strategies. Any significant changes and how the NPO manages risks and uncertainties should also be included. This information will help users to evaluate the impact of those risks and uncertainties on the achievement of the NPO's performance objectives and its financial position, income and expenses, net assets and cash flows in the current period, as well as expected longer term outcomes.

~~BC35.22 Respondents to ED1 agreed with the scope of these mandatory reporting requirements. However, a respondent to ED1 commented it was noted that there is a risk that mandatory reporting requirements could create unintended consequences, for example, if the requirements duplicate or conflict with existing regulatory requirements. The Secretariat concurs that this might be a possibility, but t~~This risk is mitigated by being the use of a principles based approach and by being based on existing international and national guidance. However, clarification has been included on the approach to be taken where such circumstances exist. Guidance to address potential conflicts has been added along with guidance to encourage the avoidance of duplication of information.

~~BC35.23 While reviewing the authoritative guidance post the ED1 feedback the Secretariat was concerned that the approach outlined in BC35.14 (which focused on performance information and financial statement commentary rather than narrative information)~~



~~meant there could be confusion that this did not cover all the subject matter in the categories. This~~Consequently, terminology was instead changed to narrative reporting information ~~to which includes cover performance information and financial statement commentary.~~

### **Sensitive information**

BC35.1724 Permission to not disclose information was introduced to the proposals in ED1 following recommendations from the project's Practitioner Advisory Group PAG and a specific focus group that was created to provide additional advice to the INPAGINPAS Secretariat on narrative reporting. These groups noted that the mandatory nature of the narrative reporting proposals would cause difficulties for some NPOs if they were required to disclose information that could jeopardise the safety and security of staff, volunteers, or the public that benefit from the goods and services provided by the NPO. They also noted that subsequently requiring NPOs to disclose that they had made use of the permission to not disclose information on 'sensitive' activities could also be problematic, especially if this were to highlight the nature of substance of the information that was not being disclosed.

BC35.1825 ~~It is recognised that there is t~~he possibility that exercising a permission to not disclose sensitive information could be misused by NPOs was considered. ~~The project's Technical Advisory Group~~ TAG ~~shared these~~ members were concerned, ~~that an exemption could be used as a way of to~~ hiding poor performance or financial problems that may have arisen with aspects of ~~its an NPO's~~ operations. ~~These concerns were exacerbated particularly~~ if there were no requirements to disclose that information relating to 'sensitive' activities ~~has had~~ been withheld. ~~The project's Technical Advisory Group shared these concerns. As such~~ Consequently, agreement was reached it was proposed that where an NPO ~~does use~~ the sensitive information exemption, ~~users that~~ that the NPO should be required to ~~disclosure~~ disclose that the narrative report has been prepared in accordance with the requirements of the sensitive information exemption paragraph. NPOs ~~are were~~ not, however, required to provide any information that would have the effect of highlighting the nature or substance of the sensitive information.

BC35.26 Respondents to ED1 agreed that sensitive information could be excluded from the narrative report. ~~Respondents~~ However, respondents that both agreed and disagreed with the exclusion raised the issue of whether ~~were of the view that~~ more guidance should be included to ensure that adverse practices are avoided.

BC35.27 Respondents had views at opposite ends of the spectrum. ~~Some respondents were raised concerned concerns about the transparency of reporting, raising concerns about~~ affecting the rights of users and ~~whether the exemption adversely impacted the~~ information needed to take decisions. Other respondents ~~who disagreed~~ were concerned that the ~~need to include~~ inclusion of a statement in the narrative report that the information ~~has had~~ been prepared in accordance with the ~~requirements of Section 35 for the non-disclosure of the exemption paragraph for~~ sensitive information could place the NPO, its beneficiaries or staff in danger.

BC35.28 Further outreach supported both of these concerns ~~and the need to~~ with requests to add guidance on the issue. ~~The Secretariat was of the view that the~~ non-disclosure of

sensitive information ~~can be~~ a complex issue, with a need to balancing the need for transparency and accountability and the risks of the reporting of sensitive activities and issues which might prejudice the mission of the NPO and bring about, for example, physical harm.

BC35.29 TAG members' views were of the view that more guidance could be provided to support the preparers of NPO general purpose financial reports. Additional guidance was produced and considered by the TAG members. The TAG was supportive overall, but advice included that the amount of additional guidance on sensitive information risked it becoming rules based. The Secretariat was concerned that the strength of individual views meant that the guidance developed to meet the concerns of respondents might not have met its original intention. More prescriptive, rules based guidance may be more problematic for NPOs that have sensitive information than seeking to meet providing information requirements based on principles. The Secretariat was concerned overall that the strength of individual views meant that the guidance developed to meet the concerns of respondents might not have met its original intention.

BC35.30 Following further debated discussion with both PAG members and TAG members the Secretariat concluded that removing the exception for sensitive information from the Section 35 authoritative guidance would on balance be preferable. Instead, the reporting of sensitive information has been addressed in the Implementation Guidance for Section 35.

BC35.31 The Implementation Guidance includes provisions on sensitive information which:

- sets out that information should be excluded where there is risk to the safety or wellbeing of the NPO, its staff and volunteers;
- indicates that the NPO should consider reporting on certain information that has been excluded;
- provides examples of circumstances where information might be sensitive;
- clarifies that the guidance on information which might be excluded is not to be used as a way of hiding poor performance or financial problems that may have arisen with aspects of its operations; and
- indicates that an NPO will remain in compliance with the requirements of INPAS in circumstances where sensitive information has been excluded.

BC35.2932 In reaching this position, the intention is that an NPO should not disclose or be forced to disclose information where there is a genuine risk to the safety and physical and mental wellbeing of an NPO's staff, volunteers and the communities they serve. To uphold ethical values these financial reporting requirements must not be prioritised over such considerations.

## **Additional resources Presentation**

BC35.33 ED1 feedback also suggested more guidance was required on the balance of information provided and that there should be effective cross referencing between the financial statements and the narrative report. Additional commentary was added to underline that information should be clear and concise and presented in accordance with the principles of Section 35. The Secretariat was of the view that there was already

sufficient commentary in Section 35 on the need for cross referencing to the financial statements.

~~BC35.4034 A number of comments in the responses to ED1 and at the outreach events sought a~~Additional illustrations and examples of effective practice for the various requirements for narrative reporting in INPAS were requested. During its debates on narrative reporting TAG members cautioned against the risk that too many illustrative examples in the Standard might lead to boilerplate disclosures or mean that the Standard could lean more towards rules based prescriptions rather than being principles based. ~~Instead INPAS webpages will be established for sustainability and ESG reporting and for~~The Secretariat agreed to considered the promotion of illustrative examples of current and effective practices in the production of narrative reports.

## Reporting of other information

~~BC35.20 Responses to ED1 and the consultation paper, and outreach feedback, did see some support for the inclusion of certain specific reporting requirements, including governance, objectives, service performance, efficiency of resources and risks, including reporting on the risk of harm. These are included as areas that the NPO would be required to report on in the mandatory topics, so have effectively been integrated into these narrative reporting proposals.~~

BC35.2435 Climate reporting and broader sustainability reporting were ~~also~~ highlighted by some respondents to the Consultation Paper as specific topics for inclusion in NPO narrative reporting. Inclusion of these areas as mandatory requirements was also supported by ~~the a~~ narrative reporting focus group.

~~BC35.36 However, r~~Respondents to ED1 agreed with the scope proposed, which excluded sustainability reporting from mandatory reporting requirements. A small but significant number of respondents indicated that due to the impact and increased prevalence of climate change and the environment sustainability or ESG reporting, that this should be included as a mandatory element in narrative reporting ~~with some referring to developments in sustainability reporting standards.~~

BC35.2237 It is recognised that this is an important area for NPOs and their users. Sustainability reporting continues to grow in importance and will continue to do so as the climate emergency is unlikely to diminish. Since ED1 was issued, the International Sustainability Standards Board (ISSB) issued two standards (S1 General Requirements for Disclosure of Sustainability-related Financial Information and S2 Climate-related Disclosures) and the IPSASB has issued its first Sustainability Reporting Standard (IPSASB SRS) Exposure Draft (ED) 1, *Climate-related Disclosures*.

~~BC35.38 At the time the guidance was finalised there were no internationally developed standards for either the public benefit sector or the public sector, either issued by the ISSB, IPSASB or the Global Reporting Initiative (GRI). The initial focus has been on the private sector and primarily to meet the needs of resource/product-based businesses and industry standards. Any new international standard They would likely require adaption for use by NPOs. Developments in climate reporting and sustainability reporting frameworks are ongoing, and have, to date, been aimed at the needs of private sector entities and their users~~

BC35.39 Given the broader challenges to introducing mandatory narrative reporting for NPOs, the ~~INPAG~~INPAS Secretariat and the project advisory groups felt that it was premature to require sustainability reporting as a mandatory component of narrative reporting at the current time.

BC35.2340 The proposed approach to narrative reporting does, however, permit NPOs to apply existing climate reporting and sustainability reporting frameworks should they wish to do so. ~~This could~~ Use of these frameworks could -be either through a specific climate and/or sustainability report or by reporting on the impacts of climate related issues and sustainability through the financial statement commentary and performance information presented in areas such as governance, strategy, risk, and performance measures and descriptions.

~~BC35.2438~~ — ~~Developments in this area, and their impact on broader reporting requirements, are being actively monitored as part of the IFR4NPO project's ongoing work. Any changes to the requirements of Section 35 Narrative reporting to reflect them would be undertaken in accordance with due process.~~

BC35.3941 Respondents also raised concerns about ~~the approach to reporting and how non-mandatory other information is~~ should be disclosed in INPAS. They raised issues including issues of comparability of information and how to report over time. The Secretariat agreed that ~~As a consequence,~~ additional guidance would be useful. It therefore added provisions ~~has been added~~ that:

- ~~confirm that where the preparation of other information is useful it should if possible be based on standards prescribed elsewhere or sector practices or norms; and that~~ where these are used, they should be disclosed;
- the basis of preparation must be described and consistently applied;
- where information is no longer useful it should be discontinued and the reason it is no longer reported included in the narrative report.

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## Section 36 – Fund accounting

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### ~~Consultation Paper – issues identified and approaches~~ History and background

BC36.1 The presentation of information in the financial statements is particularly important when resources can only be used for specific purposes. This was included as Issue 7: Financial Statement Presentation in Part 2 of the IFR4NPO Consultation Paper. Views were sought on how unrestricted and restricted funds should be presented in the main financial statements and notes (including reserves), the role of fund accounting and how any requirements might align with donor reporting requirements.

BC36.2 The Consultation Paper proposed three alternatives as set out in the Basis for Conclusions to Section 3 Financial statement presentation. Although there was no consensus as to the preferred alternative, accountability and meeting users' needs were highlighted as important issues. Responses suggested that fund accounting is essential to ensure the stewardship of restricted funds ~~with restrictions~~ and provide clarity regarding funds that can be used at an NPO's discretion. However, some respondents suggested that fund accounting often results in more complex financial statements that

readers find difficult to understand, and that it may not be suitable for all NPOs. In developing the material for ED1, specifically **Section 2** *Concepts and pervasive principles* and Section 3 *Financial statement presentation*, fund accounting and the need to separate restricted funds with and without restrictions unrestricted funds was included with a supporting rationale. Following the responses received, the thinking in this area has been taken forward, and revised proposals developed.

BC36.3 Fund accounting fundamentally relates to the presentation of transactions that 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) between restricted funds and unrestricted funds. Where no separate fund to the general fund exists, transactions are generally expected to be presented as part of the General fund.

### **Identification Characteristics of a funds**

BC36.34 The key focus of **Section 36** is to enable an NPO to identify the types of funds that it has and whether the funds that it has are available for it to use at its discretion or whether there are limitations that mean that funds can only be applied to specific purposes. The guidance acknowledges that not all NPOs will have more than one fund and NPOs may not have any restricted funds with restrictions.

BC36.5 A principles-based approach considers both what constitutes a fund, and subsequently whether the funds identified should be presented as part of restricted funds, or unrestricted funds.

BC36.146 Criteria were developed for a fund to exist. The first drafts of these criteria were focused on the ability of an NPO to separately track resources and be able to separately record transactions for a specific set of an NPO's activities, whether for an internal or external purpose. TAG members were concerned whether NPOs could effectively opt out of fund accounting, particularly where an NPO encountered difficulties in maintaining separate records. As a consequence, the principles have been reframed so that it is the legal or equivalent requirements and the reasonable expectations of stakeholders which are the key determinants of whether a separate fund exists or not.

BC36.147 For all funds identified, there is a requirement that assets and liabilities must be capable of being shown separately as well as income and expenses. The Secretariat acknowledged that an NPO might be unable to track assets and liabilities for each separate fund. There is a balance to be struck between the transparency that arises from separately reporting resources and any additional cost that this might create. This requirement has been developed to mitigate against the need for less material transactions to be separately tracked and to avoid creating too large a burden for NPO's was tested in Exposure Draft 3 (ED3). A specific matter for comment will be raised on this point.

BC36.8 Respondents to ED3 supported the tracking of assets and liabilities for each fund but raised concerns about the practical ability to do this, particularly for some current assets and liabilities. Respondents cited examples such as payroll control accounts, pooled bank accounts, vendor accounts, cash advances (where the recipient might be working on multiple activities) and prepayments, for example, of fuel for pool cars. Consequently some respondents suggested that the requirement for tracking assets and liabilities

should be limited to non-financial assets and non-current liabilities. Respondents also noted that donors, who are expected to be key users of NPO financial statements are more interested in income and expenses.

BC36.9 Taking account of this feedback a more nuanced approach has been adopted. The requirement to track assets and liabilities has been repositioned to require non-financial assets, non-current liabilities and assets and liabilities associated with delivery obligations to be tracked. The requirement to track other current assets and current liabilities has been retained but is only expected to be provided where the information is available without undue cost or effort.

BC36.10 The criteria for a separate fund to exist hinges on a legal or equivalent requirement to separately track resources and their use or reasonable expectations that resources used for a specific set of activities will be tracked. Respondents to ED3 sought clarification on what was intended to be captured as an equivalent requirement and what would give rise to a reasonable expectation.

BC36.11 The Implementation Guidance was updated to clarify that an equivalent requirement will exist when there is a mechanism through alternative processes that has the same effect as a legal mechanism. An equivalent requirement can also arise from a formal agreement that creates binding restrictions, regulatory expectations or quasi-legal arrangements with enforceability linked to reputational damage and religious law where this has the same effect as a legal requirement.

BC36.12 Augmentations were also made to the guidance on reasonable expectations to provide additional factors to consider. The guidance reinforces that the existence of reasonable expectations needs to be assessed on a case-by-case basis reflecting the stakeholders involved and the specific context.

BC36.13 There were also comments specifically about property, plant and equipment, with views that disclosure should be made of the aggregate amounts in restricted and unrestricted funds. There was also a request for disclosure of donated assets by location to allow greater collaboration among donors, value for money, and transparency. The Secretariat was of the view that additional disclosures should be considered for [Section 17 Property, plant and equipment](#) rather than for fund accounting.

BC36.14 Respondents to ED3 raised concerns about the application of materiality to this Section. In particular there were requests for the inclusion of a threshold below which a separate fund would not be required. As noted in [BC36.7](#), the intention in setting the INPAS requirements is that trivial funds need not be separately identified and disclosed in the financial statements.

BC36.15 The introduction of a threshold is problematic to create an outcome that is suitable for all NPOs. Implementation Guidance has been added that points to the materiality guidance in [Section 2](#), and that this can be used by NPOs to set their own threshold for what is clearly trivial and to assess smaller funds for materiality.

BC36.16 A TAG member was concerned about the potential for confusion about the relationship between fund accounting and reserves. Fund accounting is the requirement in INPAG to identify those funds that should be presented as part of **restricted** funds with restrictions or **unrestricted** funds without restrictions. Each fund includes the income and expenses

related to the fund and any assets and liabilities. As a consequenceConsequently, it may have a brought forward and/or carried forward balance(s). The aggregated balances on these funds will be presented restricted funds with restrictions or unrestricted funds without restrictions in the accumulated funds (sometimes called reserves) of an NPO. INPAG therefore uses the term reserve only in connection with the specific sections of INPAG that require a reserve to be created. For example, a revaluation reserve will exist where an NPO uses the revaluation model for measuring its assets and it has valuation gains and losses. Similarly, a pension reserve will exist where an NPO has a defined benefit pension scheme to record changes in its values. These reserves are not able to be used for other purposes and are separate to the other funds held by an NPO.

## **Restricted funds**

BC36.417 In developing this Section, consideration was first given to whether presentation could be determined from the type of arrangements defined in **Section 23** *Revenue* for the purposes of recognition, measurement and disclosure. **Section 23** distinguishes between Enforceable Grant Arrangements (EGAs) grant agreements with delivery obligations, where the grant recipient has a present obligation to perform and Other Funding Arrangements (OFAs) grant agreements without delivery obligations, where the grant recipient does not have a present obligation to perform.

BC36.518 Initial proposals also looked at whether regulatory requirements should be another a factor in determining whether transactions should be presented as restricted funds with or without restrictions unrestricted funds. This was discussed by a focus group established for this purpose and by the Practitioner Advisory Group. Both groups had concerns about such an approach. This was because requirements differ significantly globally and could lead to different treatments of similar activities across jurisdictions.

BC36.619 Both groups were concerned about whether the initial proposals would meet stakeholder expectations about which transactions appeared as part of restricted funds with restrictions. Their feedback was that for stakeholders the substance of a transaction is more important than its form.

BC36.720 Technical Advisory Group (TAG) members also had concerns about whether the type of arrangements in **Section 23** were a suitable basis to determine presentation. TAG members' concerns centred on obligations that don't create a present obligation, but obligation but nevertheless limit how an NPO can use the resources provided.

BC36.218 There were also questions about whether EGAs grant agreements with delivery obligations should be part of restricted funds with restrictions as the rights and obligations arising from the arrangement are dealt with as part of assets and liabilities and do not create a fund balance. Given the substance of these arrangements obligations, the Secretariat's view is that EGA's grant agreements with delivery obligations are expected to be part of the restricted funds with restrictions in the balance sheet, and that disclosure can be used to provide transparency over EGA income and expense recognition. In addition, it is recognised that from time to time there may be an accounting balance on related to a an EGA delivery obligation because there has been insufficient resources to fund the required activities or excess resources, which can then be applied to other purposes (where permitted to do so in accordance with the terms of

the grant). Transparency of the impact of these types of arrangements is useful to users of the financial statements.

BC36.922 TAG members discussed the moral and/or ethical requirements to use resources in a particular way. Some TAG members were concerned about the presentation of restricted or unrestricted funds with or without restrictions being based on moral and/or ethical requirements. This is because NPOs have a moral and ethical requirement to use all of its resources for the NPO's missional objectives and practically it might be difficult to distinguish between different types of moral and/or ethical requirements. The Secretariat agreed with these concerns. TAG members subsequently agreed that the reasonable expectations of stakeholders would be a better way of distinguishing when resources should be separately identified and presented.

#### ~~BC36.10~~

~~BC36.11 Criteria were developed for a fund to exist. The first drafts of these criteria were focused on the ability of an NPO to separately track resources and be able to separately record transactions for a specific set of an NPO's activities, whether for an internal or external purpose. TAG members were concerned whether NPOs could effectively opt out of fund accounting, particularly where an NPO encountered difficulties in maintaining separate records. As a consequence, the principles have been reframed so that it is the legal or equivalent requirements and the reasonable expectations of stakeholders which are the key determinants of whether a separate fund exists or not.~~

BC36.1223 TAG members agreed that where there is a legal or equivalent requirement over the use of resources in a fund that limits the purposes or activities for which these can be used, that it should be presented as part of restricted funds with restrictions. This can include grants and donations where there is either a formal agreement or a private arrangement.

BC36.1324 There was significant discussion about the treatment of resources received from public fundraising campaigns for a specific purpose, particularly online campaigns and the nature of the obligation that arises. TAG members all agreed that there would be an expectation of separate treatment where a public commitment has been made that resources are to be used for the purpose for which the campaign was launched. As a consequence Consequently, these should be included as part of restricted funds with restrictions. The definition of eligible campaigns has been articulated so that it only applies where an externally communicated public commitment has been made and that commitment is made at or before the launch of the fundraising campaign.

BC36.25 In the feedback from ED3, a respondent noted potential ambiguity around revenue from contracts with customers. The respondent noted that trading income from externally imposed legal or equivalent requirement, that meant that and NPO was required to provide specified goods and services could be argued as being (part of) a restricted fund. The intention in framing Section 36 was to focus the requirements on those transactions or arrangements where the grantor does not receive resources, goods or a services of approximately equal value in return for the resources provided. Fund accounting is intended to provide transparency to the provider of these resources about how those resources are used. This is not necessary for a contract with a customer.



BC36.26 In considering this feedback it was noted that an NPO would be expected to have discretion about how it provides a good or service under a contract with a customer and how to apply the income earned. Even though the contract is legally enforceable, this discretion means that the revenue from this source is not considered restricted.

~~BC36.14 For all funds identified, there is a requirement that assets and liabilities must be capable of being shown separately as well as income and expenses. The Secretariat acknowledge that an NPO might be unable to track assets and liabilities for each separate fund. There is a balance to be struck between the transparency that arises from separately reporting resources and any additional cost that this might create. This requirement has been developed to mitigate against the need for less material transactions to be separately tracked and to avoid creating too large a burden for NPO's. A specific matter for comment will be raised on this point.~~  
BC36.27 Showing all the expenses that are required to be incurred for the purposes of an individual fund is expected to provide important information to the users of an NPO's financial reports. Most respondents to ED3 agreed and were of the view that charging all legitimate expenses:

- 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.

BC36.28 Some respondents to ED3, however, raised concerns that including all such expenses 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. These concerns also highlighted the potential for confusion between funds, grants and projects.

BC36.29 This terminology has been directly addressed in the Implementation Guidance. It makes clear that funds, grants and projects are different and that on occasion these can overlap in part or in full. TAG members recognised that this may provide practical challenges for NPOs if software limitations prevent the tagging of information for multiple purposes. Nevertheless, TAG members were of the view that being able to report against funds is necessary.

## Unrestricted funds

~~BC36.3015~~ The internal designation of reserves can typically be changed, subject to the approval of the governing body, and as such they do not create a permanent limitation on the use of resources by the NPO. INPAG-INPAS allows for internally designated reserves to be identified as a fund but requires that such funds be presented as part of unrestricted funds without restrictions.

BC36.31 Following feedback from respondents to ED3, the drafting relating to the internal designation of funds was revised to make clear that the internal designation can be made for any purpose. This means that the governing body can internally designate funds for a purpose internal to the NPO, or for an external purpose.

~~BC36.16 A TAG member was concerned about the potential for confusion about the relationship between fund accounting and reserves. Fund accounting is the requirement in INPAG to identify those funds that should be presented as part of funds with restrictions or funds without restrictions. Each fund includes the income and expenses related to the fund and any assets and liabilities. As a consequence, it may have a brought forward and/or carried forward balance(s). The aggregated balances on these funds will be presented funds with restrictions or funds without restrictions in the accumulated funds (sometimes called reserves) of an NPO. INPAG therefore uses the term reserve only in connection with the specific sections of INPAG that require a reserve to be created. For example, a revaluation reserve will exist where an NPO uses the revaluation model for measuring its assets and it has valuation gains and losses. Similarly, a pension reserve will exist where an NPO has a defined benefit pension scheme to record changes in its values. These reserves are not able to be used for other purposes and are separate to the other funds held by an NPO.~~

## Disclosures

BC36.1832 The information needs of users is a critical consideration. Feedback ~~is~~ has been that it is important to understand the extent to which an NPO can use its funds for any of its missional purposes (free reserves) and the extent to which resources can only be used for a specified purpose.

BC36.1933 As a consequence, disclosure requirements ~~are proposed~~ have been designed to ~~that~~ show for each fund the income and expenses in the year as well as any brought forward and/or carried forward balances. These disclosures are intended to provide transparency about resources received and how they have been used. They ~~will~~ also show any shortfalls or excesses on a fund and how such balances have been addressed together with an appropriate explanation. NPOs have consistently provided feedback on the importance of such information, particularly when shortfalls are funded from unrestricted funds ~~without restrictions~~.

BC36.2034 These disclosures will be important for NPOs that receive resources in one financial reporting period and use them in another financial reporting period or periods. With these disclosures, NPOs will be able to demonstrate the impact of such transactions on their surplus or deficit for the financial reporting period.

BC36.35 Respondents to ED3 made various comments about additional disclosures that could be mandated. There is a risk that adding further disclosure requirements create a burden. The narrative report and the option to make voluntary addition disclosures that respond to an NPO's assessment of the needs of the users of its general purpose financial report can address this need. The intent of INPAS is to provide a minimum, consistent level of disclosure that is necessary for the primary users of an NPO's financial statements, and that reflects the cost benefit.

BC36.36 Respondents to ED3 also commented on the disclosure of immaterial funds. This included whether aggregation would obscure important information. Guidance about immaterial funds, particularly focusing on the needs of the users of an NPOs general purpose financial report has been added to the Implementation Guidance.

~~BC36.21 The disclosure requirements also apply to internally designated funds. It can be useful for an NPO to show that it has set aside funds for a particular purpose and how it subsequently uses those funds. TAG members had mixed views about whether such funds should be required to be separately identified on the face of the financial statements or in the notes. Given the potential usefulness of this information, internally designated funds have been included within the scope of the proposed disclosure requirements.~~

## **Consequential amendments**

~~BC36.22 A definition of funds with restrictions and funds without restrictions was provided in Section 2 *Concepts and pervasive principles* as part of ED1. With the development of the content in Section 36 the definition has been removed from Section 2. Fund accounting is confirmed as a concept in Section 2, with the detail now held in Section 36.~~

~~BC36.23 In ED1 the proposals required the separate presentation of funds with restrictions and funds without restrictions in the Statement of Income and Expenses and the Statement of Changes in Net Assets and the aggregates of funds with restrictions and funds without restrictions only in the Statement of Financial Position.~~

~~BC36.24 Taking account of feedback in the ED1 consultation process and considerations in the development of this Section, it is now proposed to remove the original requirement that funds with and without restrictions be presented on the face of the Statement of Income and Expenses. The note disclosures required by Section 36 will replace this requirement. The requirements for the Statement of Changes in Net Assets and the Statement of Financial position remain unchanged.~~

~~BC36.37 TAG members had mixed views about whether internally designated funds should be required to be separately identified on the face of the financial statements or in the notes. Given the potential usefulness of this information, internally designated funds have been included within the scope of the proposed disclosure requirements. This is because it can be useful for an NPO to show that it has set aside funds for a particular purpose and to show how it subsequently uses those funds.~~

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## **Section 37 – Supplementary information**

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### **Supplementary statements Scope of this Section**

BC37.1 Providers of grant funding to NPOs frequently require special purpose financial and other reports specific to the activities that they are funding. Feedback during stakeholder outreach throughout the course of the IFR4NPO project has highlighted that the lack of harmonisation of donor reporting formats results in a significant burden to NPOs. Funders and auditors have also highlighted-commented that the frequent inability of these special-purpose financial reports to be reconciled or cross-referenced to entity level audited financial statements is ~~also~~ a significant assurance challenge.

BC37.2 In September 2022 it was proposed that the IFR4NPO project should develop a standard format for an optional Supplementary Statement that can meet the financial accountability needs of providers of grant funding. Its objective was to present key auditable financial information about a specific project or grant (or projects/grants) in a

way that could be useful to the grantor for accountability purposes, as well as meaningful to ~~the primary users~~ of general purpose financial statements.

- BC37.3 A Supplementary Statement Working Group (SSWG), was set up to develop proposals for the Supplementary Statement.– It comprised six members drawn from the Donor Reference Group, Practitioner Advisory Group, Technical Advisory Group (TAG) and a Country Champion.
- BC37.4 The output of the SSWG has been ~~taken by~~used the INPAGS Secretariat to produce INPAGS Practice Guide 1 – *Supplementary statements for donor reporting* (~~the Guide~~INPAS Practice Guide 1). ~~The INPAS Practice Guide 1~~ provides guidance for NPOs who wish to prepare one or more Supplementary statements in relation to one or more sets of its activities and use that statement for accountability purposes.– It presents financial information on income, expenses, inventory and capital costs for those activities that are based on the audited financial statements.

### **The relationship between Supplementary statements and Section 37 Supplementary information**

- BC37.5 Following discussion with stakeholders, the Secretariat determined that guidance for the creation of Supplementary statements should sit outside of INPAGS ~~as a practice guide~~. This view was reached because the numerous permutations of Supplementary statements that could be produced ~~is~~ are inconsistent with the principles of general purpose financial reporting, which requires that information should be capable of being useful to all users and not to a particular subset.
- BC37.6 The Secretariat did, however, consider that a whole of NPO set of supplementary information could be valuable as part of ~~INPAG~~INPAS. This would provide an audited base from which additional statements (outside of the general purpose financial reporting) could be produced as well as additional information for primary users.
- BC37.7 TAG members noted that this could be a burden if all NPOs were required to produce this information, regardless of whether or not they were also preparing one or more Supplementary statements. The Secretariat agreed and amended the proposals such that the provision of such information would only be required for those NPOs that are preparing and distributing one or more Supplementary statements using ~~the Guide~~ INPAS Practice Guide 1.
- BC37.8 The relationship between ~~INPAS Practice Guide 1 the Guide~~ and the requirement to produce supplementary information in the financial statements and/or accompanying notes are covered in this new Section of INPAG, Section 37 *Supplementary Information* ~~information~~. It is possible that the Supplementary statements prepared in accordance with INPAS Practice Guide 1 are prepared and distributed after the preparation of the financial statements. When an NPO intends to issue such statements, use of Section 37 is strongly encouraged to deliver the benefits of harmonised reporting.

### **Disclosure of additional Supplementary information**

- BC37.9 Section 37 requires an NPO that has prepared one or more Supplementary statements to disclose additional information where it is not already ~~presented~~ disclosed elsewhere

in the financial statements. This is to enable the disclosure of all of the information that would allow a whole of NPO analysis to be prepared using the Supplementary statement classifications to be prepared.

BC37.10 The preparation of Supplementary statements alone is not enough to require the disclosure of additional information. The Supplementary statements must be used in a way which is useful to the grantor for accountability purposes, for example, as a part of the assurance processes for the grantor. This Section therefore requires that Supplementary statements are both prepared and distributed to discharge accountability.

BC37.4011 Mindful of reducing reporting burdens, the proposals that the Secretariat presented to the TAG did not mandate the presentation of a whole of NPO Supplementary statement where information is already presented elsewhere in the financial statements. A whole of NPO Supplementary statement using the prescribed format included in the Guide-INPAS Practice Guide 1 was instead proposed to be encouraged as it is likely to benefit users.

BC37.4412 This approach was supported by TAG members. It was also recognised that taken with the proposed reporting requirements of Section 24 Part II Classification of expenses, for those NPOs that produce Supplementary statements, over time there should-could be a convergence of information requirements. NPOs would-might therefore be likely to find it beneficial to produce expense information in accordance with the prescribed format included in INPAS Practice Guide 1 ~~the Guide~~.

BC37.13 Respondents to Exposure Draft 3 supported the proposal that a whole-of-NPO supplementary statement need not be presented if the additional information is already in the financial statements and/or notes. Respondents that agreed with this SMC were of the view that a whole of NPO supplementary statement need not be presented because it will avoid duplication and information overload and reduce the reporting burden.

BC37.14 At its December 2024 meeting, TAG members advised that requiring users to assemble whole-of-NPO financial information from across the financial statements can be both burdensome and confusing. TAG members were of the view that a single Supplementary Statement, can enhance clarity, reduce the effort required from users, and ensure that financial data is presented in a more accessible and structured manner. Additional Implementation Guidance has therefore been added to demonstrate the benefits of a whole-of-NPO supplementary statement.

### **Basis for the Supplementary Information Disclosures**

BC37.15 Comments from one of the respondents on the location of supplementary information raised questions about what should be included in disclosures (for example, whether some components of net assets should be included in the disclosures). The Secretariat has therefore added a section requiring consistency with the Statement of Income and Expenses and the Statement of Net Assets but excluding components not reported in the movements in funds. This section also included clarification of what to report if, on an exceptional basis, an NPO produced supplementary information which was not

consistent with the reporting boundary of an NPO, or the recognition and measurement principles required by the Standard.

## **Inventory and Capital Acquisition Costs**

BC37.156 INPAS Practice Guide 1 allows but does not require an NPOs to report on inventory and/or capital costs as part of its single supplementary statements. This section of the Supplementary statement is intended for use by NPOs where their stakeholders are seeking accountability for the cash resources provided to purchase or create inventory or capital assets. used by Section 37 clarifies that this information is only required where an NPO uses this section in one or more of its Supplementary statement prepared and distributed in accordance with INPAS Practice Guide 1. As this information is based on the cash required to acquire these items the Secretariat has required a separate disclosure of these amounts.

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## **Section 38 – Transition to INPAG**

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### **Background and history**

#### **Scope**

BC38.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue edition of INPAG-INPAS. Accounting for the transition to INPAG-INPAS was not included as a prioritised topic. However, the development of INPAG-INPAS and its proposals mean that there are additional considerations for an NPO adopting INPAG-INPAS for the first time, and so this Section has been further developed.

BC38.2 Section 35 of the *IFRS for SMEs* Accounting Standard is based on an entity moving from another framework such as full IFRS, national GAAP or local income tax basis and also provides for those entities that did not previously present financial statements. This Section requires that at the date of transition to INPAG-INPAS all entities need to create opening balances to recognise all assets and liabilities. INPAG-INPAS defines new assets and liabilities, which will also need to be included.

BC38.3 Technical Advisory Group (TAG) members were asked to consider whether the pragmatic exceptions and approaches in Section 35 of the *IFRS for SMEs* Accounting Standard were also appropriate for NPOs or whether they needed to be amended. The issues considered included presentation of comparatives, the measurement of assets and liabilities on initial recognition, the amount of time permitted to adopt all of the INPAG-INPAS requirements and the potential to exclude narrative reporting from the statement of compliance for a transitional two-year period.

BC38.114 Other than these considerations, minor changes have been proposed made to align with other INPAS sections including the removal of references to share-based payments and in respect of terminology.

## **Statements of compliance****First time adoption**

### **Application of INPAS**

BC38.5 Section 38 sets out what constitutes a first financial report under INPAS. It provides examples of the situations when this might exist and references NPO's that might have previously produced its financial report using IFRS Accounting Standards. In response to feedback on Exposure Draft 3 (ED3), clarification has been provided that this paragraph also applies to financial reports previously produced using IPSAS Standards.

### **Transition period**

BC38.~~46~~ INPAG-~~INPAS~~ is broader than the *IFRS for SMEs* Accounting Standard as it requires a narrative report in addition to the financial statements. In Exposure Draft 1, which sought feedback on the proposals for narrative reporting, there was a specific matter for comment about the amount of time needed to adopt these requirements and whether a transition period was needed. The need for such a transition period was raised as for some NPOs there would be a significant challenge in adopting the requirements for financial statements, and concerns that the requirements for narrative reporting could be a barrier to adoption.

BC38.~~57~~ Respondents to ED1 provided a range of views on a transition period. Some felt the scope of the minimum requirement could be easily achieved and that no transition period was necessary. Others felt that it should be a little longer than 2 years but no more than 5 years. Reflecting on this feedback the Secretariat proposed a two-step approach where an NPO could express compliance with the requirements for the financial statements as an initial step. The second step would be compliance with the full INPAG requirements once narrative reporting requirements have had also been met. The Secretariat raised concerns that without setting time limits for achieving full INPAG compliance, less than full compliance could occur in perpetuity. TAG members agreed that NPOs should not be able to avoid full compliance indefinitely. A two year period for all requirements to be met was agreed. TAG members also agreed that after the two year transition period, if an NPO has failed to meet the full requirements for general purpose financial reports, it would be unable to express compliance with any aspect of INPAG~~INPAS~~.

BC38.8 Respondents to ED3 provided feedback on this two-step approach. There remained a cross section of views about the length of a transition period or whether one was needed at all. A two-year transition period strikes a balance between flexibility and timely adoption and is intended to provide consistency and comparability across NPOs globally. While this period applies universally, regulators and standard-setting bodies have the flexibility to develop tailored implementation roadmaps, introduce phased approaches, or provide additional guidance to support NPOs within their jurisdictions, including to smaller NPOs. Given the importance placed on narrative reporting by stakeholders, adoption of narrative reporting with the two-year transition period is encouraged.

### **Reapplication of INPAS after ceasing compliance**

BC38.9 INPAS does not prescribe specific circumstances under which an NPO that previously applied INPAS but later ceased compliance can reapply the standard. This approach

aligns with INPAS's principles-based nature, allowing flexibility to accommodate diverse NPO contexts while ensuring consistent financial reporting practices. It is also consistent with the IFRS for SMEs Accounting Standard.

BC38.10 Respondents to ED3 sought clarity on whether an NPO that re-applies INPAS must automatically follow retrospective application under Section 10 or whether it may elect transition provisions under Section 38. NPOs have the option to choose between these approaches, depending on their circumstances. This ensures that organisations returning to INPAS compliance can do so in a way that minimises disruption while maintaining transparency.

BC38.11 NPOs may choose to enhance transparency by disclosing the rationale for their chosen approach, rather than only identifying the selected method, as required under G38.15. Providing this context may help build trust with stakeholders by enabling users of financial statements to better understand the reasons behind an NPO's transition decisions and promote greater consistency in financial reporting.

BC38.612 TAG members were also of the view that it may be useful for an NPO to explain which parts of ~~INPAG-INPAS~~ it has adopted and its plans for achieving full compliance with ~~INPAGINPAS~~. This statement could explain which aspects of INPAG an NPO plans to adopt and the associated timeframe. The scope for such a statement has been included in the ~~guidance~~Standard.

### **Comparative information**

BC38.713 Section 35 of the *IFRS for SMEs* Accounting Standard requires comparative information before being able to state compliance with the Standard. Consideration was given to whether comparative information would be needed on the first time adoption of ~~INPAGINPAS~~. For those NPOs that have not previously prepared financial statements, there would be no loss of information in allowing comparatives not to be required. A pragmatic exception in these circumstances would not diminish the information available and reduce barriers to adoption. For those entities that already produce financial statements using an international or national GAAP comparatives would be available and such an exception should not apply.

BC38.814 TAG members were all of the view that comparative information was necessary. They recognised that brought forward amounts would be needed to ~~reflect capture restricted funds with restrictions~~ and ~~unrestricted funds without restrictions~~. Comparative information would be needed to enable the opening balances to be determined. TAG members were therefore of the view that in practice this information could be available if planned as part of implementation arrangements.

### **Measurement and recognition of assets and liabilities Procedures for preparing financial statements at the date of transition**

BC38.915 Section 35 of the *IFRS for SMEs* Accounting Standard provides for deemed costs to be used where assets and liabilities were not previously recognised. For clarity, guidance on assets that are more common to NPOs has been added to ~~INPAG-INPAS~~ to confirm that a deemed cost may be used.



BC38.1016 ~~INPAG~~ ~~INPAS~~ has introduced ~~enforceable grant arrangements (EGAs)~~ ~~grant agreements with delivery obligations~~ that may have assets and/or liabilities associated with them on first time adoption and ~~also other funding arrangements (OFAs)~~ ~~grant agreements without delivery obligations~~ where there are considerations about what should be included as part of ~~restricted funds with restriction~~ or ~~unrestricted funds without restrictions~~. Consideration was given as to how these should be recognised on first time adoption. Given the need to split accumulated funds between ~~restricted funds with restriction~~ and ~~unrestricted funds without restriction~~ it was acknowledged that a prospective approach would not be possible and there would be a need for retrospective application of ~~INPAG-~~INPAS~~~~ to at least some transactions. To reduce the implementation work required TAG members supported a proposal that agreements that have been completed or are due to complete within 12 months of the date of transition ~~to INPAS~~ need not be included.

BC38.17 Respondents to ED3 identified challenges in carrying out the procedures for first time adoption. This included the ability to carry out fair value measurements to generate the deemed costs of assets and liabilities, availability of historical information, accounting systems and lack of capability. These challenges are acknowledged. Future educational resources, and other guidance materials will be developed to help address these challenges.

~~BC38.11=Minor changes have been proposed to align with other sections including the removal of references to share-based payments and in respect of terminology.~~

## Implementation Guidance

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### Section 2 – Concepts and pervasive principles

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#### The objective of non-profit organisations' general purpose financial reports

##### Users of general purpose financial reports

##### *Are donors and other funders primary users of financial statements?*

IG2.1 Paragraph G2.7 confirms that donors (and other funders) are acting as primary users when they do not have rights to demand information tailored to meet their particular information needs. However, donors' (and other funders') needs are complex because in some instances they may only have access to generally available information and in other instances they may be able to require information to be tailored to meet their particular needs (special purpose financial reports). When donors (and other funders) are not requesting special purpose financial reports they are, ~~however~~, primary users.

IG2.2 ~~These~~ Any special purpose financial reports are outside the scope of INPAS. However, INPAS Practice Guide 1: *Supplementary Statements for donors* offers a standard format for an optional supplementary statement that can meet the financial accountability needs of grantors.

**What information might be needed by resource providers and the public that benefit from the goods and services provided by NPOs or on the activities that they carry out?**

**IG2.3** Resource providers and the public that benefit from the goods and services provided by the NPO or on the activities that they carry out need the financial and non-financial information in an NPO's general purpose financial report. This is to support accountability and decision making in the following areas:

- The financial activity of the NPO during the period. This will include information on how an NPO meets its missional purposes (including financial and service objectives). It will include information to assess whether the NPO has used resources in a way which maximises economy, efficiency, and effectiveness in the delivery of its activities. For example, information in the Statement of Income and Expenses and Statement of Changes in Net Assets will inform assessments of how an NPO has met its financial objectives and whether it has acquired its resources economically. The narrative report will also provide information on financial performance.
- The sustainability of the NPO's activities over the long term and the demonstration of the achievement of its objectives. An NPO will need to provide users with information on its levels of funds and reserves throughout an its general purpose financial reports. It will need to be able to demonstrate that it will be able to access long term funding sources and that these resources can meet current and future costs related to future activity.
- Liquidity (ie resources available to meet current obligations) and solvency (ie resources to meet future obligations). The Statement of Cash Flows and associated notes will contain the relevant information.
- The ability of the NPO to comply with the specifications set by government regulatory or other similar bodies that the NPO must satisfy in providing services and raising resources. The narrative report will be able to provide information to support this.

**Qualitative characteristics of information in general purpose financial Reports**

**Fundamental qualitative characteristics**

**45How might an NPO make decisions about materiality in the general purpose financial reports?**

**IG2.4** NPOs need to assess the needs of their primary users. This assessment guides how NPOs report financial information and what information is important. It is therefore fundamental when considering materiality.

**IG2.65** When making materiality judgements, an NPO needs to consider the impact information could reasonably be expected to have on existing and potential primary users of its general purpose financial reports. Those primary users are:

- resource providers;
- the public that benefit from the goods and services provided by NPOs; and
- those acting as representatives of the interests of resource providers and the public that benefit from the goods and services provided by NPOs.

These are users who cannot require NPOs to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. In addition to those primary users, other parties, such as the NPO's management, regulators and other members of the public, (ie those that do not benefit from the goods and services provided by the NPO) may be interested in financial information about the NPO and may find the financial statements useful. However, the financial statements are not primarily directed at these other parties.

- IG2.76 When assessing whether information is material to the financial statements and narrative report, an NPO applies judgement to decide whether the information could reasonably be expected to influence decisions that primary users make based on those financial statements. When applying such judgements, the NPO considers both its specific circumstances and what the information provided in the financial statements contributes to the decision making needs of primary users.
- IG2.87 The application of materiality is vital to support accountability and decision making. The definition of materiality at paragraph G2.22-23 focuses on information being material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make based on those reports.
- IG2.8 INPAS requirements only need to be met if their effect is material to the complete set of financial statements (including prior period information) and the narrative report. Judgements made on materiality are pervasive to general purpose financial reports. This means that all decisions (judgements) on information to be included in NPO general purpose financial reports, including recognition, measurement, presentation and disclosure, will be subject to materiality considerations. This includes what information can be aggregated or shown separately.
- IG2.109 The information needs of primary users are discussed in paragraphs IG2.2 – IG2.3 above. When making materiality judgements NPOs need to ensure that the needs of both existing and potential users are met. For example, where an NPO provides medical services using both donated and non-donated assets (including hospitals and outreach centres to be able to serve the various local communities) it needs to consider the common information needs of its primary users. The NPO considers that the current users of the financial statements are the funders providing the donated assets. However, to decide what might be material information and to make the relevant materiality judgements the NPO must consider not only the current users of the financial statements, but also potential users. These potential users include:
- donors or funders that might contribute resources in the future;
  - service users or other members of the community that rely on the medical services provided by the NPO; and
  - individual members of a local government body that act on behalf those in receipt of the medical services.
- IG2.110 An NPO is only required to apply INPAS recognition and measurement requirements when the effect of applying them is material. An NPO might conclude that an item of information is material for various reasons. Those reasons include the item's nature (qualitative) or size (quantitative), or a combination of both, judged in relation to its circumstances. The NPO's assessment is thus both quantitative and qualitative.

IG2.1211 For example, Section 17, *Property, plant and equipment* requires that an NPO recognise an item of property, plant and equipment when it meets the criteria in paragraph G17.4. An NPO has assessed that its accounting policy to not capitalise ~~its certain~~ some low value expenses on property, plant and equipment will not have a material effect on the current financial statements or on future financial statements. This is because information reflecting capitalised amounts and their depreciation that are below ~~the~~ this low value threshold could not reasonably be expected to influence decisions made by the primary users of the NPO's financial statements. The NPO therefore decides to establish an accounting policy of only capitalising items of property, plant and equipment above a certain threshold.

IG2.1312 Materiality can also affect how information is presented and disclosed. For example, an NPO might carry its property, plant and equipment at historical cost in the Statement of Financial Position. However, it may have a single investment property that it cannot reliably measure at fair value, and which is therefore measured at historical cost less accumulated depreciation and impairment. Paragraph G4.2 requires investment properties held at historical cost less accumulated depreciation to be presented as a separate line item in the statement of financial position.

IG2.1413 However, if the NPO determines that the carrying value of the single investment property is not material it might decide to present it in the property, plant and equipment line item. The NPO may also take the decision to report the item as a separate column in the reconciliation of the property, plant and equipment note showing separately aggregations of items of property, plant and equipment and the investment property.

IG2.14 The example of the application of materiality in IG2.13-IG2.14 above is based on an assessment of quantitative materiality and assumes that there are no relevant qualitative factors.

#### ***What factors should an NPO consider to assess materiality?***

IG2.165 Paragraph G3.17 requires that an NPO assess whether information, either individually or in combination with other information, is material in the context of its financial statements when these are taken as a whole. This means that while information is not judged to be material on its own, it might be material when considered in combination with other information in the complete set of financial statements.

IG2.176 An NPO will normally assess whether financial information is quantitatively material by considering the size of the impact of the transaction, other event or condition. This is considered against measures of its financial position (eg net assets), financial performance (eg income, expenses and/or surplus or deficit) and cash flows.

IG2.187 The assessment includes not only the size of the impact of a transaction that it recognises in its primary financial statements but also takes account of any unrecognised items that could ultimately affect primary users' overall perception of the NPO's financial position, financial performance and cash flows (eg contingent liabilities or contingent assets). The NPO needs to determine if the impact is of such a size that information about the transaction, other event or condition could reasonably be expected to influence its primary users' decisions about the NPO including the provision of resources to it. So this might, for example, be decisions about when to

recognise an item or income or expense in the financial statements (timing) or whether an item is so material that it should be presented on the face of the Statement of Income and Expenses or otherwise included in the relevant disclosures.

IG2.198 Identifying what measures to use for the quantitative assessment is a matter of judgement. Measures may be a specified amount (threshold amount), a rate (percentage) relative to amounts in the primary financial statements or some other level and these are often used as a tool in making materiality judgements. The measure selected will need to be appropriate for the transaction, event or condition.

IG2.2019 An assessment about materiality is often made with reference to the overall level of income. However, as income can fluctuate between years, it may be more appropriate to use expenses as a reference point. Judgements about materiality depend on which measures are of significant interest to the primary users of the NPO's financial statements. Other example measures might be:

- overall revenues for grants and donations;
- total expenses;
- the NPO's financial surplus or deficit;
- total funds in net assets;
- total non-current assets;
- financial position ratios; and
- cash flow measures.

IG2.240 Materiality assessments also require analysis of NPO specific and external qualitative factors. Qualitative factors related to an NPO's transactions, other events or conditions include, but are not limited to:

- Local and national interest, including political or community interest, in a transaction, event or condition.
- Receipt of a donation from an individual or organisation with conflicting objectives to those of the NPO.
- Related party involvement in an NPO.
- Uncommon or non-standard features in an NPO's operations.
- Unexpected variations or unexpected changes in trends.

IG2.212 An NPO could identify an item of information as material based on one or more materiality factors. Generally, the more factors that apply to an item, or the more significant those factors are, the more likely it is that the item is material. These factors may need to be considered individually or as a combination of factors.

IG2.232 External qualitative factors relate to the context in which an NPO operates. This might be related to transactions, events or conditions that if present are more likely to influence primary users' decisions. They might include but are not limited to the economic or regulatory environment, an NPO's location, the sector an NPO operates in, regulatory issues or the particular concern that many NPOs and their primary users have for environmental issues.

IG2.243 The presence of qualitative factors generally lowers the thresholds for the quantitative assessment. The more significant the qualitative factors, the lower those quantitative thresholds will be.

## ***How might materiality judgements affect presentation of information in general purpose financial reports?***

IG2.254 An NPO will need to use materiality judgements to present information in the financial statements in a clear and understandable way, this might be to:

- aggregate or disaggregate information;
- emphasise material matters or items of information;
- describe transactions as simply as possible without omitting material information or adding to the length of the general purpose financial report;
- provide information in a way that maximises, to the extent possible, comparability among NPOs and across reporting periods;
- highlight relationships with different pieces of information across the general purpose financial report;
- present information appropriately for primary users, for example, in a narrative or tabular format;
- avoid or minimise duplication in different parts of the general purpose financial report.

IG2.265 An NPO will need to consider the overall perspective of its financial position, financial performance and cash flows, along with its non-financial information. It also needs to consider the relationships between different items of information and aggregations of information which might lead to an item being assessed as material. NPOs must also consider whether the NPO's financial position, financial performance and cash flows, along with its non-financial information, are presented in a fair and understandable way to avoid obscuring material information.

### **How will materiality interact with regulatory requirements?**

IG2.26 For an NPO to confirm compliance with INPAS it must comply with the requirements of its sections including those related to materiality. An NPO cannot provide less information than required by INPAS and confirm compliance even if local laws and regulations permit otherwise. Conversely, local laws and regulations may specify requirements which will require information to be provided even if this does not meet an NPO's quantitative or qualitative measures of materiality. This might, for example, include information to be reported on remuneration. In such cases providing information in accordance with the regulatory requirements is permitted by INPAS though NPOs should avoid obscuring material information in the financial statements.

### **Undue cost and effort**

#### ***How does an NPO determine when it can or should use the undue cost or effort exemption?***

IG2.427 An undue cost or effort exemption is available to reporting NPOs for **some certain** requirements in **INPAGINPAS**. As explained in **G2.3439–G2.3540** this will depend on:

- a) the NPO's specific circumstances;
- b) management's judgement on the costs and benefits from applying that requirement; and
- c) the information available at the time of the assessment.

IG2.228 It is important that NPOs do not treat the undue cost or effort exemptions as accounting policy choices. They are not. An accounting policy choice is appropriate when INPAGINPAS explicitly includes options for the accounting treatment for an item or transaction, such as a cost measurement basis for the valuation of certain assets ~~as its accounting policy. In this case a~~ An undue cost or effort exemption would be relevant specifically for those situations where management has selected the fair value measurement basis for the valuation of those ~~assets, but~~ assets but is unable to determine a fair value without undue cost or effort and hence uses the exemption and values them using cost as a measurement basis.

~~IG2.3—It is also important that whenever an undue cost or effort exemption is used, NPOs disclose this and the reasons why applying the requirement would in management's judgement involve undue cost or effort.~~

### **What factors might lead to undue costs and/or undue effort?**

IG2.429 ~~The An~~ NPO's specific circumstances will ~~obviously~~ vary ~~depending on the individual NPO~~ and this will be a driver of the cost and level of effort required. It is not possible to reflect all ~~possible situations~~ situations, but factors may include:

- the relative costs of producing the information in relation to the benefit to users; ~~the~~ the cost of producing the information would be expected to be material to the NPO's income and expenses;
- the practicalities in obtaining the information needed;
- the expectation that, if the information relates to the first occurrence of the type of transaction, whether the initial cost from its recognition and measurement, although initially significant, will be lower on an ongoing basis;
- consideration of the asset's or liability's significance in relation to the NPO's operations when applying the undue cost or effort provisions ~~significance of the asset or liability to which the undue cost or effort provisions are being applied in terms of the operations of the NPO;~~ and
- consideration of the asset's or liability's significance in relation to an NPO's assets ~~of when applying the undue cost or effort provisions the asset or liability to which the undue cost or effort provisions are being applied in terms of the NPO's net assets.~~

IG2.530 In determining the NPO's specific circumstances, an NPO should consider T these factors, alongside other relevant context, ~~should be considered~~ individually and collectively ~~in determining the NPO's specific circumstances~~. As an example, there may be no suitably qualified valuers in the jurisdiction in which an NPO operates an asset that requires measurement. A valuer would need to physically inspect the asset to provide a valuation, and therefore a valuer from another jurisdiction would be needed. This may result in an 'undue cost or effort', because of a language barrier or the cost of travel and/or subsistence. An NPO also might need to consider the specific circumstances of t ~~The absence of a valuation professional might generate a specific circumstance, and this would need to be considered~~ in the context of the other factors. It may or may not in itself be sufficient to support an exemption.

**How should an NPO measure the impact of the benefits to users in the context of undue cost or effort?**

IG2.631 Management's judgement on the impact on the benefits that users, including management, would gain from applying that requirement requires consideration of:

- a) how the economic resource allocation and other decisions of those that are expected to use the financial reports could be affected by not having that information; and
- b) whether there is undue cost or effort involved in the incremental cost or additional effort that would substantially exceed the benefits to users of the financial reports.

IG2.732- These judgements are concerned with the users of the financial information. ~~Consideration needs to be given to~~ An NPO needs to consider the benefits that users of general purpose financial reports might have had if the information had been available and therefore the impact of it not being available. Management will need to consider and be able to explain factors such as:

- the reliance that users might have placed on the affected information;
- the extent to which this information is routinely provided by other NPOs in the locality or in the NPO's field of activity;
- the importance of the information to the financial objectives of the NPO; and
- the loss of the information to the understanding of the NPO's financial resilience.

**How might management judgement decide to exercise the judgement for the undue cost or effort exemption?**

IG2.833 Management must not use the undue cost or effort exemptions to avoid providing information that an NPO would prefer not to disclose. The exercise of judgement is fundamental to decisions made. As required in G2.3641, management must be able to explain its rationale for exercising the exemption through disclosures in the notes to the accounts. The explanation should identify:

- the key factors that have led to management's decision;
- the weight applied to each of these factors;
- how the balance of the factors had led to the conclusion; and
- cover both the impact on costs and effort as well as the impact on the loss of information.

~~IG2.34 An NPO will need to make review~~ assess its decisions on the use of undue cost or effort exemptions after the initial decision if the latest information at the reporting date changes. This may result in the removal of the exemption or change the reasons for its use, which an NPO should report. As is noted in paragraph G2.40 if the undue cost or effort exemption applies after initial recognition to a subsequent measurement of an item, for example, where the fair value of investment properties cannot be measured reliably without undue cost or effort, a new assessment of undue cost or effort should be made at that subsequent date based on information available at that date.



## General purpose financial reports and the reporting NPO

### **The reporting NPO**

#### *What does an NPO need to consider when determining its reporting boundary?*

IG2.36 There may be circumstances it is difficult to identify the reporting NPO. This might be when:

- the organisational structures are complex or hard to define; or
  - the potential reporting entity might be a part of a legal entity; or
  - the potential reporting entity may be a combination of two or more legal entities.
- Complexities may also come from the existence of branches. See paragraphs IG2.45-IG.46 for more guidance on the identification of branches.

IG2.37 Paragraphs G2.48-G2.51 set out the requirements relating to the identification of a reporting NPO, including the need to prepare general purpose financial reports as if it were one economic entity or other complete set of activities.

IG2.38 An economic entity or other complete set of activities is likely to exist where there is an identifiable and integrated set of activities and assets operated to raise or manage funds and resources for the NPO. The NPO uses these collective resources to provide services and goods for the benefit of the public.

IG2.387 There may be circumstances when it is difficult to identify the reporting NPO. This might be when:

- the organisational structures are complex or hard to define; or
  - the potential reporting entity might be a part of a legal entity; or
  - the potential reporting entity may be a combination of two or more legal entities.
- Complexities may also come from the existence of branches. See paragraphs IG2.45-IG.46 for more guidance on the identification of branches.

IG2.38 When difficulties remain in identifying the reporting NPO, NPOs will also need to apply paragraph G2.53, which requires the determination of the boundary of the reporting NPO by examining the existence of users and their information needs. These users of the reporting NPO's general purpose financial reports will include:

- the public, to whom the NPO provides services and goods;
- resource providers to the NPO; and
- those acting in their capacity as representatives of the interests of resource providers and the public that benefit from the goods and services provided by NPOs.

IG2.39 INPAS expects users of the general purpose financial reports to be able to take economic or other decisions based on the information provided in these reports. The reports should also provide transparency over how an NPO has demonstrated accountability in relation to a range of obligations. In many cases, the range of users who are dependent on the general purpose financial reports for accountability purposes, making decisions or allocating resources will be obvious. However, to determine who the users might be and their need for financial reporting, it may be necessary to consider such factors as:

- whether management is acting on behalf of others providing resources;

- impacts of the entity NPO's activity on the welfare of external parties; and
- the financial characteristics of the entity NPO, including its size.

IG2.40 In considering size, NPOs should take account of all relevant information, including the level of any indebtedness, the number of transactions, the amount of financial and other resources it receives, and the number of members of the public who benefit from the services and goods it provides by the NPO. The larger the size of the NPO, the more likely that users will exist who use the financial or other reported information for decision-making and accountability purposes.

IG2.41 When assessing the boundary of a reporting NPO based on the existence and information needs of users, it is essential that the boundary:

- does not contain an arbitrary set of economic activities (or other set of activities related to its purposes)
- that is incomplete (ie if the financial information provided would be incomplete and lack neutrality, this would not meet the requirements for faithful representation of transactions); and
- results in information for the users of the general purpose financial reports that is neutral, in accordance with the requirements for faithful representation (ie the information presents what it purports to represent).

**What does the reporting NPO need to consider when it operates through a system of branches?**

IG2.42 NPOs may operate through a system of branches, which are administrative arrangements. This is whereby the arrangement of the NPO's operating structure is according to function, location, or other factor to facilitate its administration. These branches may include supporters' groups, members' groups, or offices in various locations, and they may operate nationally or internationally. When the branch is a part of a reporting NPO (for example, an internal subdivision of a reporting entity), the general purpose financial reports of the reporting NPO should include the activities of the branch. INPAS describes such internal subdivisions as internal branches.

IG2.43 A branch may produce a separate general purpose financial report because of legal or other regulatory requirements. However, INPAS requires that the NPO still considers its relationship, if any, with that branch or other reporting NPO entity for financial reporting purposes.

**How might a reporting NPO identify of internal branches?**

IG2.44 An NPO may consider the following factors to assist in its decisions about whether an operational structure is an internal branch of an NPO and not a separate reporting entity. The operational structure:

- is not a separate legal structure;
- is not required to provide separate general purpose financial reports;
- uses the name of the reporting NPO in its title, its letterheads, on its website or as a part of its publicity;
- raises funds solely for the reporting NPO;
- presents itself to the public as a local or other form of representative of the reporting NPO; and/or

- receives financial and administrative support, instruction, and advice from the reporting NPO.

Note the list above is not exhaustive.

IG2.45 Consideration of these factors will require judgement. Displaying just one of the factors may not mean that an organisation meets the definition of a branch, but in combination with another might lead the reporting NPO to decide that it is an internal branch.

**How should assets, liabilities, net assets, income and expenses of branches be recognised?**

IG2.46 There might be occasions when an internal branch produces separate regulatory general purpose financial reports but may still be an internal branch. In such circumstances, the NPO must recognise all the income, expenses, assets, and liabilities in its financial statements. This is unlikely to be regularly the case but might happen where, for example, an international NPO has internal branches in separate jurisdictions and where one or more of those jurisdictions requires that the organisation (which is an internal branch of the international NPO) produce separate general purpose financial reports.

IG2.47 An NPO must record all transactions of an internal branch as gross within its general purpose financial reports and not net them off against other transactions within its own separate general purpose financial report unless another Section in this Standard permits such netting off. Where a reporting NPO consists of multiple branches any intra-branch transactions should be eliminated within the financial statements of the reporting NPO.

IG2.48 Branches may hold separate bank accounts and/or produce financial statements for their own purposes. However, the general purpose financial reports of the reporting NPO must include the transactions of an internal branch or branches including its assets, liabilities, net assets, and restricted and unrestricted funds in net assets and income and expenses.

IG2.49 For example, the reporting NPO must recognise in its financial statements all its funds raised by internal branches as income where they meet revenue recognition criteria in [Section 23 Revenue](#).

***How does an NPO determine whether a subscription or fee-based structure is a reporting NPO or ~~some other~~ form of reporting structure?***

IG2.950 Some NPOs may ~~be established~~ operate under a subscription or fee-based structure. In such circumstances the NPO may pay a subscription or a fee to a national or international NPO as a means to fund that NPO. A national or international NPO ~~is then required to~~ will set the parameters under which the subscribing or fee paying NPOs ~~are required to~~ operate. The subscribing or fee-paying organisations that operate under such frameworks might take the form of the three structures discussed in the table below:

Table 1: Typical forms of operating structures that are subscription or fee based

	Type of organisation	How should the organisation be treated? Accounting treatment
1	Part of the national or international organisation (this may or may not be operating as an internal branch)	<del>INPAGINPAS</del> requires that the financial and other transactions are included in the general purpose financial reports of the national or international NPO.
2	A separate legal entity or other incorporated structure which has a relationship with the national or international NPO	<del>INPAGINPAS</del> requires that the NPO ascertain the financial reporting relationship, if any, with that organisation in accordance with Sections 2 and 9.
3	Separate legal entities or other incorporated structure where there is no financial reporting relationship with the NPO	<del>INPAGINPAS</del> requires these organisations to produce general purpose financial reports as a separate reporting NPO (if meeting the definition of a reporting NPO). Where relevant the NPOs should follow national financial reporting requirements.

***How does an NPO determine that organisations established as a separate legal entity to manage the financial burden or risk of the activities of the NPO, or purely for fundraising activities, are reporting NPOs or another form of structure?***

~~manage the financial burden or risk of the activities of the NPO, or purely for fundraising activities, are reporting NPOs or some other form of structure?~~

IG2.1051 ~~Some~~ NPOs may be established as separate legal entities to:

- undertake specific activities;
- manage the risk of loss; or
- for the sole purpose of raising funds, for example to provide financial support to a hospital.

IG2.1152 The NPO that creates these separate legal entities will need to establish its financial reporting relationship, if any, with these separate legal entities (including any reporting NPOs) based on the provisions in Section 2 on the identification of a reporting NPO and the definition of control in Section 9 of ~~INPAGINPAS~~.

***How does an NPO determine that organisations using affiliated structures are a reporting NPO or ~~some an~~ other form of structure?***

IG2.1253 ~~Some o~~rganisations may ~~be established operate and described~~ as 'affiliated' structures. These organisations may include both individuals and/or other organisations including NPOs as members. These members may pay a fee or subscription for access to services or other membership benefits. ~~These~~ When these relationships are more akin to a customer-supplier relationship, ~~and therefore the NPO~~

~~has not established~~ a financial reporting relationship ~~has not been established between the NPO and the~~ with its members.

### ***When might an NPO need to consider service potential?***

IG2.54 Assets held by NPOs that embody service potential may be held, for example, for community purposes, or for medical or recreational purposes and are used to provide or support services for the public that use them. Such services may be for collective or individual consumption and payment for those services might be at cost or for a nominal charge. Services may be provided in areas or activities in which market competition is limited or non-existent or alternatively may be provided on an economic basis or not.

## **Illustrative examples – Section 2 – Reporting NPO**

The following illustrations assume that the relevant transactions are material.

### **Example 1. ~~Charitable theatre NPO and fee-paying charitable companies – different operating structures~~ Separate legal entities with a relationship with an NPO**

#### Background

~~Entity A, an NPO, has been established to~~ NPO A promotes ~~the~~ dramatic arts throughout a ~~nation~~ jurisdiction. ~~A subdivision operates. One of the activities, which is run by a sub-division, is the operation of~~ the “For Everyone Theatre”, which develops theatrical plays that promote diversity. The “For Everyone Theatre” has a separate bank account to manage the income from the theatre sales.

~~Entity~~ NPO A establishes six NPO entities which tour the plays developed by “For Everyone Theatre” across six of the regions of the nation. It establishes the governing bodies for each of the entities, where it appoints the majority of the membership of each board. There is a standard constitution to operate within a set of parameters. Each of these entities pays 50% of its ticket sales to ~~Entity~~ NPO A when they reach a certain agreed level. ~~NPO A uses t~~ This fee is used to develop the plays for the following year’s programme of the “For Everyone Theatre”. Other NPO theatre groups can also pay a fee for the plays and may use the national logo for the diversity-based ~~plays~~, though they must agree to perform the plays as written.

#### Analysis

~~NPO A includes T~~ the “For Everyone Theatre” transactions, including the financial assets in the bank account, ~~are included in the financial statements of Entity A in its financial statements.~~

The six NPO theatre entities are separate legal entities and ~~Entity~~ NPO A needs to establish the financial reporting relationship with those companies. As ~~Entity~~ NPO A establishes the constitution, appoints the majority of the voting members of the governing body, and ~~is able to~~ benefits from the relevant activities (both receipt of the fees and the promotion of the relevant activities established under the constitution), ~~Entity~~ NPO A ~~would~~ controls the ~~six~~ NPO theatre entities.

Other NPO theatre groups that were not set up by ~~Entity~~ NPO A are separate entities (or ~~possibly~~ parts of separate entities). Entity A has no power in relation to their governing bodies or the operation of these theatre groups. ~~and so t~~ I there is no direct financial reporting relationship with

Entity A. These theatre groups ~~would~~ produce their own financial statements under the provisions of ~~INPAGINPAS~~ or other GAAP under which they might operate.

### **Example 2. ~~Hospital charitable company established for fundraising purposes~~ Entity established by an NPO**

#### Background

~~Entity NPO B~~, a hospital, decided ~~that~~ to have a more focused approach to fundraising, it ~~therefore would~~ set up a separate NPO Entity (~~Entity NPO C~~) solely to raise funds for the hospital. This ~~would allow~~ ~~Entity CNPO C~~ to focus on attracting legacies from individuals in the locality and ~~to ensure that they invest the~~ resources ~~are invested~~ to maximise returns (provided this was effectively risk managed and in accordance with the charitable purposes of ~~the Entity NPO C~~).

~~Entity NPO B~~ establishes ~~the fundraising Entity NPO C~~ using the name of the hospital and establishes its purposes such that fundraising is solely for use by the hospital. ~~Entity NPO C puts in place arrangements for a regular dividend to be paid~~ ~~pays a regular dividend~~ to the hospital to fund services.

#### Analysis

Based on the facts and circumstances outlined above and because ~~NPO B~~:

- ~~the hospital~~ has established the charitable purposes of ~~Entity NPO C~~; and
- determines ~~how the utilisation use of those resources are utilised~~; and
- ~~Entity B~~ has created a mechanism where it has power over the relevant activities of ~~Entity NPO C so as to~~ benefit from these relevant activities. ~~A~~ as a result, ~~Entity NPO B~~ controls ~~Entity NPO C~~.

~~Entity NPO B~~ would include ~~Entity NPO C~~ into its consolidated financial statements ~~accounts~~ as a controlled entity.

### **Example 3. Affiliated organisations**

#### Background

A tennis association, ~~Entity NPO D~~, ~~is established across a nation to~~ improve the fitness of ~~that a~~ nation through the medium of tennis. There are ~~20 twenty~~ separate legal entities, tennis clubs that pay a subscription to the association and receive non-mandatory advice and guidance on how to run a tennis club to improve the fitness in a local area and on issues such as inclusivity and outreach. Individuals not able to sign up to a club can become members of the association for a small fee. ~~NPO D and they are~~ provided ~~s with a link to~~ regular videos to improve their skills and ~~the individuals~~ can update a chart when they have ~~achieved mastered~~ a particular skill.

#### Analysis

The ~~20 twenty~~ separate legal entities have customer-supplier relationships with the umbrella organisation, ~~Entity NPO D~~.

While they receive advice and guidance from ~~Entity NPO D, NPO D, they are not required to~~ ~~does not require them follow to follow~~ that advice and guidance.

and Entity NPO D does not have power over the relevant activities or funds of these separate legal entities.

Entity NPO D may be a reporting NPO, as a separate legal entity. The 20 twenty tennis clubs are also separate legal entities. However, as their relationship with Entity NPO D is only about concerns the provision of services, and Entity NPO D does not have power to control their activities or funds, they will produce their own financial statements, and not be consolidated into the financial statements of Entity D. NPO D will not consolidate them into its financial statements.

#### Example 4. Internal branches

##### Background

A national NPO Entity E that supports educational needs across a nation. It has six potential internal branches, which are all separate unincorporated organisations. NPO E establishes the following organisations:

- Organisation A was established for fundraising raises funds for for Entity NPO E across the nation.
- Organisations B, C and D were set up to ensure to that resources were distributed resources effectively across communities identifying where need for services is greatest. They have all established separate bank accounts and produce informal quarterly financial accounts. Organisation D is always late with its monthly returns monthly returns and disputes the need to produce them. Its bank account was set up in the name of the chief finance officer.
- Organisation E was established to raise awareness of specific educational needs.
- Organisation F was established for administrative purposes provides administrative, to support for the effective operation of Organisations organisations A to E and to provide advice and guidance on operational and financial issues.

NPO E established A all six organisations were established to follow the constitution of Entity E its constitution. They use the same website, letter heads and the title of NPO E.

- All six organisations use the same website, letterheads and title of Entity E on a regular basis.

##### Analysis

Despite the separate bank accounts, all six organisations are internal branches to the national NPO Entity E. This is because the organisations meet four of the indicators factors that might indicate they are branches ie they:

- the branches are not separately incorporated;
- they do not have autonomous governing bodies;
- they follow the financial reporting and other operational requirements of the main NPO; and
- they use the same website and letterheads of the national NPO.

The funds raised by NPO E should recognise the funds raised by Organisation A should be recognised as its income of Entity E. Even though Organisation D challenges the structure, structure and has established and the bank account has been established in the name of the chief finance officer, the funds are used to benefit the recipients of the educational services of Entity NPO E. NPO E therefore recognises the transactions of organisation D and therefore are recognised as a part of the entity in its financial statements as a reporting NPO.

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## Section 3 - Financial statement presentation

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### Scope

#### What is the objective of NPO general purpose financial statements?

IG3.1 The objective of general purpose financial statements is to provide information about the financial position, income and expenses (financial performance) and cash flows of an NPO that is useful to existing and potential users of their financial reports for accountability and decision making. General purpose financial statements can also provide information useful for predicting the level of resources required for continued operations, the resources that may be generated by continued operations and the associated risks and uncertainties.

### Fair presentation

#### What should an NPO with public accountability consider regarding fair presentation and the use of INPAS?

IG3.2 Any NPO that has public accountability as defined in the IFRS Standards (see paragraphs G1.6-G1.7) can use INPAS to assist in preparing its financial statements. However, the simplifications and presentational differences in INPAS mean that an NPO with public accountability is unlikely to be able to assert (per paragraph G3.2) a fair presentation in accordance with INPAS, as it may be required to adopt financial reporting standards that differ from these requirements.

### Compliance with INPAS

#### What issues arise in terms of reporting compliance with INPAS?

IG3.3 Where all requirements of INPAS have been complied with, paragraph G3.3 requires that an NPO makes a statement in the notes to the financial statements that it has complied with the requirements. This statement cannot include any exceptions or caveats to the level of compliance with the Standard, except where an NPO discloses (in accordance with paragraph G3.5) that a departure from this INPAS is necessary to achieve fair presentation. If exceptions or caveats (other than as prescribed in paragraph G3.5) are used, then compliance with INPAS cannot be stated.

#### Where an NPO is applying some of the provisions of INPAG but does not plan to fully adopt, or is not permitted to adopt INPAG, what disclosures would help users understand its financial statements

IG3.8 The NPO should set out how it is accounting for material transactions in its accounting policies note disclosure. This is particularly important when material transactions are accounted for in accordance with a mixture of INPAG and another accounting framework(s).



IG3.9 — Additional disclosures that will help users understand the financial statements will depend on the NPO's specific circumstances, and the mixture of INPAG and another accounting framework that it is applying.

IG3.10 — Where the NPO is adopting INPAG requirements to supplement the requirements of another accounting framework, for example by following INPAG requirements for transactions that are not addressed by that other framework, the NPO could usefully disclose:

- a) — The transactions that are accounted for by applying the INPAG requirements.
- b) — An explanation of why it is not able to apply the other accounting framework to these transactions.
- c) — An explanation of the extent to which the INPAG requirements are consistent with the concepts and principles underlying the other accounting framework.

IG3.11 — Where the NPO is generally adopting INPAG except for certain types of transaction, the NPO could usefully disclose:

- a) — Which transactions are not accounted for by applying the INPAG requirements, and the accounting treatment adopted for those transactions.
- b) — An explanation of why the NPO is not applying the INPAG requirements in accounting for those transactions (which may be that the relevant regulator requires an alternative treatment).
- c) — An explanation of the how the financial statements would differ if the requirements of INPAG had been applied. Quantifying these differences, where this can be done without undue cost, is likely to be beneficial to users.

### **Going concern**

#### **What factors should an NPO consider to assess whether it should produce its general purpose financial statements using the going concern basis of reporting?**

IG3.4 — Before it is appropriate to conclude that the going concern assumption in accordance with paragraphs **G3.8–G3.9** is appropriate, those responsible for the preparation of financial statements will need to consider a wide range of factors, including material uncertainties in the operating environment of the NPO. Factors include:

- a) — current and future demand for services and goods;
- b) — potential and announced restructurings of organisational units, including decisions to cease any operations;
- c) — political, legal or regulatory changes;
- d) — estimates of revenue or the likelihood of continued funding; and
- e) — potential sources of replacement financing.

IG3.5 — Such considerations will depend on the facts in each case. Assessments of the going concern assumption are not necessarily predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the NPO is nonetheless a going concern. For example, there may be multi-year funding agreements or other arrangements in place that will ensure the continued operation of the NPO.

### **Consistency of presentation and comparative information**

### **What are the implications for consistency and comparability for NPO general purpose financial statements?**

IG3.6 Comparability is an enhancing qualitative characteristic of useful financial information. It enables users to identify similarities in, and differences between, two sets of items. Comparability is not a characteristic of an individual item of information but rather a quality of the relationship between two or more items of information.

IG3.7 Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an NPO or in a single period across more than one NPO. Comparability is the goal, and consistency helps in achieving that goal. In some cases, the accounting principles or policies adopted by an NPO may be revised to better represent a particular transaction or event in **general purpose financial statements**. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.

IG3.8 Information about an NPO's financial position, income and expenses, cash flows, achievement of objectives or operational performance, compliance with relevant legislation or other regulations governing the raising and use of resources, and its future plans is necessary for accountability purposes and useful as an input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:

- a) prospective financial and non-financial information previously presented for that reporting period or reporting date;
- b) similar information about the same NPO for some other period or some other point in time; and
- e)c) similar information about other NPOs (for example, NPOs providing similar services in different jurisdictions) for the same reporting period.
- d) \_\_\_\_\_

### **When should comparative information be provided for narrative and descriptive reporting?**

IG3.49 G3.145 requires that comparative information is provided for narrative and descriptive information where it is relevant to an understanding of the current period's financial statements. This will require judgement about how best to meet the objectives of financial reporting and the NPO to assess the information needs of the primary users of the its financial statements.

IG3.510 The judgement about when comparative information should be provided about for narrative and descriptive information should take account of the materiality of the information to the delivery of the NPO's performance or financial objectives and the NPO's overall purpose or mission. -These considerations include whether the comparative information provides material information about:

- (a) the progress that the NPO has made in achieving its purposes or mission;
- (b) how the NPO intends to meet its purposes or mission in the future;
- (c) the context they it provides for to evaluating the financial sustainability of the NPO;
- (d) how the NPO has used or intends to use its existing resources (people and assets);
- (e) how the NPO is dealing with any legal or regulatory issues;
- (f) how the NPO has worked or intends to work with key partners or communities;

- (g) how the NPO has impacted or intends to impact on the environment;
- (h) how the NPO has generated or intends to generate the financial resources it needs.

## **Materiality and aggregation**

### **How do materiality and aggregation impact on the presentation of an NPO's financial statements?**

IG3.11 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation is the presentation of summarised information which is classified or aggregated as required by INPAS. This may form line items on the face of the Statement of Financial Position, Statement of Income and Expenses, Statement of Changes in Net Assets, and Statement of Cash Flows or be presented in the notes.

IG3.12 Paragraphs **G3.15-G3.17** require that in classifying items in the financial statements, similar material items must be separated, and that dissimilar, immaterial items may be aggregated. The presentation of information in the financial statements must take account of materiality. If a line item is not individually material, it can be aggregated with other items, either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.

IG3.13 The judgement about how to classify items in the financial statements should focus on whether disclosure of information is important to the user's understanding of the financial statements. Items that are material by nature or by amount should be separately disclosed.

IG3.14 INPAS does not permit the aggregation of each material class of items in any individual financial statement, as it could mislead users of the financial information. Separation is required to help provide an appropriate understanding of the financial position, financial performance and cashflows of the NPO.

## **Complete set of financial statements**

### **Can an NPO use different names for the each of the financial statements listed in paragraph G3.19 (or labels for headings and line items)?**

IG3.15 The financial statements listed in G3.19 can be referred to different names within and across jurisdictions. The Statement of Financial Position may also be referred to as a balance sheet. The Statement of Income and Expenses may also be referred to as a statement of financial performance, an operating statement, or a statement of financial activities. The notes may include items referred to as schedules. The use of alternative names to those listed in G3.19 is permitted provided the names used would not mislead the users of the financial statements.

IG3.16 An NPO's should use titles, including labels for headings and line item descriptions that are in the NPO's view going to be most meaningful for the users of its financial statements. INPAS expressly permits use of alternative titles, and labels for headings and descriptionline items to provide this flexibility. Alternatives may not be used if the overall effect is to mislead the users of its financial statements.

### **How should I present information in the financial statements?**

~~IG3.1 — INPAG sets out the components of financial statements and minimum requirements for disclosure on the face of the Statement of Financial Position and the Statement of Income and Expenses, as well as for the Statement of Changes in Net Assets. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes.~~

~~IG3.2 — Annex 1 contains illustrative financial statements, which provide simple examples of the ways in which the requirements of INPAG might be met for the presentation of the Statement of Financial Position, Statement of Income and Expenses, and linked Statement of Changes in Net Assets, Statement of Cash Flows and the notes to the financial statements. The order of presentation and the descriptions used for line items should be changed when necessary in order to achieve a fair presentation in each entity's particular circumstances.~~

~~IG3.3 — The examples are not intended to illustrate all aspects of INPAG. Nor do they comprise a complete set of financial statements, as further updates will be made to the INPAG as part of Exposure Drafts 2 and 3. A complete set of financial statements will be included in ED3.~~

### **When should comparative information be provided for narrative and descriptive reporting?**

~~IG3.4 — G3.14 requires that comparative information is provided for narrative and descriptive information where it is relevant to an understanding of the current period's financial statements. This will require judgement about how best to meet the objectives of financial reporting and the information needs of users of the financial statements.~~

~~IG3.5 — The judgement about when comparative information should be provided about narrative and descriptive information should take account of the materiality of the information to the delivery of the NPO's performance or financial objectives and the NPO's overall purpose or mission. These include whether the comparative information provide material information about:~~

- ~~a) the progress that the NPO has made in achieving its purposes or mission~~
- ~~b) how the NPO intends to meet its purposes or mission in the future~~
- ~~c) the context they provide to evaluating the financial sustainability of the NPO~~
- ~~d) how the NPO has used or intends to use its existing resources (people and assets)~~
- ~~e) how the NPO is dealing with any legal or regulatory issues~~
- ~~f) how the NPO has worked or intends to work with key partners or communities~~
- ~~g) how the NPO has impacted or intends to impact on the environment~~
- ~~h) how the NPO has generated or intends to generate the financial resources it needs.~~

**Where an NPO is adopting INPAG in a way that differs to the requirements of Section 36, what disclosure requirements are likely to be necessary to enable users to understand the financial statements?**

~~IG3.6 The NPO should set out how it is accounting for material transactions in its accounting policies. This is particularly important for material transactions that are not yet accounted for in accordance with INPAG.~~

~~IG3.7 Users will be interested in how the information in the financial statements can be expected to change in future in respect of matters not yet reported under INPAG. To meet this information need, the NPO should describe in the notes to the financial statements those parts of the Guidance where compliance has been achieved in the reporting year and in previous years as well as those areas where compliance has not yet been achieved. The NPO's plans for full adoption should also be set out so that there is transparency about the timeframe for full adoption and the level of completeness with the provisions of the Guidance in each financial year.~~

**Where an NPO is applying some of the provisions of INPAG but does not plan to fully adopt, or is not permitted to adopt INPAG, what disclosures would help users understand its financial statements**

~~IG3.8 The NPO should set out how it is accounting for material transactions in its accounting policies note disclosure. This is particularly important when material transactions are accounted for in accordance with a mixture of INPAG and another accounting framework(s).~~

~~IG3.9 Additional disclosures that will help users understand the financial statements will depend on the NPO's specific circumstances, and the mixture of INPAG and another accounting framework that it is applying.~~

~~IG3.10 Where the NPO is adopting INPAG requirements to supplement the requirements of another accounting framework, for example by following INPAG requirements for transactions that are not addressed by that other framework, the NPO could usefully disclose:~~

- ~~a) The transactions that are accounted for by applying the INPAG requirements.~~
- ~~b) An explanation of why it is not able to apply the other accounting framework to these transactions.~~
- ~~c) An explanation of the extent to which the INPAG requirements are consistent with the concepts and principles underlying the other accounting framework.~~

~~IG3.11 Where the NPO is generally adopting INPAG except for certain types of transaction, the NPO could usefully disclose:~~

- ~~a) Which transactions are not accounted for by applying the INPAG requirements, and the accounting treatment adopted for those transactions.~~
- ~~b) An explanation of why the NPO is not applying the INPAG requirements in accounting for those transactions (which may be that the relevant regulator requires an alternative treatment).~~
- ~~c) An explanation of the how the financial statements would differ if the requirements of INPAG had been applied. Quantifying these differences, where this can be done without undue cost, is likely to be beneficial to users.~~

### **How should ~~an NPO~~ present information in the financial statements?**

IG3.17 **INPAGINPAS** sets out the components of financial statements and minimum requirements for disclosure on the face of the Statement of Financial Position and the Statement of Income and Expenses, as well as for the Statement of Changes in Net Assets. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes.

~~IG3.18 The Standard allows for some flexibility over the presentation of the financial statements. Examples of how this flexibility can be used include:~~

- ~~a) an NPO can choose a different order of the financial statements to that prescribed in G3.19, as long as they have equal prominence;~~
- ~~b) an NPO can choose how to sequence the information as long as it complies with other elements of the Standard. For example, non-current assets might appear before current assets, and current liabilities before non-current liabilities to allow working capital to be presented in the financial statement. Judgements about sequencing must reflect the nature of the NPO and the needs of users of the financial statements;~~
- ~~c) information in the Statement of Financial Position may be presented to follow a 'vertical' or 'horizontal' presentation;~~
- ~~d) that an NPOs may choose to present their income before their expenses before arriving at the surplus or deficit from operating activities in the Statement of Income and Expenses. Alternatively, expenses can be presented first with income showing how expenses have been funded. An NPO is required to choose a format that best explains to users of the financial statements the activities, transactions, and events of the NPO.~~

~~IG3.2 Annex 1 contains illustrative financial statements, which provide simple examples of the ways in which the requirements of INPAG might be met for the presentation of the Statement of Financial Position, Statement of Income and Expenses, and linked Statement of Changes in Net Assets, Statement of Cash Flows and the Notes to the financial statements. The order of presentation and the descriptions used for line items should be changed when necessary, in order to achieve a fair presentation in each entity's particular circumstances.~~

~~IG3.3 The examples are not intended to illustrate all aspects of INPAG. Nor do they comprise a complete set of financial statements, as further updates will be made to the INPAG as part of Exposure Drafts 2 and 3. A complete set of financial statements will be included in ED3.~~

## **Illustrative Financial Statements and Table of Presentation and Disclosure Requirements**

### **Illustrative financial statements**

~~IG3.12—Section 3 *Financial statement presentation* of INPAG defines a complete set of financial statements and prescribes general standards of 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* and Section 8 *Notes to the financial statements* prescribe the format and content of the individual financial statements and notes. Other sections of INPAG establish additional presentation and disclosure requirements. The following financial statements illustrate how those presentation and disclosure requirements might be met by a typical NPO. Of course, each NPO will need to consider the content, sequencing and format of presentation and the descriptions used for line items to achieve a fair presentation in that NPO's particular circumstances. These illustrative financial statements demonstrate how the presentation and disclosure requirements might be met by an NPO more common NPO-specific. These illustrative financial statements should not be regarded as a template appropriate for all NPOs. The order of presentation and the descriptions used for line items should be changed when necessary, in order to achieve a fair presentation in each entity's particular circumstances.~~

~~IG3.13—The Guidance provides some flexibility over the presentation of the financial statements. Examples of how this flexibility can be used include:~~

- ~~a)—Information in the Statement of Financial Position may be presented to follow a 'vertical' or 'horizontal' presentation. In addition to these different forms of presentation, an NPO can choose how to sequence the information as long as it complies with other elements of the guidance. For example non-current assets might appear before current assets, and current liabilities before non-current liabilities to allow working capital to be presented on the financial statement. Judgements about sequencing shall reflect the nature of the NPO and the needs of users of the financial statements.~~
- ~~b)—In the Statement of Income and Expenses, NPO's may present their income before their expenses before arriving at the surplus or deficit from operating activities. Alternatively expenses can be presented first with income showing how expenses have been funded. An NPO shall choose a format that best explains to users of the financial statements the activities, transactions, and events of the NPO.~~

~~IG3.14—Different formats and sequencing of some illustrative statements are presented. INPAG does not specify the formats or sequencing of items to be used, and alternative formats or sequencing are permitted by INPAG. Consistent with paragraph G3.22 of INPAG, an NPO may use titles for the financial statements other than those used in these illustrations.~~

~~IG3.15—The illustrative financial statements are not intended to illustrate all aspects of INPAG.~~

~~IG3.16—INPAG does not require a Statement of Financial Position at the beginning of the earliest comparative period. The following illustrative Statement of Financial Position only includes a column for the opening Statement of Financial Position to aid in understanding of the calculations underlying amounts in the Statement of Cash Flows prepared under the indirect method.~~

**Statement of Income and Expenses (Format 1)**

	Notes	20X2	20X1	
		With	Without	
		Restriction	Restriction	
		s	s	Total
				Total
<b>Income</b>				
Grants and donations—general				
Grants for and donations of non-current assets				
Sales of services and goods				
Interest income				
Other income		-	-	-
<b>Total income</b>		-	-	-
<b>Expenses</b>				
[Analysis of expenses to be determined]				
Depreciation and amortisation expenses				
Impairment expenses				
Interest expenses				
Other expenses		-	-	-
<b>Total Expenses</b>		-	-	-
<b>Surplus or deficit from operating activities</b>		-	-	-
Share of surplus of associates				
Gain or loss on disposal of assets				
Unrealised gains or losses on foreign exchange differences				
Unrealised gains or losses from fair value adjustments:				
— Defined benefit plans				
— Financial instruments				



— Investment property	-	-	-	-	-	-
<b>Surplus or deficit for the period</b>	-	-	-	-	-	-

**Statement of Income and Expenses (Format 2)**

	Notes	With Restriction s	20X2 Without Restriction s	Total	With Restriction s	20X1 Without Restriction s	Total
<b>Expenses</b>							
[Analysis of expenses to be determined]							
Depreciation and amortization expenses							
Impairment expenses							
Interest expenses							
Other expenses		-	-	-	-	-	-
<b>Total Expenses</b>							
<b>Funded by:</b>							
Grants and donations—general							
Grants for and donations of non-current assets							
Sales of services and goods							
Interest income							
Other income		-	-	-	-	-	-
<b>Total income</b>		-	-	-	-	-	-
<b>Surplus or deficit from operating activities</b>		-	-	-	-	-	-
Share of surplus of associates							
Gain or loss on disposal of assets							

Unrealized gains or losses on foreign exchange differences

Unrealised gains or losses from fair value adjustments:

- Defined benefit plans
- Financial instruments
- Investment property

-	-	-	-	-	-
<hr/>			<hr/>		
-	-	-	-	-	-
<hr/>			<hr/>		

**Surplus or deficit for the period**

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## Statement of Financial Position (Vertical Presentation)

	Notes	20X2	20X1	20X0
<b>Assets</b>				
<b>Current assets</b>				
Cash				
Receivables				
Inventories		-	-	-
<b>Total current assets</b>				
<b>Non-current assets</b>				
Investment in associate				
Property, plant and equipment				
Intangible assets				
Deferred tax asset		-	-	-
<b>Total non-current assets</b>				
<b>Total assets</b>				
<b>Liabilities</b>				
<b>Current liabilities</b>				
Bank overdraft				
Payables				
Liability for deferred revenue (income with restrictions)				
Interest payable				
Current tax liability				
Current portion of employee benefit obligations				
Current portion of obligations under finance leases		-	-	-
<b>Total current liabilities</b>				
<b>Non-current liabilities</b>				
Loans				
Long-term employee benefit obligations				
Obligations under finance leases		-	-	-
<b>Total non-current liabilities</b>				
<b>Total liabilities</b>				
<b>Net assets</b>				
<b>Net assets</b>				
Funds with restrictions				
Endowment funds with restrictions				
Funds without restrictions				
Equity				
Non-controlling interests				
<b>Total net assets</b>				

**Statement of Financial Position (Horizontal Presentation)**

	Notes	20X2	20X1	20X0		Notes	20X2	20X1	20X0
<b>Assets</b>					<b>Liabilities</b>				
<b>Current assets</b>					<b>Current liabilities</b>				
Cash					Bank overdraft				
Receivables					Payables				
Inventories		-	-	-	Interest payable				
					Liability for deferred revenue (income with restrictions)				
<b>Total current assets</b>					Current tax liability				
					Current portion of employee benefit obligations				
<b>Non-current assets</b>					Current portion of obligations under finance leases		-	-	-
Investment in associate									
Property, plant and equipment					<b>Total current liabilities</b>				
Intangible assets					<b>Non-current liabilities</b>				
Deferred tax asset		-	-	-	Loans				
<b>Total non-current assets</b>					Long-term employee benefit obligations				
					Obligations under finance leases		-	-	-
<b>Total assets</b>					<b>Total non-current liabilities</b>				
					<b>Total liabilities</b>		-	-	-

Net assets

- - -

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**Net assets**

Funds with restrictions

Funds without  
restrictions

Equity

**Total net assets**

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-	-	-
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## Statement of Changes in Net Assets

	Notes	Funds with restrictions	Funds without restrictions	Equity	Non-controlling interest
<b>Balance at 31 December 20X0</b>					
<i>Restatements of opening balance</i>					
— Changes in accounting policy					
— Correction of errors					
<b>Restated balance at 31 December 20X0</b>		-	-	-	
Surplus or deficit					
<i>Income and expenses recognised directly in net assets:</i>					
— Gain or loss on property revaluations					
— Gain or loss on revaluation of investments		-	-	-	
<b>Total income and expenses for the period</b>					
<b>Transfers between funds [detail required]</b>					
<i>Equity</i>					
— Contributions from holders of equity claims					
— Distributions to holders of equity claims					
<b>Total equity</b>					
<b>Other changes in net assets</b>					
<b>Balance at 31 December 20X1</b>		-	-	-	

	Notes	Funds with restrictions	Funds without restrictions	Equity	Non-controlling interest
<b>Balance at 31 December 20X1</b>		-	-	-	-
<i>Restatements of opening balance</i>					
— Changes in accounting policy					
— Correction of errors					
<b>Restated balance at 31 December 20X1</b>		-	-	-	-
Surplus or deficit					
<i>Income and expenses recognised directly in net assets:</i>					
— Gain or loss on property revaluations					
— Gain or loss on revaluation of investments					
<b>Total income and expenses for the period</b>		-	-	-	-
<b>Transfers between funds [detail required]</b>					
<i>Equity</i>					
— Contributions from holders of equity claims					
— Distributions to holders of equity claims					
<b>Total equity</b>					
<b>Other changes in net assets</b>					
<b>Balance at 31 December 20X2</b>		-	-	-	-



## Statement of Cash Flows (Direct Method)

	Notes	20X2	20X1
<b>Cash flows from operating activities</b>			
<i>Receipts</i>			
Grants and donations— income with restrictions			
Grants and donations— income without restrictions			
Sales of services and goods			
Interest receipts			
Other receipts			
<i>Payments</i>			
[Analysis of expenses to be determined]			
Interest payments			
Income taxes paid			
Other payments	-	-	
<b>Net cash from operating activities</b>	-	-	
<b>Cash flows from investing activities</b>			
Grants for non-current assets			
Proceeds from sale of equipment			
Purchases of equipment	-	-	
<b>Net cash used in investing activities</b>	-	-	
<b>Cash flows from financing activities</b>			
Receipts from or payments to holders of equity claims			
Payment of finance lease liabilities			
Repayment of borrowings	-	-	
<b>Net cash used in financing activities</b>	-	-	
Net increase (decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year			
<b>Cash and cash equivalents at the end of the year</b>	-	-	

## Statement of Cash Flows (Indirect Method)

	Notes	20X2	20X1
<b>Cash flows from operating activities</b>			
<i>Surplus for the year</i>			
<i>Adjustments for non-cash income and expenses:</i>			
— Non-cash finance costs (income)			
— Non-cash tax expense			
— Non-cash donations			
— Depreciation of property, plant and equipment			
— Impairment losses			
— Amortisation of intangible assets			
<i>Cash flows included in investing activities:</i>			
— Gain on sale of equipment			
<i>Changes in operating assets and liabilities</i>			
— Decrease (increase) in receivables			
— Decrease (increase) in inventory			
— Increase (decrease) in payables			
— Increase (decrease) in liability for deferred revenue			
— Increase in current and long-term employee benefit payable		-	-
<b>Net cash from operating activities</b>		-	-
<b>Cash flows from investing activities</b>			
Grants for non-current assets			
Proceeds from sale of equipment			
Purchases of equipment		-	-
<b>Net cash used in investing activities</b>		-	-
<b>Cash flows from financing activities</b>			
Receipts from or payments to holders of equity claims			
Payment of finance lease liabilities			
Repayment of borrowings		-	-
<b>Net cash used in financing activities</b>		-	-
Net increase (decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year			
<b>Cash and cash equivalents at the end of the year</b>		-	-

## Table of Presentation and Disclosure Requirements by Section

This table has been derived from the presentation and disclosure requirements in INPAG.

IG3.17 This table collects together the presentation and disclosure requirements in INPAG for ease of reference when preparing the financial statements.

### Other disclosures

**Section 8 Notes to the Financial Statements [This is extracted from INPAG and will be updated as appropriate in full in ED3]**

### Structure of the notes

G8.2	The notes shall: a) present information about the basis of preparation of the financial statements and the specific <b>accounting policies</b> used, in accordance with paragraphs G8.5–G8.7; b) disclose the information required by this Guidance that is not presented elsewhere in the financial statements; and c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.
G8.3	An NPO shall, as far as practicable, present the notes in a systematic manner. An NPO shall cross-reference each item in the financial statements to any related information in the notes.
G8.4	An NPO normally presents the notes in the following order: a) a statement that the financial statements have been prepared in compliance with INPAG (see paragraph G3.3); b) a summary of significant accounting policies applied (see paragraph G8.5); c) supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and d) any other disclosures.

### Disclosure of accounting policies

G8.5	An NPO shall disclose the following in the summary of significant accounting policies: a) the <b>measurement</b> basis (or bases) used in preparing the financial statements; and b) the other accounting policies used that are relevant to an understanding of the financial statements.
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### Information about judgements

G8.6	An NPO shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph G8.7), that management has made in the process of applying the NPO's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
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### Information about key sources of estimation uncertainty

G8.7	An NPO shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the <b>reporting date</b> that have a significant risk of causing a <b>material</b> adjustment to the <b>carrying amounts</b> of <b>assets</b> and <b>liabilities</b> within the next financial year. In respect of those assets and liabilities, the notes shall include details of: a) <del>their nature; and</del> b) <del>their carrying amount as at the end of the reporting period.</del>
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### Section 10 Accounting Policies, Estimates and Errors

#### Disclosure of a change in accounting policy [This is extracted from INPAG and will be updated in full in ED3]

G10.14	<p>When an amendment to this Guidance has an effect on the current period or any prior period, or might have an effect on future periods, an NPO shall disclose the following:</p> <ul style="list-style-type: none"><li>a) <del>the nature of the change in accounting policy;</del></li><li>b) <del>for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;</del></li><li>c) <del>the amount of the adjustment relating to periods before those presented, to the extent practicable; and</del></li><li>d) <del>an explanation if it is impracticable to determine the amounts to be disclosed in (b) or (c).</del></li></ul> <p>Financial statements of subsequent periods need not repeat these disclosures.</p>
G10.15	<p>When a voluntary change in accounting policy has an effect on the current period or any prior period, an NPO shall disclose the following:</p> <ul style="list-style-type: none"><li>a) <del>the nature of the change in accounting policy;</del></li><li>b) <del>the reasons why applying the new accounting policy provides reliable and more relevant information;</del></li><li>c) <del>to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:</del><ul style="list-style-type: none"><li>i) <del>for the current period;</del></li><li>ii) <del>for each prior period presented; and</del></li><li>iii) <del>in the aggregate for periods before those presented.</del></li></ul></li><li>d) <del>an explanation if it is impracticable to determine the amounts to be disclosed in (c).</del></li></ul> <p>Financial statements of subsequent periods need not repeat these disclosures.</p>

**Disclosure of a change in estimate**

G10.19	An NPO shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period. If it is practicable for the NPO to estimate the effect of the change in one or more future periods, the NPO shall disclose those estimates.
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**Disclosure of prior period errors**

G10.24	<p>An NPO shall disclose the following about prior period errors:</p> <ul style="list-style-type: none"><li>a) — the nature of the prior period error;</li><li>b) — for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;</li><li>c) — to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented; and</li><li>d) — an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c).</li></ul> <p>Financial statements of subsequent periods need not repeat these disclosures.</p>
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## Section 4 – Statement of Financial Position

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### Information to be presented in the Statement of Financial Position

#### What information should be presented in the Statement of Financial Position?

~~IG4.1~~ Paragraph **G4.2** sets out the minimum information that must be presented on the face of the Statement of Financial Position. This level of information is consistent with that required in other international financial reporting standards. However, it presumes that the majority of NPOs will not have equity claims in the form of share capital and that this information is not required to be shown on the face of statement. In the unusual circumstances where an NPO has share capital, it can choose to disclose it separately. Otherwise, it will be reported as a part of net assets. Paragraph **G4.15** requires further disclosures if an NPO has share capital.

~~IG4.2~~ ~~The nature of the net assets of a~~An NPO's net assets can therefore be a combination of the aggregate of the NPO's accumulated surpluses or deficits and reserves (comprising ~~the restricted funds, unrestricted funds~~) and as well as equity claims. The provision of information through additional disclosures and the sequencing of information should ~~take account information needs of~~ **service beneficiaries** reflect an NPO's assessment of the needs of the primary users of its financial statements. Judgements should be made based on the usefulness of the information to users of an NPO's **general purpose financial reports** as outlined in paragraphs **G3.15-G3.17**

~~IG4.2~~ Paragraph **G4.2** sets out the minimum information that must be presented on the face of the Statement of Financial Position. This level of information is consistent with that required in other international financial reporting standards. However, it presumes that the majority of NPOs will not have equity in the form of share capital and that this information is not required to be shown on the face of statement. In the unusual circumstances where an NPO has share capital, it can choose to disclose it separately. Otherwise, it will be reported as a part of net assets. Paragraph **G4.15** requires further disclosures if an NPO has share capital.

~~IG4.3~~ For private sector entities, it is typical that the balance sheet shows its equity (the equivalent for NPO's being net assets) split between controlling interests (ie that owned by majority equity holders) and non-controlling interests. This requirement (to split controlling and non-controlling interests) has been retained in paragraph **G4.2**, as some NPOs may have non-controlling interests. However, in most cases, an NPO will have no non-controlling interests and will not need to apply the requirement of **G4.2 r**.

~~IG4.84~~ In addition to the separation of restricted funds and unrestricted funds, **G4.12** requires that the level of restricted cash is presented on the face of the Statement of Financial Position or in the notes to the financial statements. This is intended to identify cash that is restricted for example, due to jurisdictional currency regulation, rather than cash that has been provided by a grantor that limits its use.

#### Sequencing of items and format of items in the Statement of Financial Position

## Does an NPO have to follow a sequence or format for the items in the Statement of Financial Position?

IG4.95 Paragraph G4.2 does not prescribe the sequence or format in which items are to be presented. However, in line with the principles for presenting financial statements set out in Section 3 Financial statement presentation, material items should be presented separately. Items are material if omitting, misstating or obscuring them would make a difference to decisions made by users of the financial statements.

IG4.6 This may require the inclusion of additional line items in the Statement of Financial Position. An NPOs should also consider whether information is being obscured by including insignificant line items that could be aggregated without affecting the economic or other decisions made by users of the financial statements. An NPOs should also consider the description labels that it uses for line items and the headings for the grouping of line items.

## Information to be presented either in the Statement of Financial Position or in the notes

### WhatWhy is information should be presented in the Statement of Financial Position or in the notesneeded about share capital?

IG4.4 Paragraphs G4.14 and G4.15 require an NPO to disclose information about the components of its net assets. Paragraph G4.14 requires net assets are disaggregated to show material reserves. Judgements should be made based on the usefulness of the information to users of an NPO's **general purpose financial reports** as outlined in paragraphs G3.15–G3.17.

IG4.57 Many NPOs will not have share capital, having been formed under legislation or regulations that do not require the NPO to have equity holders; for example, an NPO may be a partnership or trust. However, an NPO may have some form of equity claims such as funds that ~~have been~~ were provided to when it was set it up and that provides those contributors with an interest in the residual net assets of the NPO. Net assets may include debt or other instruments that give the owners of that debt or instrument rights to the assets of the NPO other than as ordinary loan collateral. Where this exists, G4.16 requires additional disclosures.

IG4.78 In those situations where an NPO does have share capital, paragraph G4.15 requires disclosure of information about the amount of shares, the amount received and ownership. For the majority of NPOs, the requirement of this paragraph is unlikely to apply.

IG4.69 The disclosures required by G4.14 and G4.15 include the amount of transactions within net assets, disaggregated by material category. Relevant disclosures in G4.15 are likely to include:

- a) the reasons for changes during the period (including distributions to holders of equity claims and any new contributions from holders of equity claims); and
- b) any changes to the rights attached to each category of net assets.

~~IG4.7 In those situations where an NPO does have share capital, paragraph G4.15 requires disclosure of information about the amount of shares, the amount received and ownership. For the majority of NPOs, the requirement of this paragraph is unlikely to apply.~~

~~IG4.8 In addition to the separation of restricted funds and unrestricted funds, G4.12 requires that the level of restricted cash is presented on the face of the Statement of Financial Position or in the notes to the financial statements.~~

### ~~**Does an NPO have to follow a sequence or format for the items in the Statement of Financial Position?**~~

~~IG4.9 Paragraph G4.2 does not prescribe the sequence or format in which items are to be presented. However, in line with the principles for presenting financial statements set out in Section 3 *Financial statement presentation*, material items should be presented separately. Items are material if omitting, misstating or obscuring them would make a difference to decisions made by users of the financial statements. This may require the inclusion of additional line items in the Statement of Financial Position. NPOs should also consider whether information is being obscured by including insignificant line items that could be aggregated without affecting the economic or other decisions made by users of the financial statements.~~



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## Section 5 – Statement of Income and Expenses

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### Presentation of income and expenses

#### What information should be presented in the Statement of Income and Expenses?

IG5.1 Financial activities, transactions and other events will differ between NPOs as they meet their service delivery obligations. These differences mean that disclosing components of income and expenses that assist in an understanding of the financial activities delivered is important. This information is also important and useful for making projections of future results.

IG5.2 Additional line items are therefore included on the face of the Statement of Income and Expenses, and the descriptions used, and the ordering of items is amended when this is necessary to explain the elements of activity. Factors to be considered include:

- a) materiality;
- b) the nature and function of the components of revenue; and
- c) the nature and function of the components of expenses.

IG5.3 Paragraph G5.7 does not prescribe the sequence or format in which items are to be presented in the Statement of Income and Expenses. However, in line with the principles for presenting financial statements set out in Section 3 Financial statement presentation, material items should be presented separately. Items are material if omitting, misstating or obscuring them would make a difference to decisions made by users of the financial statements. This may require the inclusion of another reason to include additional line items in the Statement of Income and Expenses. NPOs should also consider whether information is being obscured by including insignificant line items that could be aggregated without affecting decisions made by users of the financial statements.

#### Should separate columns be used to present restricted and unrestricted funds?

IG5.4 The use of separate columns to present items in the Statement of Income and Expenses for restricted funds and unrestricted funds is not required. An NPO may choose to use this presentation to present this information if this provides useful information to the users of the financial statements.

IG5.5 To highlight movements on restricted and unrestricted funds in the financial reporting period, an NPO may also decide to consider the sequencing in the order of the complete set of financial statements to prioritise the presentation of so that the movements in funds in the Statement of Changes in Net Assets is shown before the other financial statements.

IG5.6 Alternatively, an NPO may choose to provide prioritise the presentation of fund information by including a summary of fund information as it relates to income and expenses. This could be presented as a separate note or included this as an addendum at the foot of the Statement of Income and Expenses.

IG5.7 The presentation and related disclosure requirements for income and expenses in funds with restrictions is set out in **Section 36 Fund accounting**. The presentation of information additional to the INPAS requirements should be based on an NPO's assessment of the needs of the primary users of its financial statements.

#### **How should income be classified? What information should be provided about revenue?**

IG5.8 Income comprises revenue, interest income and other income (including income from royalties and licences). Paragraph **G5.7** requires that revenue as a component of income is analysed on the face of the financial statement.

IG5.9 If relevant to the needs of an NPO's primary users, NPOs should use the most relevant analysis of revenue. ~~Revenue may be disaggregated~~ Disaggregation could be made between sources of revenue that affect restricted and unrestricted funds. ~~Revenue might also include an~~ The analysis could also distinguish between ~~general grants and donations, grants for operating activities, grants for and donations of non-current assets, donations in-kind and sales of services and goods.~~ The illustrative financial statements provide examples of the classification of revenue.

#### **How should expenses be classified?**

IG5.10 Paragraph **G5.11** requires that expenses be subclassified. **Section 24 Part II Classification of Expenses** provides for the approach to the analysis of expenses on the face of the Statement of Income and Expenses.

#### **Are there typical items of income or expenses which How should a transaction not usual for an NPO be separately disclosed if it can't instead of describing it as be extraordinary?**

IG5.140 Paragraph **G5.10** specifies that the Standard does not permit any items to be described as extraordinary. However, there may be circumstances when presenting or disclosing additional line items will be beneficial to users' understandings of the financial statements.

IG5.11 Where material by nature or by amount, ~~the transactions that would give rise to the benefit from separate presentation or disclosure of items of income and expense include:~~

- a) ~~write-downs of inventories to net realisable value, or of property, plant, and equipment to **recoverable amount**, as well as reversals of such write-downs;~~
- b) ~~restructurings of the activities of an NPO and reversals of any provisions for the costs of restructuring;~~
- c) ~~disposals of items of property, plant, and equipment;~~
- d) ~~disposals of investments;~~
- e) ~~discontinuing operations;~~
- f) ~~litigation settlements; and~~
- g) ~~other reversals of provisions.~~

~~This list is not exhaustive, and other types of transactions or circumstances may occur that would be require the helpful to disclose separately disclosure of items of income and expenses. These items should be explained in the notes to the financial statements.~~

whether or not they are explicitly required by an INPAS Section. The narrative report can be used to further explain these items in terms of an NPO's financial performance, objectives and/or strategy.

## **Analysis of expenses**

### **How should expenses be classified?**

IG5.12 Paragraph G5.11 requires that expenses be subclassified. Section 24 Part II Classification of Expenses provides for the approach to the analysis of expenses on the face of the Statement of Income and Expenses.

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~~IG35.1 Section 35 Narrative Reporting sets out the principles and high-level requirements for narrative reporting information for NPOs. As INPAS will be applied internationally by a diverse range of NPOs, it is impractical to determine a prescriptive set of requirements and a specific reporting format for a narrative report that would be appropriate for all NPOs. This Implementation Guidance is supported by illustrative examples and links to other sources of information.~~

## **Scope of this Section 35**

### **What is meant by sensitive information or information that could prejudice the ability of the NPO to deliver its mission?**

IG35.61 Sensitive information will arise when the mandatory reporting requirements of Section 35 would compromise the safety or wellbeing of individuals working/volunteering for the NPO, or those to whom it provides goods and services, because the information is sensitive and/or could prejudice the ability of the NPO to deliver its mission.

IG35.72 An NPO should present the narrative reporting information required by Section 35 related to those operations and activities that does not result in sensitive information. An NPO should not provide any information that would have the effect of highlighting the nature or substance of sensitive information.

IG35.83 It is not possible to provide an exhaustive list of types of sensitive information or circumstances which could prejudice the ability of an NPO to deliver its mission. The following are therefore provided to be illustrative of the possible consequences of disclosing information that would qualify as sensitive:

- risk of personal harm, either physical or otherwise, to employees or members of their close family;
- risk of persecution, harassment, social exclusion or displacement of service beneficiaries;
- disruption to services, for example, by risk of damage to buildings, other assets or equipment or logistical difficulties in delivering services to service recipients;
- release of personal information about service recipients or beneficiaries, for example, patient details.

IG35.94 The guidance in paragraphs IG35.61 to IG35.83 should not be used by NPOs as a way of hiding poor performance or financial problems that may have arisen with aspects of its operations.

IG35.105 When sensitive information as described in paragraph IG35.61 has not been reported an NPO should consider whether any disclosures can be made in the narrative report about the information excluded. For example, an NPO providing healthcare support may decide not to report certain information related to the services it provides to patients to avoid reporting personal or confidential information. The NPO's narrative report may include commentary to explain that personal and confidential information has been excluded and to indicate what information it has therefore been able to provide.

IG35.116 An NPO will remain in compliance with the requirements of INPAS in circumstances where sensitive information has been excluded from the narrative report as long as the exclusion of information arises from risks to safety or wellbeing and prejudice to the NPOs mission as described in paragraph IG35.61 and IG35.8.3. Nothing in the Implementation Guidance on sensitive information in narrative reporting or grant expenses will prevent an NPO from complying with its legal responsibilities or any of the professional or fiduciary responsibilities of any of its officers.

## **Principles**

### ***What is meant by fair and balanced?***

IG35.27 Paragraph G35.67 requires that the information presented by ~~the an~~ NPO is fair and balanced. Narrative reporting must not be biased towards a particular portrayal of its circumstances, for example, ~~to be used by NPOs~~ as a selling pitch or to provide a subjective view of performance or the financial statements that does not reflect reality. ~~Users must be provided with~~ An NPO must provide an objective view of what has gone well and what has gone less well during the reporting period and the implications that this has for the future.

IG35.38 In making a judgement of whether the narrative report is fair and balanced an NPO should consider issues such as:

- a) does the narrative overstate what has been achieved?
- b) is there too much focus on successes to the exclusion of activities that were less successful?
- c) ~~is~~ reporting deliberately selective with items omitted in order to portray a particular view of the NPO's activities or financial position?
- d) does the narrative report put the information presented into its full context?

### ***How should a balance of information be reported in the narrative report?***

IG35.9 An NPOs will need to balance the information requirements of Section 35 to produce the narrative report. The disclosure objectives of each of the categories of the mandatory requirements are summarised in Figure IG35.1 below to assist preparers of general purpose financial reports and other stakeholders. The disclosure objectives are

intended to meet the needs of the primary users of the general purpose financial report. **Figure IG35.1** also demonstrates the interrelationship between each of the requirements. Information to meet one requirement might help meet the reporting needs of another. For example, information on the amounts of unrestricted funds or funds which are not designated for specific purposes will illustrate the financial position and net assets of the NPO. This may represent a principal risk or uncertainty for the NPO that affects the achievement of performance objectives.

**Figure IG35.1 Summary of the objectives of the mandatory categories in the narrative report**

The narrative report must provide information to resource providers and to the public that depend on the goods and services provided by NPOs that enable them to understand:				
An overview of an NPO	Performance information	Financial objectives and strategies	An analysis of the financial statements	Risks and uncertainties
<ul style="list-style-type: none"> <li>the context of the NPO, including its legal form, structure, governance arrangements, purpose, mission, vision and main activities.</li> </ul>	<ul style="list-style-type: none"> <li>what the performance objectives of the NPO are and what it intended to achieve during the reporting period; and</li> <li>what it has done in working towards those performance objectives and what it has achieved during the reporting period.</li> </ul>	<ul style="list-style-type: none"> <li>financial objectives and strategies relating to its financial position, income and expenses, net assets and cash flows</li> <li>how these financial objectives and strategies support the achievement of the NPO's performance objectives</li> </ul>	<ul style="list-style-type: none"> <li>significant changes and trends in the NPO's financial position, income and expenses, net assets and cash flows</li> </ul>	<ul style="list-style-type: none"> <li>the principal risks and uncertainties that affect the achievement of the NPO's performance objectives and its financial position, income and expenses, net assets and cash flows</li> </ul>

***What is meant by sensitive information or information that could prejudice the ability of the NPO to deliver its mission***

~~IG35.4—NPOs are permitted to not disclose aspects of performance information and financial statement commentary where the information is sensitive or could prejudice the ability of the NPO to deliver its mission. Given the diversity of activities undertaken by NPOs, it is not possible to provide a definition or exhaustive list of the activities that could give rise to such information. It is intended to include situations where there is a risk, including of physical harm, to an NPO's staff, its volunteers or the public who engages with the NPO, or that would provoke significant ongoing disruption to the NPOs operating activities in a locality if information was publicly disclosed in the general purpose financial reports.~~

~~IG35.6—Examples of sensitive or mission prejudicial information that an NPO may not disclose could include, but is not limited to:~~

- ~~a)—information that identifies the nature of activities being undertaken by an NPO;~~
- ~~b)—information that discloses the scope of geographic activities being undertaken by an NPO;~~
- ~~c)—information that identifies the individuals, communities or groups that benefit from the goods and service provided by the NPO.~~

~~IG35.6—Sensitive information will arise when the mandatory reporting requirements of Section 35 would compromise the safety or wellbeing of individuals working/volunteering for~~

~~the NPO, or those to whom it provides goods and services, because the information is sensitive and/or could prejudice the ability of the NPO to deliver its mission.~~

~~IG35.7—An NPO should present the narrative reporting information required by Section 35 related to those operations and activities that does not result in sensitive information. An NPO should not provide any information that would have the effect of highlighting the nature or substance of sensitive information.~~

~~IG35.8—It is not possible to provide an exhaustive list of types of sensitive information or circumstances which could prejudice the ability of an NPO to deliver its mission. The following are therefore provided to be illustrative of the possible consequences of disclosing information that would qualify as sensitive:~~

- ~~—risk of personal harm, either physical or otherwise, to employees or members of their close family;~~
- ~~—risk of persecution, harassment, social exclusion or displacement of service beneficiaries;~~
- ~~—disruption to services, for example, by risk of damage to buildings, other assets or equipment or logistical difficulties in delivering services to service recipients;~~
- ~~—release of personal information about service recipients or beneficiaries, for example, patient details.~~

~~IG35.9—The guidance in paragraphs IG35.6 to IG35.8 should not be used by NPOs as a way of hiding poor performance or financial problems that may have arisen with aspects of its operations.~~

~~IG35.10—When sensitive information as described in paragraph IG35.6 has not been reported an NPO should consider whether any disclosures can be made in the narrative report about the information excluded. For example, an NPO providing healthcare support may decide not to report certain information related to the services it provides to patients to avoid reporting personal or confidential information. The NPO's narrative report may include commentary to explain that personal and confidential information has been excluded and to indicate what information it has therefore been able to provide.~~

~~IG35.11—An NPO will remain in compliance with the requirements of INPAS in circumstances where sensitive information has been excluded from the narrative report as long as the exclusion of information arises from risks to safety or wellbeing and prejudice to the NPO's mission as described in paragraph IG35.6 and IG35.8. Nothing in the Implementation Guidance on sensitive information in narrative reporting or grant expenses will prevent an NPO from complying with its legal responsibilities or any of the professional or fiduciary responsibilities of any of its officers.~~

### **How should the qualitative characteristics be applied?**

~~IG35.7~~<sup>10</sup> Faithful representation requires the NPO to provide information that is complete, neutral and free from error. **Narrative reporting information** should be reviewed by the NPO to ensure that it is not partial, wholly subjective and/or materially incorrect, taking into consideration the overall requirement to ensure fair and balanced reporting.

~~IG35.8~~<sup>11</sup> ~~\_\_\_\_\_ An NPO~~—NPOs should only provide information that is relevant ie information that is capable of making a difference to the decisions made by users.

What is relevant will be NPO-specific, and specific and may be based on magnitude or nature of the information provided. Including only material information will enable the an NPO to produce a concise narrative report that is focused on the needs of users.

IG35.912 The information provided by the NPO should also be verifiable. NPOs-An NPO should aim to provide users with assurance that the information provided is a faithful representation. This may involve providing evidence of a formal assurance process that the information has been subjected or describing how the NPO satisfies itself that the information is a faithful representation.

IG35.103 Timeliness requires that information is available to users in time to be capable of influencing their decisions. Generally, an NPO NPOs should aim to provide the most up-to-date information that they-it can although this does not mean that older information is not of use to users, as it may be useful for identifying and assessing trends.

IG35.144 An NPOs should also ensure that users are able to identify and understand similarities and differences among the information that is provided in the narrative report. Although NPOs may utilise different performance measures, comparability means that users should be able to make meaningful comparisons between information that is presented.

IG35.125 There is no set format for presenting narrative reporting information. The nature of the NPO and its activities will influence what is most understandable to user effective for users to provide understandability will vary depending on the nature of the NPO and its activities. As narrative reporting information will be both numerical and descriptive in nature, NPOs-an NPO have the option of using a variety of different formats which may include charts, graphs, tables, narrative text and infographics.

IG35.136 In general, NPOs should ensure that information is presented in a manner that is:

- a) easy to read;
- b) visually appealing;
- c) focused and/or concise, concentrating on the key information;
- d) consistent with other information presented in the general purpose financial report; and
- e) cross-referenced to any-relevant external information.

### **Information to be included in the narrative report**

#### **What information is relevant to providing an overview of the NPO?**

IG35.4417 An overview of the NPO provides users with an understanding of the purpose of the NPO, how it is governed, its activities and how its relationships with other entities and the environment in which it operates affects its performance and financial statements.

IG35.4518 To provide users with this contextual information, it is suggested that an NPOs must respond address look to answer the three questions in paragraph G35.12.

**Who are we?** – ~~where it is expected that an NPO will discuss areas like~~ the narrative report must consider:

- a) the legal form of the NPO – is the NPO, a company, a trust, a co-operative membership organisation, registered with a regulator (eg charity)? Is it registered in more than one jurisdiction?
- b) the operational structure of the NPO – is the NPO part of a group, does it control other entities, is it part of a consortium, does it have a large number of staff, does it operate in more than one jurisdiction?
- c) the governance arrangements of the NPO – is there an executive board, non-executive oversight, trustees?

**What do we exist for?** – ~~where it is expected that an NPO would discuss areas like~~ the narrative report must consider:

- a) ~~the its~~ purpose of the NPO – what is the mission and vision of the NPO, what are its values?
- b) ~~its the~~ key objectives of the NPO – what are the key things that the NPO is looking to do?
- c) who is the NPO is seeking to ~~help~~ benefit?
- d) the outcomes and impact ~~it is the NPO is seeking~~ looking to achieve – what changes ~~in the world~~ is the NPO looking to make?

**What do we do?** – ~~where it is expected that an NPO would discuss areas like~~ the narrative report must consider:

- a) the environment in which ~~it the~~ NPO operates – what jurisdiction(s) or communities does ~~the NPO it operate~~ operate in, what is the legal, economic, and political situation in which it operates?
- b) ~~its the~~ main activities of the NPO – does it deliver goods and services itself directly to the public, does it make grants to individuals or organisations, does it lobby governments or organisations on behalf of others?
- c) what goods and services ~~it does the NPO~~ provides – what are the specific goods and services that it delivers?
- d) how ~~it the NPO~~ works with other entities ~~to do so~~ – is it reliant on donors to provide funding, does it deliver services to the public with another organisation?

IG35.1619 The information needed to provide this overview should be readily available to most NPOs from documents like the founding constitution, grant proposals and reports to goods recipients and service users.

IG35.20 Paragraph G35.12 specifies that the narrative report must provide a description of the legal form of the NPO, how it is structured and what governance arrangements apply to it. This might include:



- information on how decisions are taken by the NPO, including the structure of the arrangements to facilitate this, for example, governing body arrangements, committees and/or management structures;
- key responsibilities for those structures, relevant officers or personnel;
- how performance is measured, managed and monitored; and
- how compliance with regulatory requirements is ensured.

This information should provide an overview of the governance arrangements so that the users of the general purpose financial report ~~understands~~understand the arrangements to ensure accountability and enable effective decision-making.

## **Performance reporting**

### **How should performance measures and descriptions be selected?**

**IG35.1721** Reporting should be focused on the objectives that management has set to monitor the activities or performance of the NPO. Performance objectives should not be created purely for the purpose of the narrative report.

**IG35.22** The performance measures and descriptions that an NPO selects will depend on its performance objectives, the nature of its activities and whether it ~~wants-should~~to focus on inputs, outputs, outcomes and/-or impact.

**IG35.23** ~~In selecting performance measures and descriptions, An~~ NPOs may have a mix of input, output and outcome measures depending on their activities when making decisions on selecting performance measures and descriptions. Some may already be used in reporting to donors, reporting to management or those providing oversight of the NPO, and those to whom the NPO is providing goods and services, as well as other stakeholders.

**Inputs** – this will be relevant where performance is best measured by the quantity of resources used to deliver an NPO’s mission, for example, the number of employees, volunteers, or amount of donations.

**Outputs** – this will be relevant where performance is best measured by what an NPO produces in terms of good or services delivered, for example, the number of free meals provided, trees planted, vaccinations given.

**Outcomes** – this will be relevant where performance is best measured by the impact that an NPO is having on those that it intends to benefit, for example, longevity, air quality, literacy. ~~In selecting performance measures and descriptions, NPOs may have a mix of input, output and outcome measures depending on their activities. Some may already be used in reporting to donors, reporting to management or those providing oversight of the NPO, those to whom the NPO is providing goods and services, as well as other stakeholders.~~

**IG35.24** Performance information required by paragraphs **G35.13-G35.15** gives an NPO the opportunity to provide users with an understanding of why the NPO exists, what it intends to achieve in the near and longer term, and how intends to accomplish this, including what it has done in the reporting period to achieve its objectives. Performance information is best supported by performance measures and descriptions (see paragraph **IG35.24**).

IG35.25 Performance objectives should be linked to the discussion of the missional objectives or purposes of the NPO included within the overview. They will be derived from these purposes and should indicate what the NPO intends to achieve in both the near and the longer term and how it will accomplish this.

IG35.26 Many NPOs will already provide performance information outside of their general purpose financial report to groups such as donors. While NPOs may be able to draw on the information that is contained in such reports, they should ensure that the information presented is not too detailed and that it complies with the high-level reporting principles.

IG35.27 Reporting performance information on the services or activities of an NPO might usefully include actual to budget comparisons, particularly where users take decisions on resource allocation. It might also include information on efficiency, including performance ratios and/or an examination of direct and indirect costs, if these are relevant performance measures for the NPO.

IG35.28 Reports on performance may include:

- an overview of the funds;
- their significance to the delivery of performance objectives and the activities of the NPO;
- the nature of any material restrictions on the funds and the effects of those restrictions on the activities of the NPO;
- how resources within those funds have changed during the reporting period, including restricted funds, and the major movements in the year;
- the policy for holding unrestricted funds, which can be used to set out the position for financial sustainability.

This information should reflect how funds held by the NPO impact on performance, its activities and its financial position. It should not merely replicate the disclosures included in the financial statements.

IG35.29 Reporting performance may cover more than one reporting period. Care should be taken to ensure that any performance measures that cover more than one reporting period are faithfully representative and consistently report the performance for each period and, when necessary, provide an overview of the service performance over a number of reporting periods.

IG35.30 Performance information may also consider the anticipated broader or longer-term effects of a projects or organisation's outputs, outcomes and activities. This is more difficult to measure but may take the form of programme evaluations, case studies or quantitative evidence.

## **Financial strategies and objectives**

### **What should be included in financial objectives and strategies?**

IG35.31 Paragraphs Paragraphs G35.16-G35.17 require specify that NPOs an NPO should provide to provide sufficient information on financial objectives and strategies so that users can understand the NPO's financial priorities, the resources it needs to achieve them, and how and demonstrate how these relate to its performance objectives. Given that NPOs exist primarily to primarily deliver a benefit to the public rather than to

generate financial returns for investors, financial objectives and strategies are likely to be derived from the NPO's performance objectives.

IG35.32 For example, an NPO may have a performance objective of delivering a certain volume of services over a financial period and have volatile incoming resources. To ensure that the NPO has sufficient resources to deliver this volume of services, it may have a reserves policy that requires it to hold resources equivalent to six months of expenses in unrestricted ~~reserves or~~ funds. To achieve this the NPO may have a strategy of increasing both the amount and percentage of unrestricted donations it receives compared to those that can only be spent on a specific ~~project set of activities~~. The NPO may therefore consider it useful ~~to the users of the NPO general purpose financial report~~ to set out ~~in the narrative report~~ an overview of the strategy intended to achieve this financial objective, including, in this case, the reserves policy.

### **Analysis of the NPO's financial statements**

#### **What should the discussion and the financial statement analysis focus on?**

IG35.33 Financial statement commentary required by paragraphs G35.18-G35.20 gives an NPO the opportunity to discuss report on and analyse the financial statements. The focus of the NPO's analysis of the financial statements should ~~be be on enabling the primary users of the general purpose financial reports to gain to provide~~ a better understanding of the financial position, income and expenses and cash flows of the NPO.

IG35.34 The commentary narrative reporting information on the financial statements may focus on the significant items, transactions and events that are presented in the NPO's financial statements and the factors that have influenced them. This provides context to the financial statements ~~for users~~, thus ensuring that they are useful for accountability and decision-making purposes.

IG35.35 The focus of the analysis of financial statements should be on significant changes and trends, and the achievement of the NPO's performance objectives, both in this period and the future. An explanation should be provided of the impact that these changes and trends have on the NPO's:

- financial position;
- income and expenses;
- net assets; and
- cash flows.

The narrative report might include, for example, how a significant amount of income from holding financial assets has enabled an NPO to increase its unrestricted cash reserves and how this will permit it to increase the number of members of the public it can support in the next financial year.

### **Principal risks and uncertainties**

**How should the principal risks and uncertainties be described?**

IG35.1836 Principal risks and uncertainties are those that could significantly disrupt the ability of the NPO to achieve its performance objectives and its financial objectives and strategies. This will include but is not limited to:

- how the NPO works with others to deliver its main activities;
- changes to the political environment;
- changes to the legal or regulatory environment;
- changes to the physical environment;
- changes to the economic environment;
- reliance on volunteers;
- reliance on certain donors;
- capacity and capability of NPO resources; and
- the NPO's ability to generate and manage financial resources, or its operations and governance.

In describing the key risks and uncertainties any changes from previous periods should be disclosed, and users should also be given information on how the NPO manages their risks and uncertainties.

IG35.1937 For example, a key risk could be reliance on donations from the public to fund services, which have historically fallen significantly during periods of economic recession. An economic recession might mean the NPO is unable to generate the required level of donations and lead to a reduction in the services it provides. This would impact both its financial and performance objectives. Mitigations to manage the impact of this risk could include levels of reserves or a longer-term plan to diversify income sources.

IG35.38 For some NPOs a key risk for an NPO to report is may be the risk of harm to the NPO's service recipients and staff, which might occur exist due to the environments in which they it operates, or the nature of the activities undertaken. Any failures could fundamentally risk an NPO's ability to deliver its objectives and strategies and undermine confidence in its ability to deliver. The narrative report might also disclose mitigations to manage the incidence and impact of this risk such as safeguarding arrangements, systems and protocols or health and safety procedures which operate throughout an NPO's activities.

## **Presentation**

### ***Are there benefits of linking to other reported information?***

IG35.539 To meet the reporting requirements in ~~section~~ Section 35 it may be useful to cross refer to information in other reports produced by the NPO, for example, reports on performance, impact or governance reports (see paragraphs G35.25- G35.26). Including information by cross reference may be useful to avoid duplication or to reduce the amounts of standing information. Cross references to other reports can be used to enable clear and concise reporting. The cross references allow the key

messages to be understood by users by ensuring that these messages are not obscured by too much detail. Paragraph **G35.26** sets out the information requirements where such cross references are used in the narrative report. To ensure these information requirements are achieved, where information is included by cross reference it must be:

- a) consistent with the mandatory reporting requirements of **Section 35**;
- b) available whenever the narrative report is available, on the same terms and with a clear cross reference in the narrative report, with precise information on where other reported information can be located.

### **How should judgements be made on the selection, measurement and presentation of narrative information?**

**IG35.40** Paragraph **G35.34** requires, ~~NPOs~~ an NPO to disclose the judgements that are the most relevant to users' understanding of the narrative information in its selection, measurement and presentation. An NPO should select only ~~those the information that they~~ it considers ~~is are~~ most significant to the users understanding of the information provided. This might include, for example, a decision by an NPO to disclose performance information by region or activity, or why an NPO utilises a certain financial ratio to determine if it has sufficient funds to continue to provide services.

### **What is an effective means of presenting narrative information?**

**IG35.2041** The narrative report should be written using clear, **concise** and simple language. ~~and~~ sector-specific jargon should be avoided where possible. Where the use of technical terms is necessary to communicate clearly, prior knowledge should not be assumed, and ~~these terms~~ should be defined for users and used consistently throughout the narrative report.

**IG35.2142** In addition to the use of clear and simple language, how information is presented can significantly affect understandability. The nature of the information will determine the most appropriate method of presentation, but tabular, graphical or pictorial methods can be effective ways of explaining concepts to users and highlighting key information. They should, however, serve a clear purpose, be accessible for all users, and be supported by appropriate narrative text.

**IG35.2243** An ~~NPOs~~ may also wish to consider the use of case studies and feedback from those that provide financial and other support to it and those that benefit from the goods and services ~~it they provides~~. Case studies and feedback can enable ~~the an~~ NPO to provide more in-depth information about individual activities and personal insights that will enable users to more readily engage with the report. If an NPO uses case study information in its narrative report the NPO will need to consider whether such case study information meets the requirements of paragraph **G35.7** for fair and balanced information.

~~IG35.23 Globally there are a number of awards that celebrate excellence in non-profit organisation financial reporting. Examples of recent award-winning reports that highlight the use of clear and simple language, excellent presentation of information supported by narrative text and the effective use of case studies and feedback include:~~

- ~~• Age UK annual report 2021~~

- ~~Zealandia Te Māra a Tāne wildlife sanctuary annual report 2019/2020~~
- ~~Children's Rights Alliance directors' report 2019~~
- ~~National Sea Rescue Institute integrated annual report 2021~~

## **Comparative information and consistency of reporting**

### **What should the approach be for the consistency of reporting of information in the narrative report?**

IG35.44 Paragraph **G35.31** requires consistency of reporting of narrative information. This is because users' understanding of narrative information is improved when its content and presentation is consistent over time. Consistency of reporting can be supported by careful consideration about what users require, particularly when first preparing narrative information, including financial and other performance information. Consistency of reporting is also supported by establishing well documented processes to develop easily replicated information in subsequent reporting periods.

### **What additional material and guidance is available?**

~~IG35.24~~ Additional material and guidance to support NPOs looking to other reporting frameworks for additional ideas in meeting narrative reporting requirements is available at:

- ~~IASB Practice Statement 1: Management Commentary~~
- ~~IPSASB Recommended Practice Guideline 2: Financial Statement Discussion and Analysis~~
- ~~IPSASB Recommended Practice Guideline 3: Reporting Service Performance Information~~
- ~~New Zealand PBE FRS 48: Service Performance Reporting~~
- ~~Value Reporting Foundation – Integrated Reporting Framework~~
- ~~International Sustainability Standards Board~~
- ~~GRI Standards~~

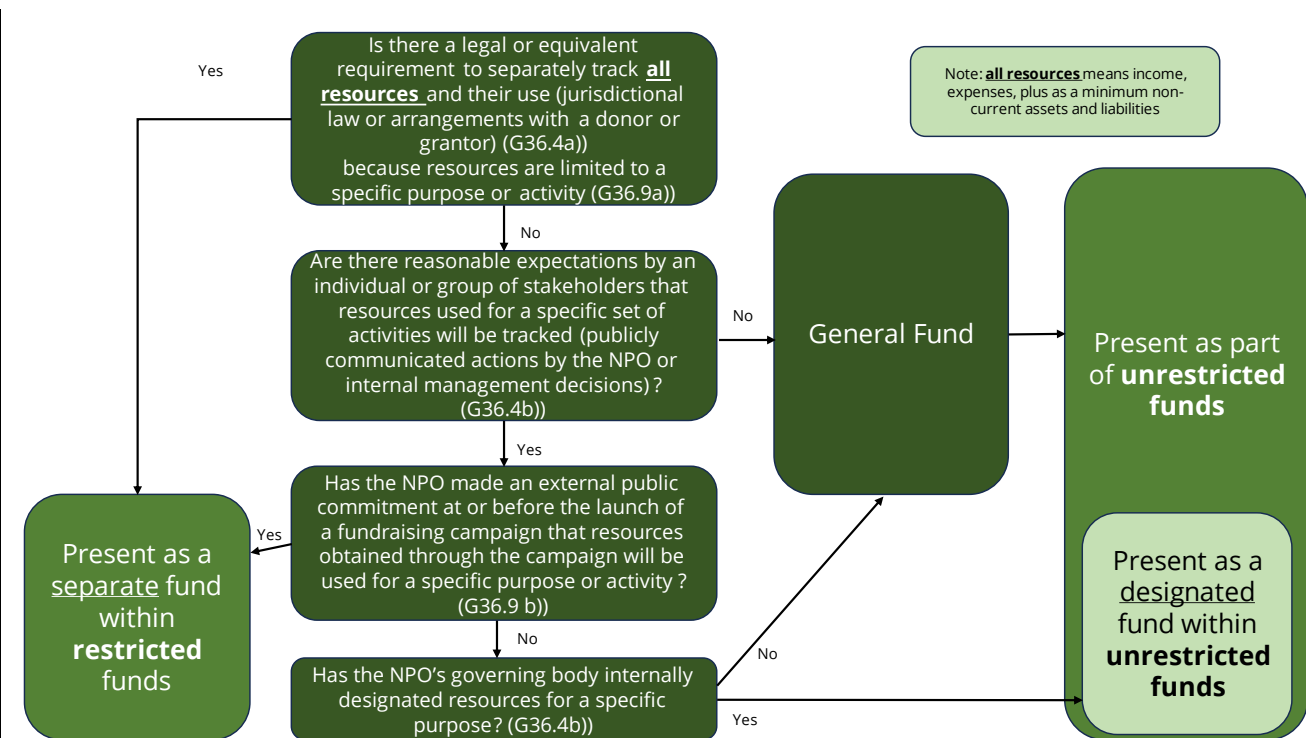
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## **Characteristics of a fund**

### **When does a separate fund exist?**

IG36.1 All of an NPOs income and expenses must be recorded against a fund. For simple organisations only a general fund may exist. NPOs needs to determine whether they have funds other than the general fund. It also needs to determine whether or not any of the funds it has identified are restricted funds. The decision tree in Figure Fig IG36.1 can assist in making the decisions.

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



IG36.2 Critically, an NPO will need to assess whether transactions that might require a separate fund are material. The guidance in paragraphs IG2.x to IG2.x of Section 2 Concepts and pervasive principles should be used to assess materiality.

IG36.3 In applying the guidance on materiality an NPO may set a financial threshold for transactions that might be clearly trivial for the purposes of determining whether a separate fund should be established. Setting such a threshold may assist in the application of the guidance, but NPOs will still need to consider if any of these transactions are material by nature and therefore need to be recorded separately.

IG36.4 Applying the materiality guidance will assist NPOs identifying where a smaller (but not clearly trivial) fund exists and aid decisions about whether a separate fund should be created.

IG36.5 A separate fund does not need to be established for each individual grant (see paragraphs IG36.3 to IG36.4), however, an NPO may choose to establish a separate fund for each grant, particularly if this simplifies reporting requirements if the criteria for a fund are met.

**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.**

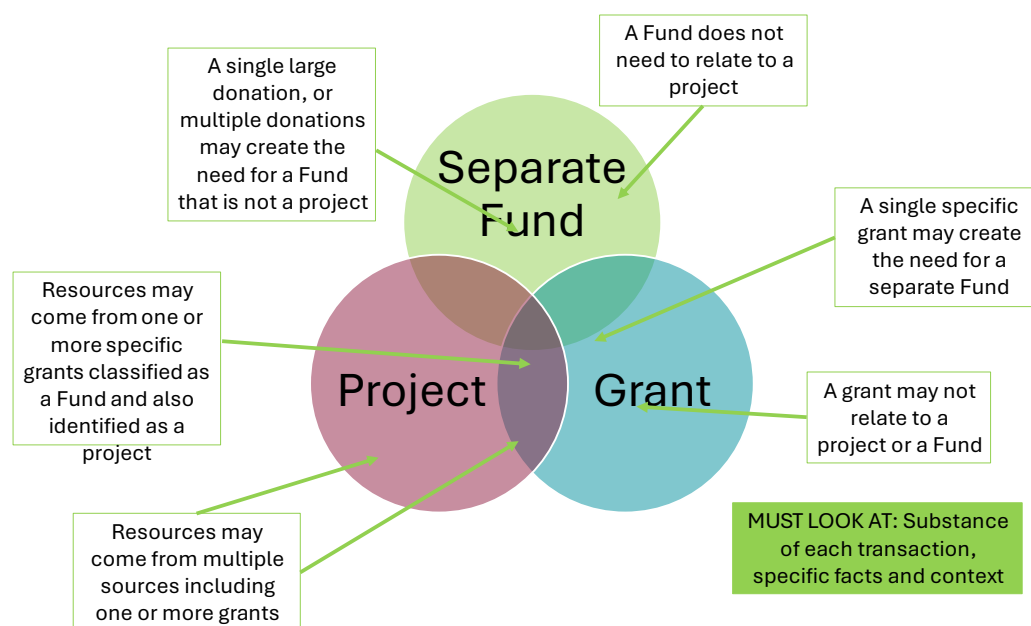
IG36.8 With these terms used for a specific purpose it is possible that:

- 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



### **When does an equivalent requirement exist?**

IG36.9 Consistent with a legal requirement, an equivalent requirement places obligations on at least one party to a transaction or arrangement. An equivalent requirement can arise from various mechanisms. These mechanisms may be through alternative processes that have the same effect as a legal mechanism. An equivalent requirement can arise from a 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. An equivalent requirement can arise from religious law where this has the same effect as a legal requirement.

IG36.10 An equivalent requirement with respect to a grant agreement depends on the parties involved and the jurisdictions in which they are based. The practices and processes for establishing grant agreements, for example, vary across legal frameworks, jurisdictions, sectors and entities. In addition, they may vary within an NPO (for example, they may depend on the grantor or the nature of the requirements on the grant recipient).

IG36.11 For a grant agreement to have an equivalent requirement to a legal requirement, the presence of an enforcement mechanism outside the legal system that is similar to the force of law without being legal in nature is required. This enforcement mechanism should establish the rights of both parties to complete their agreed obligations or be subject to remedies for non-completion.

IG36.12 In some jurisdictions, NPOs may be subject to a form of regulatory oversight which, regardless of the legal basis, requires NPOs to act in accordance with defined rules and directives or potentially face censure. This broader regulatory oversight, with an ability to appeal to the regulator, may provide an enforcement mechanism that is equivalent to a legal requirement, even if the specific agreement is not legally enforceable.

IG36.13 While regulators may act in this way in some jurisdictions, the existence of a regulator in itself may not lead to arrangements in these jurisdictions creating an equivalent requirement. This will depend on its remit and how it acts.

IG36.14 In some jurisdictions public sector entities are not legally able to enter into agreements in their own name, only that of the government. Alternative processes with equivalent effect to legal arrangements such as executive orders or ministerial directives are in place to ensure that agreed-upon obligations in an agreement are enforceable.

IG36.15 Public bodies may also have long-established policies and practices that create a legitimate expectation of how they will behave. These legitimate expectations will usually be enforceable through legal mechanisms such as a court ruling that means a public body will be required to act in a certain way.

IG36.16 Oral agreements may arise from discussions between parties, such as where a grantor offers to transfer cash, goods, services, or another asset to a grant recipient, who has accepted the requirement to meet an obligation. Depending on the substance of the agreement, in some jurisdictions an oral agreement can be legally binding or be equivalent to a legal arrangement.

#### ***What information needs to be kept about a separate fund?***

IG36.17 Although each fund is not a separate **reporting entity**, separate accounting records must be kept within an NPO's accounting system. An NPO must be able to present each fund separately, even if it uses the ability to aggregate small funds as set out in paragraph [G36.27](#). An NPO will be able to demonstrate its tracking of the use of resources in a fund through regular management reporting.

IG36.18 Many grant agreements may meet the criteria to be a fund. Where a grant does meet the criteria to be accounted for as a separate fund, it is expected that an NPO is able to identify non-financial assets, work in-progress, and other grant specific asset and liabilities associated with each grant.

IG36.19 Payables, receivables and **cash** associated with each fund should also be tracked where the information is available. While it may be possible to separately track payables, receivable and cash associated for each fund, to do so would require undue cost or effort that would outweigh the benefit to the users of the financial statements.

IG36.20 NPOs will need to make an assessment about whether it can separate this information for each fund and the cost and effort of doing so. This is particularly relevant where at the end of the grant agreement it is possible that any remaining cash or other assets will need to be returned to the grantor or it needs to be identified so that it can be made available for other purposes.

#### ***When might a stakeholder have 'reasonable expectations'?***

IG36.21 A fund may exist where stakeholders have a reasonable expectation about how specific resources will be used. An external stakeholder will have a reasonable expectation that the use of resources will be separately accounted for where there is a legal or equivalent requirement or where such an expectation can be derived from a specific public commitment.

IG36.22 An internal stakeholder (those with authority within the NPO such as the governing body) will have a reasonable expectation on the use of resources when decisions have been made to designate funds for a specific purpose. This may create a separate fund even though it is not a restricted fund.

IG36.23~~4~~ Determining whether a fund should be presented as ~~with a restrictions-restricted fund~~ when there is no legal or equivalent arrangement will in most cases rest on management's view about whether stakeholders have a reasonable expectation that resources will be separately tracked and presented.

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;
- e)g) financial dependency on a specific stakeholder (taking account of past practice or the nature of the relationship).

IG36.32~~5~~ 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.

## **Restricted funds**

### **When does a restriction arise?**

IG36.29 INPAG **Section 2** defines restricted funds as:

*Funds that are required to be expended, invested or retained by the NPO for a specific purpose or activity because of externally imposed legal or equivalent arrangements placed on the NPO by a resource provider, or arising from an external public commitment in relation to a specific fundraising campaign.*

IG36.30 As a consequence a restriction arises where resources can only be lawfully used for a specific purpose or a grantor or donor requires that the resources it provides are applied to specific purposes, activities, assets or resources. Grant agreements with delivery obligations impose such restrictions.

IG36.31 These requirements limit in varying degrees the choices that an NPO can make about how to achieve its missional objectives. Grant agreements without delivery obligations may or may not include constraints that reduce an NPO's operational choices.

IG36.32 Grant agreements without delivery obligations may or may not result in a separate fund that may or may not be assessed as being a restricted fund. It is the substance of a transaction rather than legal form that will determine whether it is presented as a restricted fund. The presentation requirements are independent of the accounting treatment, which is dependent on the existence of a present obligation.

IG36.33 Where an NPO makes an external public commitment about the use of resources at or before fundraising commences, the campaign shall be shown as a restricted fund. This commitment creates a valid/reasonable expectation and places a specific moral and/or ethical obligation on the NPO to treat the resources as part of restricted funds. In some jurisdictions it may also result in a regulatory obligation. Where an external public commitment is not made at or before fundraising commences, any fund created is not likely to be a restricted fund.

IG36.34 The existence of an external public commitment to use resources generated through a fundraising campaign for a specific purpose shall not on its own create a **contingent liability**. For a contingent liability to exist the criteria for the creation of a contingent liability as set out in **Section 21 Provisions and contingent liabilities** must be met.

IG36.35 Non-current assets may be funded through a fundraising campaign, or through a grant or donation. NPOs will need to consider whether such assets are part of a restricted fund or an unrestricted fund, based on any terms attached to the acquisition of the asset. This includes whether the terms require an asset to be held on an on-going basis for a specific purpose, or whether the restrictions are met once the specified asset is acquired. Where

the terms are met once the asset is acquired and it can subsequently be used for any purpose, the asset will be transferred from a restricted fund to an unrestricted fund where legally allowed.

**Does revenue from a contract with customers result in a restricted fund as meeting the obligation results from a legal requirement?**

IG36.36 NPOs will get its resources from several sources. This includes revenue from sales that it makes. This income will come from a contract for the provision of goods or services rather than a grant agreement. The NPO usually has discretion about how it provides the good or service and how to apply the income earned. Even though the contract is legally enforceable, this discretion means that revenue from this source would not create a restricted fund.

IG36.37 There may be occasions where revenue from a contract with a customer is applied to a restricted fund, because the restricted fund has multiple sources of funding. The allocation of this revenue to the restricted fund will be at the NPO's discretion rather than a requirement.

**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.

IG36.41 A fund may have resources contributed from more than one source. This could include grants that limit the use of resources, and grants that have no limitations on the use of resources as well as from the NPO's own resources (unrestricted funds). Any fund that meets either of the criteria in paragraph G36.9 will be a restricted fund irrespective of the source of funds.

**What if there is a balance on a restricted fund at the financial reporting date?**

IG36.42 There may be circumstances where there is a difference between the income and expenses recognised against a fund. Where there is a realistic expectation that future income will be received to cover a shortfall or that additional expenses will be incurred, the balance will be carried forward.

IG36.43 If additional expenses beyond the original resources provided are required to complete the specific purpose for which the fund was established, these shall be charged to the fund, even if it may take several years to complete the activities for which the specific fund is established.

IG36.44 Where there is a positive balance on a fund, this is expected to be carried forward to the next financial reporting period until the activities in the fund have ceased (see IG36.x).

**Transfers between funds**

**What if there is a balance on a restricted fund when all the activities are complete?**

IG36.45 If a grant covers all expenses and there is no shortfall or excess on a fund, this will enable a fund to be promptly closed when the activities are complete. Communication with the grantor will be important to enabling the prompt closing of funds where a balance remains.

IG36.46 Where there is an excess on a fund an NPO will need to confirm with the grantor whether the balance can be used for any other purpose. Where the grantor agrees that the NPO can use the excess for any purpose, the balance will be transferred to an unrestricted fund.

IG36.47 Where there is a shortfall on a fund an NPO will need to approach the grantor to ascertain whether it will provide additional funds to cover the shortfall. If the grantor declines to cover the shortfall, the NPO will need to determine whether it can find alternative funding from another grantor. If the NPO obtains an additional grant to cover the shortfall, it can assess the shortfall as temporary and carry forward the balance until the additional grant is paid and the shortfall removed. However, if no alternative source of funding is likely, then the NPO will need to transfer funds from its unrestricted funds to make up the difference, where this is legally allowed.

IG36.48 In some jurisdictions, legislation or regulations may prevent the transfer of any surplus or deficit on a restricted fund to an unrestricted fund. Where this is the case any balance on a restricted fund cannot be transferred until the NPO can legally make such a transfer.

## **Disclosures**

### **How do the disclosures assist users of the financial statements?**

IG36.49 The existence of a balance on a fund can provide important information to the users of the financial statements. NPOs can choose how to order the information to meet the needs of the users of its financial statements. For example, it might be more important to present unrestricted funds before restricted funds or the other way around.

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.

IG36.52 NPOs are expected to have a policy in place that targets what it needs for financial resilience, including to unexpected events. Transparency over unrestricted funds is likely to play an important role to understand the financial resilience of an NPO and may form part of calculations carried out for these purposes. This can feed into an important part of the narrative about an NPO's financial situation.

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.

### **Why should internally designated funds be disclosed if they aren't a **restricted fund**–with restrictions?**

IG36.54 An NPO's governing body may decide to designate its **restricted** funds ~~without restrictions~~ for specific purposes. Such designation may be helpful when explaining how **restricted** funds ~~without restrictions~~ are intended to be used. It can also be useful to explain the levels of **unrestricted** funds ~~without restrictions~~ held, particularly if funds are being accumulated for a specific purpose. It can also be useful to explain the policy for holding **unrestricted** funds ~~without restrictions~~ and the degree to which they act as a buffer against, or are sensitive to, external factors.

### **Are there additional disclosures if a restricted fund relates to a grant agreement with delivery obligations?**

IG36.55 Delivery obligations in a grant agreement that meet the criteria for a fund are expected to be presented as part of restricted funds because of the requirements in the grant

agreement. Transactions associated with delivery obligations that are yet to be satisfied, will be included within assets and liabilities.

IG36.56 Disclosure of the income and expenses relating to delivery obligations in the movement on funds note provides transparency over the delivery obligations met in the reporting period. Information about material delivery obligations is required to be disclosed in accordance with **Section 23 Part I Revenue from grants and donations.**

### **When should funds be aggregated for disclosure in the financial statements?**

IG36.57 NPOs are permitted to aggregate small funds that are individually immaterial where they have a similar purpose. An NPO may decide that where a fund would be individually immaterial to not establish a separate fund in the first instance. However, a separate fund may be required where the fund is material by nature and also an NPO may choose to establish a fund for immaterial amounts.

IG36.58 Where an NPO only has small funds, a single aggregation may not provide useful information to the users of the financial statements, even if the funds have a similar purpose. NPOs need to consider what information would be useful to the users of its financial statements when determining how to aggregate small funds.

IG36.59 NPOs need also to consider whether any restrictions that relate to a small fund are individually significant and therefore need to be separately disclosed.

## **Illustrative examples**

### **Classification of funds**

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.



	<u>Scenario</u>	<u>Material</u>	<u>Legal or equivalent requirement</u>	<u>Reasonable expectations</u>	<u>Possible classification</u>
1	<u>A grant agreement for CU250,00 with a requirement to deliver a distinct service. A report is required by the donor of expenses incurred.</u>	<u>Probable</u>	<u>Probable</u>		<u>Restricted</u>
2	<u>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.</u>	<u>Probable</u>	<u>Yes</u>		<u>Restricted</u>
3	<u>The government has introduced a new law that all resources provided for water security must be separately tracked.</u>	<u>Yes</u>	<u>Yes</u>		<u>Restricted</u>
4	<u>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.</u>	<u>Possible</u>	<u>Possible</u>	<u>Possible</u>	<u>Depends on the fact pattern</u>
5	<u>A grant agreement for CU30,000 with a requirement to achieve a specified outcome. A report is required by the donor of expenses incurred</u>	<u>Unlikely</u>			<u>Unrestricted (a separate fund is not required if not material)</u>
6	<u>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 quarterly updates on progress and the resources used.</u>	<u>Probable</u>		<u>Yes</u>	<u>Internally designated fund (unrestricted)</u>
7	<u>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.</u>	<u>Probable</u>	<u>No</u>	<u>Possible</u>	<u>Unrestricted if there are no reasonable expectations</u>
8	<u>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.</u> <u>b) As above except the NPO has specified that the funds can only be used for the specified natural disaster.</u>	<u>Yes</u> <u>Yes</u>	<u>No</u> <u>No</u>	<u>No</u> <u>Yes</u>	<u>Unrestricted</u> <u>Restricted</u>

## Presentation of funds

### **Example 1 – grantor funds the purchase of a truck**

NPO A enters into ~~an other funding arrangement~~ grant agreement for a specific outreach programme. It is given a grant of CU10,000 to purchase a truck, which it does at the end of year 0. The grantor requires that the truck is used only on a programme that is due to last for five years. At the end of the programme the NPO can use the truck on other activities. The truck is depreciated on a straight-line basis and has an expected life of ten years. The grantor's right to require the asset to be used on a specific outreach programme mean that the truck is presented as with restrictions. This shows that the truck is not available for general usage.

The NPO has no other activity other than the outreach programme.

#### Accounting

	Asset	Depreciation	Revenue
On acquisition	10,000		(10,000)
Year 1	(1,000)	1,000	
Year 2	(1,000)	1,000	
Year 3	(1,000)	1,000	
Year 4	(1,000)	1,000	
Year 5	(1,000)	1,000	

#### Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
<b><u>Funds with restrictions – Truck</u></b>						
<b><u>Restricted funds – Outreach Programme Capital Asset Fund</u></b>						
Year 0		10,000				10,000
Year 1	10,000		(1,000)			9,000
Year 2	9,000		(1,000)			8,000
Year 3	8,000		(1,000)			7,000
Year 4	7,000		(1,000)			6,000
Year 5	6,000		(1,000)		(5,000)	0
<b><u>Funds without restrictions</u></b>						
<b><u>Unrestricted funds – General fund</u></b>						
Year 5	1,000,000				5,000	1,005,000

The asset is transferred from restricted funds ~~with restrictions~~ to unrestricted funds ~~without restrictions~~ at the end of the programme as permitted under the agreement.

The NPO may be able to group this truck with other non-current assets that have restrictions ~~as part of so that it has one a single~~ fund for all non-current assets with restrictions. A decision to group assets needs to take account of external requirements.

The use of a single fund for non-current assets may be useful where, for example, the grantor is funding several programmes and the truck can be used on any of these. Where the grantor allows the truck to be used for other unrelated purposes, the NPO will need determine whether the truck is in substance part of a restricted fund (for example, if the alternative use is incidental, it may in substance be restricted).

### Example 2 – grantor part funds the purchase of a truck

The scenario is the same as example 1 except that the grantor only provides half of ~~value~~ the value of the truck ie the grantor provides CU5,000 and the NPO makes up the balance.

The asset is shown as part of restricted funds ~~with restrictions~~ even though it has been part funded by the NPO. This is because of the grantor’s right about how the asset is used during the programme. Similarly, all of the depreciation is charged to the fund with restriction as the NPO is not freely able to use the truck and there may be no value in the truck at the end of the outreach programme.

The NPO’s contribution ~~will be~~ is shown clearly in year 1.

#### Accounting

	Asset	Depreciation	Revenue	Cash
On acquisition	10,000		(5,000)	(5,000)
Year 1	(1,000)	1,000		
Year 2	(1,000)	1,000		
Year 3	(1,000)	1,000		
Year 4	(1,000)	1,000		
Year 5	(1,000)	1,000		

#### Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
<b>Restricted funds – Outreach Programme Capital Asset Fund</b>						
<del>Funds with restrictions – Truck</del>						
Year 0		5,000			5,000	5,000
Year 1	10,000		(1,000)			9,000
Year 2	9,000		(1,000)			8,000
Year 3	8,000		(1,000)			7,000
Year 4	7,000		(1,000)			6,000
Year 5	6,000		(1,000)		(5,000)	0
<b>Funds Unrestricted funds without restrictions – General fund</b>						
Year 0	1,000,000				(5,000)	995,000
Year 1	995,000					995,000
Year 2	995,000					995,000
Year 3	995,000					995,000
Year 4	995,000					995,000
Year 5	995,000				5,000	1,000,000

### Example 3 – grantor fully funds a truck with a right of return (NPO controls the truck)

The scenario is the same as example 1 except that the grantor is able to decide at the end of the programme whether the truck can be retained by the NPO for use on other programmes or if it must be disposed of, with the proceeds returned to the grantor. At the end of year 5 the grantor decides that the NPO can keep the truck.

The NPO has determined that it controls the truck and treats the truck as its own asset from the point at which it was acquired. The NPO depreciates the truck over the life of the agreement (five years), which is the period that the NPO is certain that it will control the truck, even if its working life might be expected to be longer. At the end of the agreement the truck is transferred to the NPO's general-~~General~~ fund at its remaining book value.

#### Accounting

	Asset	Depreciation	Revenue
On acquisition	10,000		(10,000)
Year 1	(2,000)	2,000	
Year 2	(2,000)	2,000	
Year 3	(2,000)	2,000	
Year 4	(2,000)	2,000	
Year 5	(2,000)	2,000	

#### Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
<u>Restricted funds – Outreach Programme Capital Asset Fund</u> <del>Funds with restrictions – Truck</del>						
Year 0		10,000				10,000
Year 1	10,000		(2,000)			8,000
Year 2	8,000		(2,000)			6,000
Year 3	6,000		(2,000)			4,000
Year 4	4,000		(2,000)			2,000
Year 5	2,000		(2,000)		0*	0
<u>Funds-<del>Unrestricted funds</del>without restrictions – General fund</u>						
Year 5					0*	0

Once the grantor has confirmed that the NPO can retain the truck, the NPO considers the remaining life of the truck and any residual value. If it determines that the life of the truck is longer, then there will be a lower depreciation charge in year 5. This will result in a balance on the asset, which would be transferred out of the fund for the truck~~Outreach Programme Capital Asset Fund~~ into the general-~~General~~ fund.

If the grantor had required the truck to be sold, any gain or loss would have been shown in other changes.

#### **Example 4 – grantor fully funds a truck with a right of return (NPO does not control the truck)**

The scenario is the same as example 3 except that the NPO determines that it does not control the truck. Where it does not control the asset, the asset does not appear on its Statement of Financial Position. It therefore treats it as a leased asset. The NPO records an expense and a revenue in each final year such that the full cost of the truck is expensed over the period of the programme. At the end of the agreement the truck is transferred to the NPO at the fair value of the truck at that date. The fair value of the truck at the end of the agreement is CU4,000. The truck will be treated as a donation at the date it is transferred.

### Accounting

	Income	Expense	Cash	Deferred revenue	Asset	Income
On acquisition			10,000	(10,000)		
Year 1	(2,000)	2,000		2,000		
Year 2	(2,000)	2,000		2,000		
Year 3	(2,000)	2,000		2,000		
Year 4	(2,000)	2,000		2,000		
Year 5	(2,000)	2,000		2,000	4,000	(4,000)

### Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
<b>Restricted funds – Outreach Programme Capital Asset Fund</b>						
<b>Funds with restrictions – Truck</b>						
Year 0						
Year 1		2,000	(2,000)			0
Year 2		2,000	(2,000)			0
Year 3		2,000	(2,000)			0
Year 4		2,000	(2,000)			0
Year 5		6,000	(2,000)		(4,000)	0
<b>Unrestricted funds – without restrictions – General fund</b>						
Year 5	1,000,000				4,000	1,004,000

There ~~will be~~ no fund balances for the truck if the NPO does not control the truck as ~~it the~~ ~~NPO does not have an~~ ~~has no~~ asset.

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

NPO A enters into ~~an other funding arrangement~~ a grant agreement to provide for an outreach programme. The NPO receives an operating grant of CU100,000 in each year to fund the programme. Expenses have a profile of CU50,000, CU 80,000, CU125,000, CU135,000 and CU110,000 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)	50,000
Year 2	(100,000)	80,000
Year 3	(100,000)	125,000
Year 4	(100,000)	135,000
Year 5	(100,000)	110,000

## Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
<u>Restricted funds - Outreach Programme Fund</u>						
Year 0						
Year 1		100,000	(50,000)			50,000
Year 2	50,000	100,000	(80,000)			70,000
Year 3	70,000	100,000	(125,000)			45,000
Year 4	45,000	100,000	(135,000)			10,000
Year 5	10,000	100,000	(110,000)			0

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
<u>On acquisition</u>	<u>(10,000)</u>	
<u>Year 1</u>	<u>(100,000)</u>	<u>120,000</u>
<u>Year 2</u>	<u>(100,000)</u>	<u>80,000</u>
<u>Year 3</u>	<u>(100,000)</u>	<u>80,000</u>
<u>Year 4</u>	<u>(100,000)</u>	<u>110,000</u>
<u>Year 5</u>	<u>(100,000)</u>	<u>120,000</u>

### Presentation

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

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
<b>Restricted funds – Outreach Programme Fund</b>						
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)
<b>Unrestricted funds – General fund</b>						
Year 5	1,000,000				(10,000)	900,000

**Example 6-7 – Operating grant and truck for the outreach programme are presented together**

The scenario is a combination of example 1 and example 5, where as part of the same other funding arrangement grant agreement there is a truck and an operating grant, which the NPO decides to present as one restricted fund with restrictions.

Accounting for the truck and operational grant

	Asset	Depreciation	Revenue	Expenses
On acquisition	10,000		(10,000)	
Year 1	(2,000)	2,000	(100,000)	50,000
Year 2	(2,000)	2,000	(100,000)	80,000
Year 3	(2,000)	2,000	(100,000)	125,000
Year 4	(2,000)	2,000	(100,000)	135,000
Year 5	(2,000)	2,000	(100,000)	110,000

Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
<b>Restricted funds – Outreach Programme Fund</b>						
<b>Funds with restrictions – Outreach programme</b>						
Year 0		10,000				10,000
Year 1	10,000	100,000	(51,000)			59,000
Year 2	59,000	100,000	(81,000)			78,000
Year 3	78,000	100,000	(126,000)			52,000
Year 4	52,000	100,000	(136,000)			16,000
Year 5	16,000	100,000	(111,000)		(5,000)	0
<b>Unrestricted funds without restrictions – General fund</b>						
Year 0	1,000,000					<del>995,000</del> 1,000,000
Year 1	<del>995,000</del> 1,000,000					<del>1,000,000</del> 995,000
Year 2	<del>1,000,000</del> 995,000					<del>1,000,000</del> 995,000
Year 3	<del>1,000,000</del> 995,000					<del>1,000,000</del> 995,000
Year 4	<del>1,000,000</del> 995,000					<del>1,000,000</del> 995,000
Year 5	<del>1,000,000</del> 995,000				5,000	<del>1,000,000</del> 5,000

The NPO ~~is able to~~can choose whether to present both parts of the grant together (operating grant and asset) or to separate out the ~~assets-truck~~ so that it is in a separate fund. Separation of the truck from the operational activity may allow an NPO to explain what is happening in operational terms distinct from the related assets. Separating the ~~assets~~s may also allow the NPO to ~~better~~ show how much of its property, plant and equipment or other assets are subject to restrictions.

### Scope of this Section

**Should Section 37 be used where Supplementary statements haven't been issued, but an NPO intends to do so?**

IG37.1 When an NPO routinely prepares and distributes Supplementary statements in accordance with INPAS Practice Guide 1 – Supplementary statements for donor reporting (INPAS Practice Guide 1) it applies/uses Section 37. It ~~must~~should do so even if it produces and/or publishes its general purpose financial report before it issues these Supplementary statements.

IG37.2 When an NPO has not yet routinely started to prepare and distribute Supplementary statements, but it plans to do so it would benefit from using Section 37. An NPO should consider using Section 37 for the financial period for which it plans to prepare and distribute its first supplementary statements.

### Why should I prepare a whole of NPO Supplementary statement?

IG37.13 Section 37 permits an NPO to present supplementary information by identifying information already reported in the general purpose financial statements and to rely on these disclosures. Where this approach is taken an NPO will need to disclose any information that is required by the Supplementary statement but not already in the



financial statements. This will result in the disclosures being scattered distributed across the financial statements, but statements but reduces duplication.

IG37.24 Alternatively, an NPO can or presenting a single whole-of-NPO supplementary statement using format included in INPAS Practice Guide 1. ~~Preparing a single a whole-of-NPO supplementary information statement using the prescribed Supplementary sStatement format- format included in INPAG INPAS Practice Guide 1 – Supplementary statements could be ofcan – affordofferprovides several benefits including: to many users. This presentation would include all Supplementary Information prepared under Section 37 and any other information already presented elsewhere in the general purpose financial statements.~~

- ~~enhanced transparency and accountability, providing a comprehensive financial overview of the activities of the NPO in one location, linking which more clearly links general purpose financial statements to project-specific or donor-driven reporting; and~~
- ~~streamlined reporting for stakeholdersusers, reducing duplicative or fragmented reporting by consolidating key financial information in a structured and accessible format.~~
- ~~reliability, removing the need for users to identify each piece of information to create their own equivalent statement, which may risk misunderstanding or error;:~~
- ~~improved opportunities for assurance – audit and assurance, a single statement offering a clear reconciliation point makes it easier to reconcile between general purpose financial statements and donor-specific reports, supporting audit verification and financial integrity;~~
- ~~enhanced transparency and accountability, providing a comprehensive financial overview, linking general purpose financial statements to project specific or donor driven reporting; and~~
- ~~improved comparability, aligning reporting across multiple grants, projects, and restricted funds, allowing stakeholders to easily compare financial information across different funding sources.~~

## **Disclosure of supplementary information**

**Where does the information for a whole of NPO Supplementary statement come from?**

IG37.235 The source of information to produce a whole of entity Supplementary Statement will depend on how an NPO adopts ~~the INPAG Guidance~~INPAS. Figure IG37.1 provides an illustration of the sources of information to meet the disclosure requirements.

**Figure IG37.1 – Illustration of the sources of information to meet the disclosure requirements for a supplementary statement**

	Source
<b>Income</b>	
Grants and donations	Section 23 Part I
Other income ( <i>by type</i> )	Section 5, Section 11, Section 23 Part II, Section 37
<b>Total income</b>	
<b>Expenses</b>	
<b>Direct expenses</b>	
Employment	Section 28
Travel and subsistence	Section 37 – if not separately disclosed in accordance with Section 24 Part II
Supplies and materials	Section 37– if not separately disclosed in accordance with Section 24 Part II
Running costs, external services and other	Section 37– if not separately disclosed in accordance with Section 24 Part II
Services in-kind and gifts in-kind	Section 23 Part I
Grants payable	Section 24 Part I
<b>Support costs</b>	Section 37– if not separately disclosed in accordance with Section 24 Part II
<b>Total expenses</b>	
Foreign currency translation gains/losses	Section 5 and Section 30
Transfers	Section 36 and Section 37
Other financial movements	All sections
Change in grant [ <i>fund</i> ] balance	
Opening balance	Section 36
Closing balance	Section 36
<b>Inventory and Capital Costs (note: only required when used by an NPO in its Supplementary statements)</b>	
Total expenses	Section 24 Part II
Less: inventory expenses	Section 37– if not separately disclosed in accordance with Section 24 Part II
Less: depreciation and/or amortisation charged	Section 17 and 18
Add: inventory costs incurred	Section 37 and Section 37
Add: capital costs incurred	Section 37, Section 7, Section 17 and Section 37
<b>Expenses, inventory and capital costs</b>	Section 37

<b>Opening balance including inventory and capital costs</b>	Section 37
<b>Closing balance including inventory and capital costs</b>	Section 37

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