



**International
Non-Profit
Accounting
Guidance
Part 3**

**Authoritative
Guidance**

**IFRS
PRACTICE
GUIDANCE**

INPAG

Copyright/disclaimer

Exposure Draft CIPFA/ED/2024/3 International Non-Profit Accounting Guidance is published by the Chartered Institute of Public Finance and Accountancy (CIPFA) for comment only. Comments need to be received by 16 September 2024 and should be submitted by email to ifr4npo@cipfa.org or online at www.ifr4npo.org/have-your-say

All comments will be on the public record and posted at www.ifr4npo.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see www.ifr4npo.org for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at ifr4npo@cipfa.org before submitting your response.

Copyright: Except for professional use (see [terms and conditions](#)), users shall not, without prior written permission of CIPFA, have the right to license, sublicense, transmit, transfer, translate, sell, rent, or otherwise distribute any portion of the International Non-Profit Accounting Guidance to third parties in any form or by any means, whether electronic, mechanical or otherwise either currently known or yet to be invented.

Users are not permitted to modify or make alterations, additions or amendments to or create any derivative works from the International Non-Profit Accounting Guidance, save as otherwise expressly permitted in this notice.

The International Non-Profit Accounting Guidance contains copyright material belonging to the IFRS® Foundation and IFAC, which material has been reproduced with the kind permission of the IFRS Foundation and IFAC respectively, and in respect of which all rights are reserved.

Enquiries should be sent to ifr4npo@cipfa.org.

Disclaimer: To the extent permitted by applicable law, CIPFA expressly disclaims all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs. Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

ISBN for this part 978 1 84508 599 5

ISBN for complete publication (four parts): 978 1 84508 597 1

© 2024 CIPFA

All rights reserved. Reproduction and use rights are strictly limited. Please contact CIPFA for further details at ifr4npo@cipfa.org.



Notices

The International Non-Profit Accounting Guidance contain copyright material of the IFRS® Foundation (Foundation) in respect of which all rights are reserved.

Reproduced and distributed by the Chartered Institute of Public Finance and Accountancy (CIPFA) with the permission of the Foundation. No rights granted to third parties other than as permitted by the **Terms of Use** without the prior written permission of CIPFA and the Foundation.

The International Non-Profit Accounting Guidance is issued by CIPFA and has not been prepared or endorsed by the International Accounting Standards Board.



The Foundation has trade marks registered around the world (Trade Marks) including 'IAS®', 'IASB®', 'IFRIC®', 'IFRS®', the IFRS® logo, 'IFRS for SMEs®', IFRS for SMEs® logo, the 'Hexagon Device', 'International Accounting Standards®', 'International Financial Reporting Standards®', and 'SIC®'. Further details of the Foundation's Trade Marks are available from the Licensor on request.



The International Non-Profit Accounting Guidance contain copyright material of IFAC® in respect of which all rights are reserved.

Reproduced and distributed by the Chartered Institute of Public Finance and Accountancy (CIPFA) with the permission of IFAC. No rights granted to third parties other than as permitted by the **Terms of Use** without the prior written permission of CIPFA and IFAC.

The International Non-Profit Accounting Guidance is issued by CIPFA and has not been prepared or endorsed by the International Public Sector Accounting Standards Board.

The 'International Public Sector Accounting Standards Board', 'International Public Sector Accounting Standards', 'Recommended Practice Guidelines', 'International Federation of Accountants', 'IPSASB', 'IPSAS', 'RPG', 'IFAC', the IPSASB logo, and IFAC logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

For further details about licensing IFAC's intellectual property please contact permissions@ifac.org.

Contents

Section	Status ¹	
2	Concepts and pervasive principles – consequential amendments	Modified
5	Statement of Income and Expenses – consequential amendments	Modified
7	Statement of Cash Flows – addendum to the draft Third edition of the IFRS for SMEs Accounting Standard	Editorial
12	Fair value measurement	Editorial
14	Investments in associates	Editorial
15	Joint arrangements	Editorial
16	Investment property	Editorial
17	Property, plant and equipment	Editorial
18	Intangible assets other than goodwill	Editorial
19	Business combinations and goodwill	Editorial
20	Leases	Editorial
22	Liabilities and equity claims	Updated
24 Part II	Classification of expenses	New
24 Part III	Fundraising costs	New
27	Impairment of assets	Updated
28	Employee benefits – consequential amendments	Updated
30	Foreign currency translation – addendum to the draft Third edition of the IFRS for SMEs Accounting Standard	Editorial
33	Related party disclosures	Updated
34	Specialised activities	Editorial
36	Fund accounting	New
37	Supplementary information	New
38	Transition to INPAG	Updated

Note: all references to the *IFRS for SMEs Accounting Standard* in this draft of the Authoritative Guidance are to the draft Third edition of the *IFRS for SMEs Accounting Standard* exposed in September 2022 or the additional text exposed on 28 March 2024 unless otherwise stated.

The International Non-Profit Accounting Guidance (INPAG) is set out in the Preface and Sections 1–38. INPAG

¹ Status refers to whether the *IFRS for SMEs Accounting Standard* has been updated to reflect NPO-specific requirements. Further explanation can be found in the Invitation to comment.

includes a glossary in Annex A. Terms defined in the glossary are in bold type the first time that they appear in each section unless defined within the section. INPAG is accompanied by a Basis for Conclusions and Implementation Guidance, which includes illustrative examples.

The Preface, Sections 1–11 and Section 35 were published as drafts in Exposure Draft 1 (ED1). Section 13, Section 21, Sections 23–24 Part I, Sections 25–26 and Sections 28–32 were published as drafts in Exposure Draft 2 (ED2). This document provides links to the previously published sections.

The Preface and Section 1 to Section 11

Section	
	Preface
1	Non-profit organisations
2	Concepts and pervasive principles
3	Financial statement presentation
4	Statement of Financial Position
5	Statement of Income and Expenses
6	Statement of Changes in Net Assets
7	Statement of Cash Flows
8	Notes to the financial statements
9	Consolidated and separate financial statements
10	Accounting policies, estimates and errors
11	Financial instruments

The Preface and Sections 1–10 were included in **ED1**, which closed for comment on 31 March 2023.

Section 11 was included in **ED2**, which closed for comment on 15 March 2024.

Consequential amendments to Section 2 and Section 5 arising from the development of Section 36 *Fund accounting* and incorporating feedback on ED1 are set out below. Also included below is an amendment to Section 7 arising from additional text related to supplier finance arrangements as set out in the Addendum to the draft Third edition of the *IFRS for SMEs Accounting Standard* published on 28 March 2024.

The remaining feedback on ED1 will be incorporated into the final version of INPAG.

Section 2 – Concepts and pervasive principles

As part of the development of the content of Exposure Draft 3 consequential amendments are proposed to paragraphs related to equity and funds with restrictions. These amendments also reflect respondent feedback on Exposure Draft 1. New text is underlined. Removed text is struck through.

Core Guidance

- G2.50 The elements of **financial statements** defined in this Section are:
- **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** where they contribute to surplus and deficit and to the **Statement of Changes in Net Assets** where they do not contribute to surplus and deficit.
- G2.52 In addition to these elements, further important aspects of NPO financial statements are discussed in this Section. These include:
- (a) ~~net assets~~
 - (b) (a) **equity claims**; and
 - (c) (b) **funds with restrictions** and **funds without restrictions**.
- G2.56 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 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.
- G2.73 ~~Net assets not a defined financial statements element but rather are the residual of recognised assets minus recognised liabilities available to the NPO to achieve its objectives. An NPO may recognise the element of equity within net assets where the holders of equity claims have established a financial interest in or entitlement to some of the net assets of the NPO (see paragraphs AG2.6-AG2.9). Net assets may exceptionally also include non-controlling interests. Net assets may be managed by an NPO in separate funds, which may be funds with restrictions and funds without restrictions. These are the funds within net assets. Net assets will include specific categories of items whose use may be either with restrictions or without restrictions as per paragraphs G2.74-G2.75.~~
- G2.74 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 AG2.6-AG2.10), the equity claims shall be recognised as a subset of net assets.

Fund accounting

~~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 the NPO may face 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.
- G2.75 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 being with restrictions or without restrictions. This allows an NPO to manage and present the elements by individual fund. Section 36 Fund accounting provides more detail on fund accounting.
- G2.79 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, net assets, 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 net assets equity is recognised in the Statement of Financial Position is referred to as its '**carrying amount**'.

Figure 2.2 – how recognition impacts components of net assets

Net assets at the beginning of reporting period	In reporting period recognition			Net assets at the end of the reporting period
Funds without restrictions	plus income without restrictions	minus expenses without restrictions	plus/minus reclassifications between funds without restrictions and funds with restrictions	Funds without restrictions
Funds with restrictions	plus income with restrictions	minus expenses with restrictions	plus/minus reclassifications between funds without restrictions and funds with restrictions	Funds with restrictions
Equity <u>claims</u> (where they <u>it</u> -exists)	plus investments from holders of equity claims	minus distributions to holders of equity claims		Equity <u>claims</u>

- G2.81 Only items that meet the definition of an asset, a liability, or net assets equity are recognised in the Statement of Financial Position. 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.
- G2.83 Information about assets, liabilities, net assets, equity, 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 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 of the factors does not lead automatically to a conclusion that the information provided by recognition lacks relevance, as other factors may need to be taken into account.

Measurement of net assets and equity claims

- G2.129 In the rare circumstances where an NPO has equity claims it may be appropriate to measure directly the carrying amount of some individual classes of equity claims.
- G2.130 A reporting NPO communicates information about its assets, liabilities, net assets ~~equity and funds with and without restrictions in net assets~~, income and expenses by presenting and disclosing information in its financial reports.
- G2.131 Effective communication of information in financial reports makes that information more relevant and contributes to a faithful representation of an entity's assets, liabilities, net assets ~~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.
- G2.138 Classification is the sorting of assets, liabilities, net assets, ~~equity and funds with and without restrictions in 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.
- G2.139 Classifying dissimilar assets, liabilities, net assets, ~~equity and funds with and without restrictions in 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.

Classification of components of net assets

- G2.141 To provide useful information, it may be necessary where relevant to an NPO to classify components of net assets separately if those components of net assets have different characteristics or are subject to particular legal, regulatory or other requirements.
- G2.147 Aggregation is the adding together of assets, liabilities, net assets, ~~equity, funds with restrictions and funds without restrictions~~, income or expenses that have shared characteristics and are included in the same classification.

Application Guidance: Section 2 – Concepts and pervasive principles

Equity claims in the NPO context

[Previous AG2.6 deleted and replaced with two new paragraphs AG2.6 and AG2.7]

- 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.~~

- AG2.6 Equity claims in the NPO context are expected to be rare. It is expected that the net assets of an NPO will be available to be used to achieve its objectives, and not for distribution. Where equity claims do exist, they are unlikely to be material by magnitude but may be material by nature.
- AG2.7 Where equity claims do exist, they provide a financial interest in the net assets of the NPO through an entitlement to (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 (ii) distributions of any excess of assets over liabilities in the event of the NPO being dissolved 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.
- AG2.78 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.
- AG2.9 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.
- AG2.810 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.

Section 5 – Statement of Income and Expenses

As part of the development of the content of Exposure Draft 3 consequential amendments are proposed to paragraphs related to funds with and without restrictions. These amendments also reflect respondent feedback on Exposure Draft 1. New text is underlined. Removed text is ~~struck through~~.

- 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.

Authoritative Guidance: Section 5 – Statement of Income and Expenses

Income and expenses with restrictions

- AG5.4 Paragraph G5.3 requires that the face of the Statement of Income and Expenses ~~to shows the aggregation of income and expenses with restrictions 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, and to the requirements of other parts of this Guidance. The use of separate columns to present items in the Statement of Income and Expenses for **funds with restrictions** and **funds without restrictions** is not required. An NPO may choose to use this presentation if this provides useful information to the users of the financial statements. The presentation and related disclosure requirements for income and expenses in funds with restrictions is set out in Section 36 *Fund accounting*.~~

- 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.

Section 7 – Statement of Cash Flows

This Section was updated following the decision by the International Accounting Standards Board to extend the scope of the Second Comprehensive Review of the IFRS for SMEs Accounting Standard.

Paragraphs G7.20A–G7.20B (including their related heading) are added.

Supplier finance arrangements

- G7.20A 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 NPOs 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.
- G7.20B An NPO shall disclose in aggregate for its supplier finance arrangements:
- (a) the 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 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 carrying amounts, and associated line items, of the financial liabilities disclosed in accordance with (i) for which suppliers have already received payment from the finance providers.
 - (iii) 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 jurisdiction 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).

Comparison of Sections 2, 5 and 7 consequential amendments with the *IFRS for SMEs Accounting Standard*.

Sections 2, 5 and 7 of INPAG have been drawn from Sections 2, 5 and 7 of the *IFRS for SMEs Accounting Standard*. The main differences to the comparison provided in ED1 are as follows:

- 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.
- The previously proposed requirement to show funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses has been removed.
- The definition of funds with restrictions is located in Section 36 *Fund accounting*.
- In Section 7, references to similar business for assessing payables has been amended to replace references to other business to other NPOs with similar objectives. Minor amendments have also been made to reflect the terminology used in other sections of INPAG.
- The paragraph numbers have been updated to follow those used in Section 7 of INPAG.

Specific matter for comment	
<p>Question 1:</p> <p>(a) Do you agree that the requirement to present funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses should be removed? If not, why not?</p>	<p>References</p> <p>G5.3, AG5.4</p>
<p>Question 5:</p> <p>(a) Do you agree with the revised description of net assets and its inclusion as an element? If not, what would you change and why?</p> <p>(b) Do you agree with the approach of using the term equity claims in Sections 2 and 22 rather than equity and that equity claims are a subset of net assets? If not, what would you change and why?</p>	<p>References</p> <p>G2.73</p> <p>G2.74, AG2.6, AG2.7 Section 22</p>
<p>Question 11:</p> <p>(a) Do you agree that the guidance for supplier finance arrangements is useful and relevant to NPOs? If not, what would you change and why?</p>	<p>References</p> <p>G7.20A–G7.20B</p>

Section 12 – Fair value measurement

Scope of this section

- G12.1 This section applies when another section requires or permits **fair value** measurements or disclosures about fair value measurements, except leasing transactions within the scope of Section 20 *Leases*.
- G12.2 The disclosures required by this section are not required for:
- (a) **plan assets** measured at fair value in accordance with Section 28 *Employee benefits*; and
 - (b) **assets** for which the **recoverable amount** is fair value less costs of disposal in accordance with Section 27 *Impairment of assets*.

Measurement

- G12.3 The objective of a fair value measurement is to estimate the price at which an **orderly transaction** (not a forced transaction) to sell an asset or to transfer a liability would take place between **market participants** at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).
- G12.4 Fair value is a market-based measurement, not an entity-specific measurement. Therefore, it is measured using the assumptions that market participants would use when pricing the asset or liability. An NPO's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.
- G12.5 When measuring fair value an NPO shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:
- (a) the condition and location of the asset; and
 - (b) restrictions, if any, on the sale or use of the asset.
- G12.6 A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:
- (a) in the **principal market** for the asset or liability; or
 - (b) in the absence of a principal market, in the **most advantageous** market for the asset or liability.
- The NPO must have access to the principal (or most advantageous) market at the measurement date.
- G12.7 In the absence of evidence to the contrary, the market in which an NPO would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.
- G12.8 The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for **transaction costs**. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction.
- G12.9 If location is a characteristic of the asset, the price in the principal (or most advantageous) market shall be adjusted for transport costs.

Highest and best use of non-financial assets

- G12.10 A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefit or **service potential** by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
- G12.11 The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:
- (a) a use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (for example, the location or size of a property).
 - (b) a use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (for example, the zoning regulations applicable to a property).
 - (c) a use that is financially feasible takes into account whether a use generates adequate income or cash flows that market participants would require from an investment in that asset put to that use.
- G12.12 An NPO's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.
- G12.13 If the highest and best use of a non-financial asset provides maximum value to market participants through its use in combination with other assets (and liabilities) as a group, the fair value of the asset would assume that the asset would be used with those other assets (and liabilities) and that those complementary assets (and liabilities) would be available to market participants. Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets and liabilities within which the asset would be used.

Valuation techniques

- G12.14 When a price for an identical asset or liability is not observable, an NPO measures fair value using another valuation technique. The entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant **observable inputs** and minimising the use of **unobservable inputs**.
- G12.15 Three widely used valuation techniques are the market approach, the cost approach and the income approach. An NPO shall use valuation techniques consistent with one or more of these approaches to measure fair value:
- (a) the market approach uses prices and other relevant information generated by market transactions involving identical or comparable (that is, similar) assets, liabilities or a group of assets and liabilities. For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables.
 - (b) the cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
 - (c) the income approach converts future amounts (for example, cash flows or income and expenses) to a single current (that is, discounted) amount. Those valuation techniques include, for example, the following:
 - (i) present value techniques;
 - (ii) option pricing models, such as the Black-Scholes-Merton formula or a binomial model (that is, a lattice model); and
 - (iii) the multi-period excess earnings method, which is used to measure the fair value of some **intangible assets**.

- G12.16 Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate in accordance with Section 10. However, the disclosures in Section 10 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.
- G12.17 If an asset or a liability measured at fair value has a bid price and an ask price (for example, an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorised within the fair value hierarchy (that is Level 1, 2 or 3; see paragraphs G12.22–G12.27). The use of bid prices for asset positions and ask prices for liability positions is permitted but is not required.

Reliable measure of fair value

- G12.18 A valuation technique would be expected to arrive at a reliable measure of the fair value if:
- (a) it reasonably reflects how the market could be expected to price the asset; and
 - (b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset.
- G12.19 The fair value of investments in assets that do not have a quoted market price in an **active market** is reliably measurable if:
- (a) the variability in the range of reasonable fair value measures is not significant for that asset; or
 - (b) the probabilities of the various measures within the range can be reasonably assessed and used in estimating fair value.
- G12.20 There are many situations in which the variability in the range of reasonable fair value measures of assets that do not have a quoted market price is likely not to be significant. Normally it is possible to estimate the fair value of an asset that an NPO has acquired from an outside party. However, if the range of reasonable fair value measures is significant and the probabilities of the various measures cannot be reasonably assessed, the NPO is precluded from measuring the asset at fair value.
- G12.21 If a reliable measure of fair value is no longer available for an asset measured at fair value (or is not available without undue cost or effort when such an exemption is provided (see paragraphs G11.17(c) and G11.65(b)), its **carrying amount** at the last date the asset was reliably measurable becomes its new cost. An NPO shall measure the asset at this cost amount less impairment until a reliable measure of fair value becomes available (or becomes available without undue cost or effort when such an exemption is provided).

Fair value hierarchy

- G12.22 This section establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Level 1 inputs

- G12.23 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and shall normally be used without adjustment to measure fair value whenever available.
- G12.24 If an NPO holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is

traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity.

Level 2 inputs

- G12.25 Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following:
- (a) quoted prices for similar assets or liabilities in active markets.
 - (b) quoted prices for identical or similar assets or liabilities in markets that are not active.
 - (c) inputs other than quoted prices that are observable for the asset or liability, for example:
 - (i) interest rates and yield curves observable at commonly quoted intervals;
 - (ii) implied volatilities; and
 - (iii) credit spreads.
 - (d) market-corroborated inputs.
- G12.26 An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorised within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

Level 3 inputs

- G12.27 Level 3 inputs are unobservable inputs for the asset or liability. An NPO shall develop unobservable inputs using the best information available in the circumstances, which might include the NPO's own data. In developing unobservable inputs, an NPO may begin with its own data, but it shall adjust this data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (for example, an entity-specific synergy). An NPO need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an NPO shall take into account all information about market participant assumptions that is reasonably available.

Disclosures

- G12.28 An NPO shall disclose for each **class of assets** and liabilities measured at fair value in the **Statement of Financial Position** after initial **recognition**:
- (a) the carrying amounts at the end of the **reporting period**;
 - (b) the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3); and
 - (c) a description of the valuation technique(s) it used for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, and the inputs used in the fair value measurement.
- G12.29 For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, an NPO shall disclose:
- (a) total gains or losses for the period recognised in surplus or deficit, and the line items in surplus or deficit in which those gains or losses are recognised; and
 - (b) total gains or losses for the period recognised in **Statement of Changes in Net Assets**, and the line items in Statement of Changes in Net Assets in which those gains or losses are recognised.
- G12.30 An NPO shall determine appropriate classes of assets and liabilities on the basis of:
- (a) the nature, characteristics and risks of the asset or liability; and
 - (b) the level of the fair value hierarchy within which the fair value measurement is categorised.

- G12.31 A class of assets and liabilities will often require greater disaggregation than the line items presented in the Statement of Financial Position. However, an NPO shall provide sufficient information to permit reconciliation to the line items presented in the Statement of Financial Position.
- G12.32 An NPO shall present the quantitative disclosures required by paragraphs G12.28–G12.31 in a table unless another format is more appropriate.

Application Guidance: Section 12 – Fair value measurement

Scope

- AG12.1 Fair value determinations for NPOs are substantially similar to those of other entities. Some of the special considerations for NPOs are included in this Application Guidance.

Applying fair value to NPOs

- AG12.2 For NPOs:
- (a) Level 1 'open market values' are likely to be limited to specific assets (see Illustrative Guidance example 3).
 - (b) Level 2 values that are derived from observable prices may be relevant to NPOs for some assets and liabilities – for example, investment properties. Where market values for an asset are available, yet the asset is used for social purposes rather than maximising **cash inflows**, a Level 3 technique shall be employed (see Illustrative Guidance example 1).
 - (c) Many assets and liabilities will be part of Level 3 in the fair value hierarchy.
- AG12.3 **Social use assets** may be more difficult to value as they may be unusual or heritage in nature, or simply because they do not generate cash flows. Social use assets held for their service potential may mean that fair value is tied to value to a community.
- AG12.4 Heritage assets shall be valued using the principles in Section 17 *Property, plant and equipment*. The fair value of assets held for their service potential shall be determined using the cost approach, where there is no observable market. The cost approach calculates the value based on the current cost required to replace the service capacity of an asset.

Fair value of restricted use assets

- AG12.5 Where a restriction is placed on how an asset can be used over time, the fair value of that asset shall be evaluated based on its current usage within those restrictions. This will be the highest and best use of that asset under those circumstances. An NPO shall not determine the highest and best use as if the restriction were lifted.
- AG12.6 The fair value of an asset that is subject to a restriction shall take account of the service potential of that asset in determining its value. This should take account of the capacity needed to support the delivery of services to beneficiaries rather than, for example, the location or technical specification of the asset that is subject to a restriction.

Fair value of donated assets

- AG12.7 Application of fair value on initial recognition of a donated asset shall be its deemed cost.
- AG12.8 Many NPO assets and liabilities will require the use of a Level 3 technique; that is either the market approach, cost approach or income approach. This will be particularly the case for assets arising from donations in-kind.

- AG12.9 Where an asset can be freely disposed of, it shall be measured at its highest and best use, which shall not take account of any previous or existing restriction.
- AG12.10 If an observable market price is not available and obtaining a reliable measurement of fair value under paragraph AG12.6 is **impracticable**, the fair value of donated items shall be determined as their 'replacement cost'. Replacement cost is the lowest economical cost that would be incurred in achieving the service potential created for use in delivering services to beneficiaries. This provides the value of an equivalent item in local use, or '**value in use**'. An NPO may use the cost to the donor as the deemed fair value where this is known and is relevant.

Fair value application in crisis situation

- AG12.11 There may be situations where an NPO is operating in a crisis situation and is not able to determine a fair value for the assets that it is receiving (eg inventory) because to do so would be impracticable. In this situation it may not be possible to reliably measure such donated items and the NPO shall not recognise them. A disclosure is required to describe the affected items. Paragraphs AG13.8–AG13.9 set out these requirements and disclosures for donated inventory. The same principles also apply to other classes of assets.

Comparison of Section 12 with the *IFRS for SMEs Accounting Standard*

Section 12 of INPAG has been drawn from Section 12 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 12 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 12 of INPAG are as follows:

- The *IFRS for SMEs Accounting Standard* does not specifically consider when fair value is used to determine the deemed cost of a donated asset on initial recognition. Although the existing guidance can be applied to such assets, additional application guidance has been developed to assist NPOs with donated assets.
- The illustrative examples on this Section have been expanded to cover donated assets and all of the illustrative examples are included in the Implementation Guidance.
- References to share-based payments have been removed to align with other sections of INPAG.
- INPAG Section 12 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Specific matter for comment	
<p>Question 7:</p> <p>(ii) Is the Section 12 application guidance that sets out how the fair value hierarchy applies to NPO assets and liabilities and the illustrative examples of fair valuing donations in-kind useful? If not, how could it be improved?</p>	<p>References</p> <p>AG12.1–AG12.11; Implementation Guidance Section 12 examples 5 and 6.</p>

Section 13 – Inventories

Section 13 *Inventories* was included in **ED2**, which closed for comment on 15 March 2024.

Section 14 – Investment in associates

Scope of this section

G14.1 This section applies to accounting for associates in **consolidated financial statements** and in the financial statements of an investing NPO that is not a parent but that has a **beneficial interest** in one or more associates. Paragraph G9.45 establishes the requirements for accounting for associates in **separate financial statements**.

Associates defined

G14.2 An associate is an entity, including an entity such as a partnership, over which the investing NPO has significant influence and that is neither a **controlled entity** nor an interest in a **joint arrangement**.

G14.3 Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not **control** or **joint control** over those policies:

- (a) if an investing NPO holds, directly or indirectly (for example, through controlled entities), 20 per cent or more of the voting power of the associate, it is presumed that the investing NPO has significant influence, unless it can be clearly demonstrated that this is not the case;
- (b) conversely, if the investing NPO holds, directly or indirectly (for example, through controlled entities), less than 20 per cent of the voting power of the associate, it is presumed that the investing NPO does not have significant influence, unless such influence can be clearly demonstrated; and
- (c) a substantial or majority ownership by another investor does not preclude an investing NPO from having significant influence.

Measurement – accounting policy election

G14.4 An investing NPO shall account for all of its beneficial interest in associates using one of the following:

- (a) the cost model in paragraph G14.5;
- (b) the equity method in paragraph G14.8; or
- (c) the **fair value** model in paragraph G14.9.

Cost model

G14.5 An investing NPO shall measure its beneficial interests in associates, other than those for which there is a published price quotation (see paragraph G14.7) at cost less any accumulated **impairment losses** recognised in accordance with Section 27 *Impairment of assets*.

G14.6 The investing NPO shall recognise dividends and other distributions received from the beneficial interest as income without regard to whether the distributions are from accumulated surpluses of the associate arising before or after the date of acquisition.

G14.7 An investing NPO shall measure its beneficial interests in associates for which there is a published price quotation using the fair value model (see paragraph G14.9).

Equity method

G14.8 Under the equity method of accounting, an equity investment is initially recognised at the transaction price (including **transaction costs**) and is subsequently adjusted to reflect the investing NPO's share of the **surplus or deficit** and **changes in net assets** of the associate:

- (a) *distributions and other adjustments to carrying amount.* Distributions received from the associate reduce the **carrying amount** of the investment. Adjustments to the carrying amount may also be required as a consequence of changes in the associate's equity arising from items that result in changes to net assets.
- (b) *potential voting rights.* Although potential voting rights are considered in deciding whether significant influence exists, an investing NPO shall measure its share of surplus or deficit and changes in net assets of the associate and its share of changes in the associate's equity on the basis of present beneficial interests. Those measurements shall not reflect the possible exercise or conversion of potential voting rights.
- (c) *implicit goodwill and fair value adjustments.* On acquisition of the beneficial interest in an associate, an investing NPO shall account for any difference (whether positive or negative) between the cost of acquisition and the investing NPO's share of the fair values of the net identifiable **assets** of the associate in accordance with paragraphs G19.23–G19.25 and G19.35. An investing NPO shall adjust its share of the associate's surplus or deficit after acquisition to account for additional **depreciation** or **amortisation** of the associate's depreciable or amortisable assets (including **goodwill**) on the basis of the excess of their fair values over their carrying amounts at the time the investment was acquired.
- (d) *impairment.* If there is an indication that an investment in an associate may be impaired, an investing NPO shall test the entire carrying amount of the investment, including **financial instruments** that in substance form part of the investing NPO's net investment in the associate, for impairment in accordance with Section 27, as a single asset. A financial instrument for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, part of the investing NPO's net investment (for example, may include preference shares or long-term receivables or loans). An investing NPO shall apply Section 11 to any such financial instrument before it applies this paragraph or paragraph G14.8(h). Any goodwill included as part of the carrying amount of the investment in the associate is not tested separately for impairment but, instead, as part of the test for impairment of the investment as a whole.
- (e) *investing NPO's transactions with associates.* The investing NPO shall eliminate unrealised surplus or deficit resulting from upstream (associate to investing NPO) and downstream (investing NPO to associate) transactions to the extent of the investing NPO's interest in the associate. Unrealised losses on such transactions may provide evidence of an impairment of the asset transferred.
- (f) *date of associate's financial statements.* In applying the equity method, the investing NPO shall use the financial statements of the associate as of the same date as the financial statements of the investing NPO unless it is **impracticable** to do so. If it is impracticable, the investing NPO shall use the most recent available financial statements of the associate, with adjustments made for the effects of any significant transactions or events occurring between the accounting period ends.
- (g) *associate's accounting policies.* If the associate uses **accounting policies** that differ from those of the investing NPO, the investing NPO shall adjust the associate's financial statements to reflect the investing NPO's accounting policies for the purpose of applying the equity method unless it is impracticable to do so.
- (h) *losses in excess of investment.* If an investing NPO's share of losses of an associate equals or exceeds the carrying amount of its investment in the associate, the investing NPO shall discontinue recognising its share of further deficit. The interest in an associate is the carrying amount of the investment determined using the equity method together with any financial instruments that in substance form part of the investing NPO's net investment in the associate (see paragraph G14.8(d)). After the investing NPO's interest is reduced to zero, the investing NPO shall recognise additional deficits by a **provision** (see Section 21 *Provisions and contingencies*) only to the extent that the investing NPO has incurred legal or **constructive obligations** or has made payments on behalf of the associate. If the associate subsequently reports surpluses, the investing NPO shall resume recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

- (i) *discontinuing the equity method*. An investing NPO shall cease using the equity method from the date that significant influence ceases:
- (i) if the associate becomes a controlled entity or a **jointly controlled entity**, the investing NPO shall remeasure its previously held equity interest to fair value and recognise the resulting **gain or loss**, if any, in surplus or deficit.
 - (ii) if an investing NPO loses significant influence over an associate as a result of a full or partial disposal, it shall derecognise that associate and recognise in surplus or deficit the difference between, on the one hand, the sum of the proceeds received plus the fair value of any retained interest and, on the other hand, the carrying amount of the investment in the associate at the date significant influence is lost. Thereafter, the investing NPO shall account for any retained interest using Section 11.
 - (iii) if an investing NPO loses significant influence for reasons other than a partial disposal of its investment, the investing NPO shall regard the carrying amount of the investment at that date as a new cost basis and shall account for the investment using Section 11.

Fair value method

- G14.9 When an investment in an associate is recognised initially, an investing NPO shall measure it at the transaction price. Transaction price excludes transaction costs.
- G14.10 At each **reporting date**, an investing NPO shall measure its investments in associates at fair value, with changes in fair value recognised in surplus or deficit, using the fair value measurement guidance in Section 12 *Fair value measurement*. An investing NPO using the fair value model shall use the cost model for any investment in an associate for which fair value cannot be measured reliably without undue cost or effort.

Financial statement presentation

- G14.11 An investing NPO shall classify investments in associates as non-current assets.

Disclosures

- G14.12 An NPO shall disclose the following:
- (a) its **accounting policy** for investments in associates;
 - (b) the carrying amount of investments in associates (see paragraph G4.2(k)); and
 - (c) the fair value of its investment in an associate if a market price for the investment is quoted and the NPO accounts for the associate using the equity method.
- G14.13 For investments in associates accounted for using the cost model, an investing NPO shall disclose the amount of dividends and other distributions recognised as income.
- G14.14 For investments in associates accounted for using the equity method, an investing NPO shall disclose separately its share of the surplus or deficit and its share of any **discontinued operations**.
- G14.15 For investments in associates accounted for using the fair value model, an investing NPO shall make the disclosures required in Section 12. If an investing NPO applies the undue cost or effort exemption in paragraph G14.10 for any associates it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of investments in associates accounted for under the cost model.

Comparison of Section 14 with the IFRS for SMEs Accounting Standard

Section 14 of INPAG has been drawn from Section 14 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 14 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 14 of INPAG are as follows:

- INPAG Section 14 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.
- Section 14 uses terminology to align with other sections, including the replacement of the term 'subsidiary' with 'controlled entity', 'investor' with 'investing NPO' and 'ownership interest' with 'beneficial interest'.

Specific matter for comment	
<p>Question 10:</p> <p>(a) Do you agree that no further alignment changes are needed to:</p> <p style="padding-left: 20px;">(i) Section 14 Investments in associates?</p> <p>If not, why not?</p>	<p>References</p> <p>Section 14</p>

Section 15 – Joint arrangements

Scope of this section

G15.1 This section applies to an NPO that is a party to a joint arrangement in **consolidated financial statements** and, if the NPO is not a **controlling NPO**, in the individual financial statements. Paragraph G9.45 establishes the requirements for accounting for a party's interest in a jointly controlled entity in **separate financial statements**. References to 'party' in this section are to an NPO or other entity that participates in a joint arrangement.

Joint arrangements defined

G15.2 Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

G15.3 An NPO that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (that is, the relevant activities).

G15.4 A joint arrangement is an arrangement of which two or more parties have joint control. Joint arrangements can take the form of jointly controlled operations, jointly controlled assets or jointly controlled entity.

Jointly controlled operations

G15.5 The operation of some joint arrangements involves the use of the **assets** and other resources of the parties to the joint arrangement instead of the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the parties themselves. Each party uses its own **property, plant and equipment** and carries its own **inventories**. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint arrangement activities may be carried out by the party's employees alongside the party's similar activities. The joint arrangement agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the parties.

G15.6 In respect of its interests in jointly controlled operations, an NPO shall recognise in its financial statements:

- (a) the assets that it controls and the liabilities that it incurs; and
- (b) the expenses that it incurs and its share of the revenue that it earns from the sale of goods or services by the joint arrangement.

Jointly controlled assets

G15.7 Some joint arrangements involve the joint control, and often the joint ownership, by the parties of one or more assets contributed to, or acquired for the purpose of, the joint arrangement and dedicated to the purposes of the joint arrangement.

G15.8 In respect of its interest in a jointly controlled asset, an NPO shall recognise in its financial statements:

- (a) its share of the jointly controlled assets, classified according to the nature of the assets;
- (b) any liabilities that it has incurred;
- (c) its share of any liabilities incurred jointly with the other parties in relation to the joint arrangement;
- (d) any revenue from the sale or use of its share of the output of the joint arrangement, together with its share of any expenses incurred by the joint arrangement; and
- (e) any expenses that it has incurred in respect of its interest in the joint arrangement.

Jointly controlled entities

G15.9 A jointly controlled entity is a joint arrangement that involves the establishment of a corporation, partnership or other entity in which each party has an interest. The entity operates in the same way as other entities, except that an arrangement between the parties establishes joint control.

Measurement – accounting policy election

G15.10 An NPO shall account for all of its interests in jointly controlled entities using one of the following:

- (a) the cost model in paragraph G15.11;
- (b) the equity method in paragraph G15.14; or
- (c) the **fair value** model in paragraph G15.15.

Cost model

G15.11 An NPO shall measure its **beneficial interests** in jointly controlled entities, other than those for which there is a published price quotation (see paragraph G15.13) at cost less any accumulated impairment losses recognised in accordance with Section 27 *Impairment of assets*.

G15.12 The NPO shall recognise distributions received from the beneficial interest as income without regard to whether the distributions are from accumulated surpluses of the jointly controlled entity arising before or after the date of acquisition.

G15.13 An NPO shall measure its beneficial interests in jointly controlled entities for which there is a published price quotation using the fair value model (see paragraph G15.15).

Equity method

G15.14 An NPO shall measure its beneficial interests in jointly controlled entities by the equity method using the procedures in paragraph G14.8 (substituting 'joint control' where that paragraph refers to 'significant influence').

Fair value method

G15.15 When a beneficial interest in a jointly controlled entity is recognised initially, an NPO shall measure it at transaction price. Transaction price excludes **transaction costs**.

G15.16 At each **reporting date**, an NPO shall measure its beneficial interests in jointly controlled entities at fair value, with changes in fair value recognised in surplus or deficit, using the fair value measurement guidance in Section 12 *Fair value measurement*. An NPO using the fair value model shall use the cost model for any beneficial interest in a jointly controlled NPO for which fair value cannot be measured reliably without undue cost or effort.

Transactions between a party to the joint arrangement and the joint arrangement

G15.17 When an NPO that is a party to the joint arrangement contributes or sells assets to a joint arrangement, **recognition** of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint arrangement, and provided the party to the joint arrangement has transferred the significant risks and rewards of ownership, the NPO shall recognise only that portion of the gain or loss that is attributable to the interests of the other parties. The NPO shall recognise the full amount of any deficit when the contribution or sale provides evidence of an impairment loss.

G15.18 When an NPO that is a party to the joint arrangement purchases assets from a joint arrangement, that NPO shall not recognise its share of the surpluses of the joint arrangement from the transaction until it resells the assets to an independent party. An NPO to the joint arrangement shall recognise its share of the deficits resulting from these transactions in the same way as surpluses except that deficits shall be recognised immediately when they represent an impairment loss.

If an NPO does not have joint control

G15.19 An NPO that participates in, but does not have joint control of, a jointly controlled entity shall account for its interest in the arrangement in accordance with Section 11 *Financial instruments*, unless it has significant influence over the jointly controlled entity, in which case it shall account for it in accordance with Section 14 *Investments in associates*.

G15.20 An NPO that participates in, but does not have joint control of, a jointly controlled operation involving the use of assets and other resources instead of the establishment of a separate vehicle shall account for its interest in the arrangement in accordance with paragraph G15.6.

G15.21 An NPO that participates in, but does not have joint control of, a jointly controlled asset involving joint ownership of one or more assets contributed to, or acquired for the purpose of, the joint arrangement and dedicated to the purpose of the joint arrangement shall account for its interest in the arrangement in accordance with paragraph G15.8.

Disclosures

G15.22 An NPO shall disclose the following:

- (a) the accounting policy it uses for recognising its interests in jointly controlled NPOs;
- (b) the **carrying amount** of beneficial interests in jointly controlled entities (see paragraph G4.2(l));
- (c) the fair value of its beneficial interests in a jointly controlled entity, if a market price for the beneficial interest is quoted and the NPO accounts for the jointly controlled entities using the equity method; and
- (d) the aggregate amount of its commitments relating to jointly controlled entities, including its share in the commitments that have been incurred jointly with other parties.

G15.23 For jointly controlled entities accounted for in accordance with the equity method, the NPO shall also make the disclosures required by paragraph G14.14 for equity method investments.

G15.24 For jointly controlled entities accounted for in accordance with the fair value model, the NPO shall make the disclosures required in Section 12. If an NPO applies the undue cost or effort exemption in paragraph G15.16 for any jointly controlled entities it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of beneficial interests in jointly controlled entities accounted for under the cost model.

Comparison of Section 15 with the *IFRS for SMEs* Accounting Standard

Section 15 of INPAG has been drawn from Section 15 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 15 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 15 of INPAG are as follows:

- INPAG paragraphs G15.17 and G15.18 have been amended to reflect the requirements for the NPO only where the NPO is a party to a joint arrangement with another party.
- INPAG Section 15 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.
- INPAG Section 15 uses terminology to align with other sections, including the replacement of the term ‘interest’ with ‘beneficial interest’.

Specific matter for comment	
<p>Question 10:</p> <p>(a) Do you agree that no further alignment changes are needed to:</p> <p style="padding-left: 20px;">(ii) Section 15 <i>Joint arrangements</i>?</p> <p>If not, why not?</p>	<p>References</p> <p>Section 15</p>

Section 16 – Investment property

Scope of this section

G16.1 This section applies to accounting for investments in land or buildings that meet the definition of **investment property** in paragraph G16.2 and some property interests held by a lessee under an **operating lease** (see paragraph G16.4) that are treated like investment property. Only investment property whose **fair value** can be measured reliably without undue cost or effort on an ongoing basis is accounted for in accordance with this section at fair value through **surplus or deficit**. All other investment property is accounted for using the cost model in Section 17 *Property, plant and equipment* and remains within the scope of Section 17 unless a reliable measure of fair value becomes available and it is expected that fair value will be reliably measurable on an ongoing basis.

Definition and initial recognition of investment property

- G16.2 Investment property is property (land or a building, or part of a building, or both) held by the owner or by the lessee under a **finance lease** to earn rentals or for capital appreciation or both, instead of for:
- (a) use in the ordinary activities of the NPO, or for NPO's administrative purposes; or
 - (b) sale where this is in the ordinary course of NPO activity.
- G16.3 A property held by an NPO primarily for activities to deliver its missional objectives and which also generates **cash inflows**, for example social housing, shall not be classified as an investment property. Instead, it should be accounted for as property, plant, and equipment in accordance with Section 17.
- G16.4 A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property using this section if, and only if, the property would otherwise meet the definition of an investment property and the lessee can measure the fair value of the property interest without undue cost or effort on an ongoing basis. This classification alternative is available on a property-by-property basis.
- G16.5 An NPO shall use its judgement to determine whether the acquisition of investment property is the acquisition of an **asset** or of a group of assets, or a business combination within the scope of Section 19 *Business combinations and goodwill*. Determining whether a specific transaction meets the definition of a business combination as defined in Section 19 and includes an investment property as defined in this section requires the separate application of both sections.
- G16.6 Mixed use property shall be separated between investment property and **property, plant and equipment**. However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property shall be accounted for as property, plant and equipment in accordance with Section 17.

Measurement at initial recognition

- G16.7 An NPO shall measure purchased investment property at its cost at initial **recognition**. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other **transaction costs**. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments. An NPO shall determine the cost of a self-constructed investment property in accordance with paragraphs G17.10–G17.14.
- G16.8 An NPO shall measure donated investment property at fair value in accordance with Section 12 *Fair value measurement*. Application of fair value on initial recognitions shall be the deemed cost of the investment property.

G16.9 The initial cost of a property interest held under a **lease** and classified as an investment property shall be as prescribed for a finance lease by paragraph G20.9, even if the lease would otherwise be classified as an operating lease if it was in the scope of Section 20 *Leases*. In other words, the asset is recognised at the lower of the fair value of the property and the present value of the **minimum lease payments**. An equivalent amount is recognised as a **liability** in accordance with paragraph G20.9.

Measurement after initial recognition

G16.10 Investment property whose fair value can be measured reliably without undue cost or effort shall be measured at fair value at each **reporting date** with changes in fair value recognised in surplus or deficit. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Section 12 *Fair value measurement* provides guidance on determining fair value. An NPO shall account for all other investment property using the cost model in Section 17.

Transfers

G16.11 If a reliable measure of fair value is no longer available without undue cost or effort for an item of investment property measured using the fair value model, the NPO shall thereafter account for that item in accordance with Section 17 until a reliable measure of fair value becomes available. The **carrying amount** of the investment property on that date becomes its cost under Section 17. Paragraph G16.12(d)(iii) requires disclosure of this change. It is a change of circumstances and not a change in accounting policy.

G16.12 Other than as required by paragraph G16.10, an NPO shall transfer a property to, or from, investment property only when there is a change in use. This occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use.

Disclosures

G16.13 An NPO shall disclose the following for all investment property accounted for at fair value through surplus or deficit (paragraph G16.12):

- (a) the extent to which the fair value of investment property (as measured or disclosed in the **financial statements**) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.
- (b) the existence and amounts of restrictions on the realisability of investment property or the remittance of **income** and proceeds of disposal.
- (c) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.
- (d) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:
 - (i) additions, disclosing separately those additions resulting from acquisitions through **business combinations**;
 - (ii) net **gains** or losses from fair value adjustments;
 - (iii) transfers to and from investment property carried at cost less accumulated **depreciation** and **impairment** (see paragraph G16.11);
 - (iv) transfers to and from **inventories** and owner-occupied property; and
 - (v) other changes.

This reconciliation need not be presented for prior periods.

G16.14 In accordance with Section 20, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An NPO that holds an investment property under a finance lease or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.

Comparison of Section 16 with the IFRS for SMEs Accounting Standard

Section 16 of INPAG has been drawn from Section 16 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 16 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 16 of INPAG are as follows:

- Section 16 includes an additional paragraph to distinguish between purchased and donated investment property. The new paragraph addresses the measurement of the investment property on receipt to provide clarity about the measurement base. It requires a donated investment property to be measured at fair value in line with Section 12 *Fair value measurement* on initial recognition.
- INPAG clarifies that assets that might otherwise be considered investment property but are held for an NPOs missional objectives (eg social housing) shall not be classed as investment property but instead as property, plant and equipment. Such assets should follow the requirements of Section 17 *Property, plant and equipment*.
- INPAG Section 16 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.

Specific matter for comment	
<p>Question 7:</p> <p>(b) Do you agree with the additional guidance provided for donated:</p> <p style="padding-left: 20px;">(i) investment property (Section 16)?</p> <p>If not, why not?</p>	<p>References</p> <p>G16.8</p>

Section 17 – Property, plant and equipment

Scope of this Section

- G17.1 This Section applies to accounting for **property, plant and equipment** and accounting for **investment property** whose **fair value** cannot be measured reliably without undue cost or effort on an ongoing basis. Section 16 *Investment property* applies to investment property whose fair value can be measured reliably without undue cost or effort. This Section includes property that might otherwise be considered investment property as the primary purpose of the asset is to deliver an NPO's missional objectives (eg social housing), rather than its commercial returns.
- G17.2 Property, plant and equipment are tangible **assets** that:
- are held for use in the ordinary activities of the NPO, for rental to others, or for NPO's administrative purposes; and
 - are expected to be used during more than one period.
- G17.3 Property, plant and equipment does not include:
- biological assets** related to **agricultural activity** other than **bearer plants** that can be measured separately from the produce on them without undue cost or effort (see Section 34 *Specialised activities*). This section applies to bearer plants but it does not apply to the produce on bearer plants; and
 - mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

Recognition

- G17.4 An NPO shall recognise the cost of an item of property, plant and equipment as an asset if, and only if:
- it is **probable** that economic benefits or **service potential** associated with the item will flow to the NPO; and
 - the cost of the item can be measured reliably.
- G17.5 Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Section when they meet the definition of property, plant and equipment. Otherwise, such items are classified as **inventory**.
- G17.6 Parts of some items of property, plant and equipment may require replacement at regular intervals (for example, the roof of a building). An NPO shall add to the **carrying amount** of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefit or service potential to the NPO. The carrying amount of those parts that are replaced is **derecognised** in accordance with paragraphs G17.32–G17.35 regardless of whether the replaced parts had been depreciated separately. If it is not practicable for an NPO to determine the carrying amount of the replaced part, the NPO may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Paragraph G17.21 provides that if the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits or service potential, an NPO shall allocate the initial cost of the asset to its major components and **depreciate** each such component separately over its **useful life**.
- G17.7 A condition of continuing to operate an item of property, plant and equipment (for example, a bus) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous major inspection (as distinct from physical

parts) is derecognised. This is done regardless of whether the cost of the previous major inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

- G17.8 Land and buildings are separable assets and an NPO shall account for them separately, even when they are acquired together.

Measurement at initial recognition

- G17.9 An NPO shall measure an item of property, plant and equipment that has been acquired or constructed at initial **recognition** at its cost.
- G17.10 An NPO shall measure the cost of an item of property, plant and equipment that has been donated at its fair value in line with the guidance in Section 12 *Fair value measurement*. Application of fair value on initial recognition shall be the deemed cost of the asset.

Elements of cost

- G17.11 The cost of an item of property, plant and equipment comprises all of the following:
- (a) its purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
 - (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include the costs of site preparation, initial delivery and handling, installation and assembly and testing of functionality.
 - (c) 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 entity 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.
- G17.12 The following costs are not costs of an item of property, plant and equipment and an NPO shall recognise them as an **expense** when they are incurred:
- (a) costs of opening a new facility;
 - (b) costs of introducing a new service or product (including costs of advertising and promotional activities);
 - (c) costs of conducting operations in a new location or with a new class of **service recipient** or customer (including costs of staff training);
 - (d) administration and other general overhead costs; and
 - (e) **borrowing costs** (see Section 25 *Borrowing costs*).
- G17.13 The **income** and related **expenses** of incidental operations during construction or development of an item of property, plant and equipment are recognised in **surplus or deficit** if those operations are not necessary to bring the item to its intended location and operating condition.

Measurement of cost

- G17.14 The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments.

Exchanges of assets

G17.15 An item of property, plant or equipment may be acquired in exchange for a non-monetary asset, or assets, or a combination of monetary and non-monetary assets. An NPO shall measure the cost of the acquired asset at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the carrying amount of the asset given up.

Measurement after initial recognition

G17.16 An NPO shall choose either the cost model in paragraph G17.17 or the revaluation model in paragraph G17.18 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. An NPO shall apply the cost model to investment property whose fair value cannot be measured reliably without undue cost or effort. An NPO shall recognise the costs of day-to-day servicing of an item of property, plant and equipment in surplus or deficit in the period in which the costs are incurred.

Cost model

G17.17 An NPO shall measure an item of property, plant and equipment after initial recognition at cost less any accumulated **depreciation** and any accumulated **impairment losses**.

Revaluation model

G17.18 An NPO shall measure an item of property, plant and equipment whose fair value can be measured reliably at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ **materially** from that which would be determined using fair value at the end of the **reporting period**. Section 12 provides guidance on determining fair value. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

G17.19 If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in the **Statement of Changes in Net Assets** and accumulated under the heading of revaluation surplus. However, the increase shall be recognised in **surplus or deficit** to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

G17.20 If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be recognised in the Statement of Changes in Net Assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in the Statement of Changes in Net Assets reduces the amount accumulated under the heading of revaluation surplus.

Depreciation

G17.21 If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits or service potential, an NPO shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life. Other assets shall be depreciated over their useful lives as a single asset. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated.

G17.22 The depreciation charge for each period shall be recognised in surplus or deficit unless another section of this Guidance requires the cost to be recognised as part of the cost of an asset. For example, the depreciation of manufacturing property, plant and equipment is included in the costs of **inventories** (see Section 13 *Inventories*).

Depreciable amount and depreciation period

- G17.23 An NPO shall allocate the **depreciable amount** of an asset on a systematic basis over its useful life.
- G17.24 Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement and changes in market prices may indicate that the **residual value** or useful life of an asset has changed since the most recent annual **reporting date**. If such indicators are present, an NPO shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The NPO shall account for the change in residual value, depreciation method or useful life as a change in an **accounting estimate** in accordance with paragraphs G10.18–G10.21.
- G17.25 Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.
- G17.26 An NPO shall consider all the following factors in determining the useful life of an asset:
- the expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
 - expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
 - technical or commercial obsolescence arising from changes or improvements in usage, or from a change in the market demand for the service or product output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset.
 - legal or similar limits on the use of the asset, such as the expiry dates of related **leases**.

Depreciable method

- G17.27 An NPO shall select a depreciation method that reflects the pattern in which it expects to consume the asset's economic benefits or service potential. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method. A depreciation method that is based on **revenue** that is generated by an activity that includes the use of an asset is not appropriate.
- G17.28 If there is an indication that there has been a significant change since the last annual reporting date in the pattern by which an NPO expects to consume an asset's future economic benefits, the NPO shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern. The NPO shall account for the change as a change in an accounting estimate in accordance with paragraphs G10.18–G10.21.

Impairment

Recognition and measurement of impairment

- G17.29 At each reporting date, an NPO shall apply Section 27 *Impairment of assets* to determine whether an item or group of items of property, plant and equipment is impaired and, if so, how to recognise and measure the impairment loss. That section explains when and how an NPO reviews the carrying amount of its assets, how it determines the **recoverable amount** of an asset, and when it recognises or reverses an impairment loss.

Compensation for impairment

G17.30 An NPO shall include in surplus or deficit compensation from third parties for items of property, plant and equipment that were impaired, lost or given up only when the compensation becomes receivable.

Property, plant and equipment held for sale

G17.31 Paragraph G27.9(f) states that a plan to dispose of an asset before the previously expected date is an indicator of impairment that triggers the calculation of the asset's recoverable amount for the purpose of determining whether the asset is impaired.

Derecognition

G17.32 An NPO shall derecognise an item of property, plant and equipment:

- (a) on disposal; or
- (b) when no future economic benefits or service potential are expected from its use or disposal.

G17.33 An NPO shall recognise the **gain** or loss on the **derecognition** of an item of property, plant and equipment in surplus or deficit when the item is derecognised (unless Section 20 *Leases* requires otherwise on a sale and leaseback). The NPO shall not classify such gains as revenue.

G17.34 The date of disposal of an item is the date the recipient obtains control of that item in accordance with the requirements in paragraphs G23.142–G23.157 for determining when a promise is satisfied. Section 20 applies to disposal by a sale and leaseback.

G17.35 An NPO shall determine the gain or loss arising from the derecognition of an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Disclosures

G17.36 An NPO shall disclose the following for each class of property, plant and equipment determined in accordance with paragraph G4.11(a) and separately for investment property carried at cost less accumulated depreciation and impairment:

- (a) the **measurement** bases used for determining the gross carrying amount;
- (b) the depreciation methods used;
- (c) the useful lives or the depreciation rates used;
- (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period; and
- (e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
 - (i) additions;
 - (ii) disposals;
 - (iii) acquisitions through **business combinations**;
 - (iv) increases or decreases resulting from revaluations under paragraphs G17.18–G17.20 and from impairment losses recognised or reversed in the Statement of Changes in Net Assets in accordance with Section 27;
 - (v) transfers to and from investment property carried at fair value through surplus or deficit (see paragraph G16.10);
 - (vi) impairment losses recognised or reversed in surplus or deficit in accordance with Section 27;
 - (vii) depreciation; and
 - (viii) other changes.

This reconciliation need not be presented for prior periods.

G17.37 An NPO shall also disclose the following:

- (a) the existence and carrying amounts of property, plant and equipment to which the NPO has restricted title or that is pledged as security for **liabilities**;
- (b) the amount of contractual commitments for the acquisition of property, plant and equipment; and
- (c) if an NPO has investment property whose fair value cannot be measured reliably without undue cost or effort it shall disclose that fact and the reasons why fair value measurement would involve undue cost or effort for those items of investment property.

G17.38 If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following:

- (a) the effective date of the revaluation;
- (b) whether an independent valuer was involved;
- (c) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and
- (d) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance.

Comparison of Section 17 with the *IFRS for SMEs Accounting Standard*

Section 17 of INPAG has been drawn from Section 17 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 17 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 17 of INPAG are as follows:

- Additional text has been added to make clear that assets sharing characteristics with an investment property but primarily used for service delivery are to be treated in accordance with Section 17.
- Consistent with investment property, an additional paragraph has been added to the guidance for property, plant and equipment for assets that have been donated, clarifying that fair value is to be used on initial recognition.
- INPAG Section 16 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Specific matter for comment	
<p>Question 7:</p> <p>(c) Do you agree with the additional guidance provided for donated:</p> <p style="padding-left: 20px;">(iii) property, plant and equipment (Section 17)?</p> <p>If not, why not?</p>	<p>References</p> <p>G17.10</p>

Section 18 – Intangibles other than goodwill

Scope and objective of this section

- G18.1 This section applies to accounting for all **intangible assets** other than **goodwill** (see Section 19 *Business combinations and goodwill*), intangible assets held by an NPO for sale in the ordinary course of business (see Section 13 *Inventories*) and assets arising from contracts with customers (see Section 23 *Revenue*).
- G18.2 An intangible asset is an identifiable non-monetary **asset** without physical substance. Such an asset is identifiable when:
- (a) it is separable, ie capable of being separated or divided from the NPO and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or **liability**; or
 - (b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the NPO or from other rights and obligations.
- G18.3 This section does not apply to the following:
- (a) **financial assets**; or
 - (b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

Recognition

- G18.4 An NPO shall recognise an intangible asset as an asset if, and only if:
- (a) it is **probable** that the expected economic benefit or **service potential** that are attributable to the asset will flow to the NPO;
 - (b) the cost or value of the asset can be measured reliably; and
 - (c) the asset does not result from expenditure incurred internally on an intangible item.

General principle for recognising intangible assets

- G18.5 This section uses the term asset in a way that differs in some respects from the definition of an asset in the Glossary. Therefore, when applying this section, an NPO shall apply the definition of an asset in paragraph G18.6.
- G18.6 For the purpose of this section, an asset is a resource controlled by the NPO as a result of past events and from which economic benefit or service potential is expected to flow to the NPO.
- G18.7 An NPO shall assess the probability of expected economic benefit or service potential using reasonable and supportable assumptions that represent management's best estimate of the economic conditions that will exist over the **useful life** of the asset.
- G18.8 An NPO uses judgement to assess the degree of certainty attached to the flow of economic benefit or service potential that are attributable to the use of the asset on the basis of the evidence available at the time of initial **recognition**, giving greater weight to external evidence.
- G18.9 The probability recognition criterion in paragraph G18.4(a) is always considered satisfied for intangible assets that are separately acquired.
- G18.10 An intangible asset acquired in a **business combination** shall be recognised unless its **fair value** cannot be measured reliably without undue cost or effort at the acquisition date.

Initial measurement

G18.11 An NPO shall measure an intangible asset initially at cost.

Separate acquisition

G18.12 The cost of a separately acquired intangible asset comprises:

- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- (b) any directly attributable cost of preparing the asset for its intended use.

Acquisition as part of a business combination

G18.13 An intangible asset acquired in a business combination shall be recognised unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date.

Acquisition by way of grant or donation

G18.14 If an intangible asset is acquired by way of a **grant or donation**, the cost shall be determined in accordance with Section 12 *Fair value measurement*. The fair value on initial recognition shall be the deemed cost of the asset.

Exchanges of assets

G18.15 An intangible asset may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. An NPO shall measure the cost of such an intangible asset at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the **carrying amount** of the asset given up.

Internally generated assets

G18.16 An NPO shall recognise expenditure incurred internally on an intangible item, including all expenditure for both **research** and **development** activities, as an **expense** when it is incurred unless it forms part of the cost of another asset that meets the recognition criteria in this Guidance.

G18.17 As examples of applying the preceding paragraph, an NPO shall recognise expenditure on the following items as an expense and shall not recognise such expenditure as intangible assets:

- (a) internally generated brands, logos, publishing titles, customer lists and items similar in substance;
- (b) start-up activities (ie start-up costs), which include establishment costs such as legal and secretarial costs incurred in establishing an NPO, expenditure to open a new facility or activity (ie pre-opening costs) and expenditure for starting new operations or launching new products or processes (ie pre-operating costs);
- (c) training activities;
- (d) advertising and promotional activities;
- (e) relocating or reorganising part or all of an NPO; and
- (f) internally generated goodwill.

G18.18 Paragraph G18.17 does not preclude recognising a prepayment as an asset when payment for goods or services has been made in advance of the delivery of the goods or the rendering of the services.

Past expenses not to be recognised as an asset

G18.19 Expenditure on an intangible item that was initially recognised as an expense shall not be recognised at a later date as part of the cost of an asset.

Measurement after recognition

G18.20 An NPO shall measure intangible assets at cost less any accumulated **amortisation** and any accumulated **impairment losses**. The requirements for amortisation are set out in this section. The requirements for recognition of impairment are set out in Section 27 *Impairment of assets*.

Useful life

G18.21 For the purpose of this Guidance, all intangible assets shall be considered to have a finite useful life. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights but may be shorter depending on the period over which the NPO expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

G18.22 If the useful life of an intangible asset cannot be established reliably, the life shall be determined based on management's best estimate but shall not exceed ten years.

Amortisation period and amortisation method

G18.23 An NPO shall allocate the **depreciable amount** of an intangible asset on a systematic basis over its useful life. The amortisation charge for each period shall be recognised as an expense, unless another section of this Guidance requires the cost to be recognised as part of the cost of an asset such as **inventories** or **property, plant and equipment**.

G18.24 Amortisation begins when the intangible asset is available for use, ie when it is in the location and condition necessary for it to be usable in the manner intended by management. Amortisation ceases when the asset is derecognised. The NPO shall choose an amortisation method that reflects the pattern in which it expects to consume the asset's economic benefit or service potential. If the NPO cannot determine that pattern reliably, it shall use the straight-line method.

G18.25 There is a presumption that an amortisation method based on the **revenue** generated by an activity that includes the use of an intangible asset is inappropriate. However, an NPO may rebut this presumption and use an amortisation method based on revenue generated by an activity that includes the use of an intangible asset only if it provides a reliable pattern of how economic benefit or service potential are consumed:

- (a) in which the intangible asset is expressed as a measure of revenue (that is, when rights over the use of an intangible asset is specified as a fixed total amount of revenue to be generated); or
- (b) when it can be demonstrated that revenue and the consumption of the intangible asset's economic benefit or service potential are highly correlated.

Residual value

G18.26 An NPO shall assume that the **residual value** of an intangible asset is zero unless:

- (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or
- (b) there is an **active market** for the asset and:
 - (i) residual value can be determined by reference to that market; and
 - (ii) it is probable that such a market will exist at the end of the asset's useful life.

Review of amortisation period and amortisation method

G18.27 Factors such as a change in how an intangible asset is used, technological advancement; and changes in market prices may indicate that the residual value or useful life of an intangible asset has changed since the most recent annual **reporting date**. If such indicators are present, an NPO shall review its previous estimates and, if current expectations differ, amend the residual value, amortisation method or useful life. The NPO shall account for the change in residual value, amortisation method or useful life as a **change in an accounting estimate** in accordance with paragraphs Section 10.

Recoverability of the carrying amount – impairment losses

G18.28 To determine whether an intangible asset is impaired, an NPO shall apply Section 27. That section explains when and how an NPO reviews the carrying amount of its assets, how it determines the **recoverable amount** of an asset and when it recognises or reverses an impairment loss.

Retirements and disposals

G18.29 An NPO shall derecognise an intangible asset, and shall recognise a **gain** or loss in **surplus or deficit**:

- (a) on disposal; or
- (b) when no economic benefit or service potential are expected from its use or disposal.

Disclosures

G18.30 An NPO shall disclose the following for each class of intangible assets:

- (a) the useful lives or the amortisation rates used;
- (b) the amortisation methods used;
- (c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the **reporting period**;
- (d) the line item(s) in the **Statement of Income and Expenses**, in which any amortisation of intangible assets is included; and
- (e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
 - (i) additions;
 - (ii) disposals;
 - (iii) acquisitions through business combinations;
 - (iv) amortisation;
 - (v) impairment losses recognised or reversed in surplus or deficit in accordance with Section 27; and
 - (vi) other changes.

This reconciliation need not be presented for prior periods.

G18.31 An NPO shall also disclose:

- (a) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is **material** to the NPO's **financial statements**;
- (b) for intangible assets acquired by way of a grant and initially recognised at fair value (see paragraph G18.14):
 - (i) the fair value initially recognised for these assets; and
 - (ii) their carrying amounts.

- (c) the existence and carrying amounts of intangible assets to which the NPO has restricted title or that are pledged as security for liabilities; and
- (d) the amount of contractual commitments for the acquisition of intangible assets.

G18.32 An NPO shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period (ie the amount of expenditure incurred internally on research and development that has not been capitalised as part of the cost of another asset that meets the recognition criteria in this Guidance).

Comparison of Section 18 with the *IFRS for SMEs* Accounting Standard

Section 18 of INPAG has been drawn from Section 18 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 18 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 18 of INPAG are as follows:

- Consistent with Sections 16 and 17, an additional paragraph has been added to the section to provide guidance on determining the deemed cost of donated assets, where donated assets are valued at fair value on initial recognition.
- INPAG Section 18 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.

Specific matter for comment	
<p>Question 7:</p> <p>(c) Do you agree with the additional guidance provided for donated:</p> <p style="padding-left: 20px;">(iii) intangible assets (Section 18)?</p> <p>If not, why not?</p>	<p>References</p> <p>G18.14</p>

Section 19 – Business combinations and goodwill

Scope of this section

- G19.1 This section applies to a transaction or other event that meets the definition of **business combination** (see paragraph G19.4). It establishes principles and requirements for how an **acquiring NPO**:
- (a) recognises and measures in its financial statements the identifiable **assets** acquired, **liabilities** assumed and any **non-controlling interest** in the **acquiree**; and
 - (b) recognises and measures the **goodwill** acquired (both at the time of a business combination and subsequently) or a gain from a bargain purchase.
- G19.2 This section does not apply to:
- (a) combinations of entities or **businesses** under common **control**. Common control means that all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.
 - (a) formations of a **joint arrangement** in the financial statements of the joint arrangement itself.
 - (a) acquisitions of an asset or a group of assets that does not constitute a business.

Business combinations defined

- G19.3 An NPO shall determine whether a transaction or other event is a business combination by applying the definition in paragraph G19.4, which requires that the assets acquired and the liabilities assumed constitute a business. If the assets acquired do not constitute a business, the NPO shall account for the transaction or other event as an asset acquisition. Paragraphs AG19.1–AG19.10 provide guidance on the definition of a business.
- G19.4 A business combination is a transaction or other event in which an acquiring NPO, obtains control of one or more businesses. An acquiring NPO might obtain control of an acquiree in a variety of ways, for example:
- (a) by transferring **cash, cash equivalents** or other assets (including net assets that constitute a business);
 - (b) by incurring liabilities;
 - (c) by issuing equity instruments;
 - (d) by providing more than one type of consideration;
 - (e) by obtaining powers to appoint and/or remove a majority of an NPO's governing board; or
 - (f) by entering into a formal agreement for transfer.
- G19.5 A business combination may be structured in a variety of ways for legal, taxation or other reasons, which include but are not limited to:
- (a) one or more businesses become subsidiaries of an acquiring NPO or the net assets of one or more businesses are legally merged into the acquiring NPO;
 - (b) one combining entity transfers its net assets, or its **owners** transfer their equity instruments, to another combining entity or its owners;
 - (c) all of the combining entities transfer their net assets, or the owners of those entities transfer their equity interests, to a newly formed entity;
 - (d) a group of former owners of one of the combining entities obtains control of the combined entity; or
 - (e) any of the above combinations in relation to an NPO (or multiple NPOs).

Accounting

G19.6 An NPO shall account for each combination by applying the acquisition method.

G19.7 Applying the acquisition method requires:

- (a) identifying the acquiring NPO;
- (b) determining the acquisition date;
- (c) recognising and measuring identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
- (d) recognising and measuring goodwill or a gain from a bargain purchase.

Identifying the acquiring NPO

G19.8 For each business combination, one of the combining entities shall be identified as the **acquirer**.

G19.9 The requirement in Section 9 *Consolidated and separate financial statements* shall be used to identify the acquiring NPO – that is, the entity that obtains control of the acquiree.

G19.10 If a business combination has occurred but applying the requirements in Section 9 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs AG19.11–AG19.15 shall be considered in making that determination.

Determining the acquisition date

G19.11 An acquiring NPO shall identify the acquisition date, which is the date on which it obtains control of the acquiree.

Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Recognition principle

G19.12 At the acquisition date, the acquiring NPO shall recognise, separately from the goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, if, and only if, the conditions in paragraph G19.13 are met.

G19.13 To qualify for **recognition** as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must:

- (a) meet the definitions of assets and liabilities in Section 2 *Concepts and pervasive principles* at the acquisition date; and
- (b) be part of what the acquiring NPO and the acquiree (or its former owners) exchanged in the business combination transaction rather than the result of separate transactions (see paragraph G19.30).

Measurement principle

G19.14 The acquiring NPO shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

G19.15 For each business combination, the acquiring NPO shall measure at the acquisition date any non-controlling interests in the acquiree at the non-controlling interest's proportionate share in the recognised amounts of the acquiree's net identifiable assets.

Exceptions to the recognition or measurement principles

- G19.16 Paragraphs G19.17–G19.22 provide exceptions to the recognition and measurement principles set out in paragraphs G19.12–G19.15 and specify both the particular items for which exceptions are provided and the nature of those exceptions.
- G19.17 In accordance with paragraph G18.10, an acquiring NPO shall recognise an **intangible asset** acquired in a business combination, that meets the recognition principles set out in Section 18 *Intangible assets other than goodwill*, if its **fair value** can be measured reliably without undue cost or effort at the acquisition date.
- G19.18 For liabilities and **contingent liabilities** that would be within the scope of Section 21 *Provisions and contingencies* if they were incurred separately rather than assumed in a business combination, an acquiring NPO shall apply paragraph G21.6 to determine whether at the acquisition date a present obligation exists as a result of past events for a **provision** or contingent liability.
- G19.19 Paragraph G19.20 applies to a present obligation identified in accordance with paragraph G19.18 that meets the definition of a contingent liability as set out in paragraph G21.13 (that is, when it is a present obligation that is not recognised because it fails to meet one or both of the conditions (b) and (c) in paragraph G21.4).
- G19.20 At the acquisition date, the acquiring NPO shall recognise a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to paragraphs G21.4(b) and G21.13, the acquiring NPO recognises a contingent liability assumed in a business combination at the acquisition date even if it is not **probable** that the acquiring NPO will be required to transfer economic benefits in settlement.
- G19.21 A **deferred tax asset** or **deferred tax liability** arising from the assets acquired and liabilities assumed in a business combination shall be recognised and measured in accordance with Section 29 *Income tax*.
- G19.22 A **liability** (or asset, if any) related to the acquiree's **employee benefit** arrangements shall be recognised and measured in accordance with Section 28 *Employee benefits*.

Recognising and measuring goodwill or a gain from a bargain purchase

- G19.23 The acquiring NPO shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below:
- (a) the aggregate of:
 - (i) the consideration transferred measured in accordance with paragraph G19.26, which generally requires acquisition date fair value;
 - (ii) the amount of any non controlling interest in the acquiree measured in accordance with paragraph G19.15; and
 - (iii) in a business combination achieved in stages (see paragraphs G19.30–G19.31), the acquisition date fair value of the acquiring NPO's previously held interest in the acquiree.
 - (b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with paragraphs G19.14–G19.22.

Bargain purchase

- G19.24 Occasionally, an acquiring NPO will make a bargain purchase, which is a business combination in which the amount in paragraph G19.23(b) exceeds the aggregate of the amounts specified in paragraph G19.23(a). If that excess remains after applying paragraph G19.25, the acquiring NPO shall recognise the resulting gain in surplus or deficit on the acquisition date. The gain shall be attributed to the acquiring NPO. If two NPOs combine that both have positive net assets at the date they are combined, the requirements of G19.25 do not apply.

- G19.25 Before recognising a gain on a bargain purchase, the acquiring NPO shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognise any additional assets or liabilities that are identified in that reassessment. The acquiring NPO shall then review the procedures used to measure the amounts required to be recognised at the acquisition date for all of the following:
- (a) the identifiable assets acquired and the liabilities assumed;
 - (b) for a business combination achieved in stages, the acquiring NPO's previously held interest in the acquiree; and
 - (c) the consideration transferred.

Consideration transferred

- G19.26 The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquiring NPO, the liabilities incurred by the acquiring NPO to former owners of the acquiree and the equity holdings issued by the acquiring NPO. Examples of potential forms of consideration include cash, other assets, a business or a **controlled entity** of the acquiring NPO, **contingent consideration**, ordinary or preference equity instruments, options and warrants. For NPOs, this also includes a formal transfer agreement, or agreements to exchange **service potential**.

Contingent consideration

- G19.27 The consideration the acquiring NPO transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement (see paragraph G19.26). The acquiring NPO shall recognise the acquisition date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree if it can be measured reliably.
- G19.28 However, if the acquisition-date fair value of contingent consideration cannot be measured reliably without undue cost or effort, the acquiring NPO shall recognise, at the acquisition date, an estimate of the most likely amount of contingent consideration.
- G19.29 The acquiring NPO shall classify an obligation to pay contingent consideration that meets the definition of a **financial instrument** as a **financial liability** or as **equity** on the basis of the definitions of an equity instrument and a financial liability in Section 22 *Liabilities and equity*. The acquiring NPO shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met.

A business combination achieved in stages (so-called 'step acquisition')

- G19.30 An acquiring NPO sometimes obtains control of an acquiree in which it held an interest immediately before the acquisition date. If this is the case, the acquiring NPO shall remeasure its previously held interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in surplus or deficit.
- G19.31 When a party to a joint arrangement obtains control of a business that is a jointly controlled operation or a jointly controlled asset immediately before the acquisition date, the transaction is a business combination achieved in stages. The acquiring NPO shall therefore apply the requirements for a business combination achieved in stages, including remeasuring its entire previously held interest in the jointly controlled operation or the jointly controlled asset in accordance with paragraph G19.30.

Measurement period

- G19.32 If the initial accounting for a business combination is incomplete by the end of the **reporting period** in which the combination occurs, the acquiring NPO shall recognise in its **financial statements** provisional amounts for the items for which the accounting is incomplete. Within 12 months after the acquisition date, the acquiring NPO shall retrospectively adjust the provisional amounts recognised as

assets and liabilities at the acquisition date (ie account for them as if they were made at the acquisition date) to reflect new information obtained about any relevant facts and circumstances that existed at the acquisition date. Any adjustments made will have an impact upon the goodwill acquired or a gain from a bargain purchase recognised. Beyond 12 months after the acquisition date, adjustments to the initial accounting for a business combination shall be recognised only to correct an **error** in accordance with Section 10 *Accounting policies, estimates and errors*.

Acquisition-related costs

G19.33 Acquisition-related costs are costs the acquiring NPO incurs to effect a business combination. Those costs are to be accounted for separately from the business combination. The acquiring NPO shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception: the cost to issue debt or equity securities shall be recognised in accordance with Section 11 and Section 22, respectively.

Subsequent measurement and accounting

G19.34 In general, an acquiring NPO shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity holdings issued in a business combination in accordance with the applicable sections of this Guidance. However, paragraphs G19.35–G19.37 provide requirements on subsequently measuring and accounting for the following:

- (a) goodwill;
- (b) contingent liabilities recognised as of the acquisition date; and
- (c) contingent consideration.

Goodwill

G19.35 After its initial recognition, the acquiring NPO shall measure goodwill acquired in a business combination at cost less accumulated **amortisation** and accumulated **impairment losses**:

- (a) the acquiring NPO shall follow the principles in paragraphs G18.22–G18.28 for amortisation of goodwill. If the **useful life** of goodwill cannot be established reliably, the life shall be determined based on management's best estimate but shall not exceed ten years.
- (b) the acquiring NPO shall follow Section 27 *Impairment of assets* for recognising and measuring the impairment of goodwill.

Contingent liabilities

G19.36 After their initial recognition and until the liability is settled, cancelled or expires, the acquiring NPO shall measure a contingent liability recognised in a business combination at the higher of:

- (a) the amount that would be recognised in accordance with Section 21; and
- (b) the amount initially recognised less, if appropriate, the cumulative amount of **income** recognised in accordance with the principles of Section 23 *Revenue*.

Contingent consideration

G19.37 Except for those changes in the amount of contingent consideration that are measurement period adjustments in accordance with paragraph G19.32, changes resulting from events after the acquisition date, such as meeting a fundraising target, or reaching a milestone on a research and development project, are not measurement period adjustments. The acquiring NPO shall account for changes in the amount of contingent consideration that are not measurement period adjustments as follows:

- (a) contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity.

- (b) other contingent consideration that:
 - (i) is within the scope of Part II of Section 11 *Other financial instrument issues* (whose fair value can be measured reliably without undue cost or effort) shall be measured at fair value at each **reporting date** with changes in fair value recognised in surplus or deficit.
 - (ii) is not within the scope of Part II of Section 11 (whose fair value cannot be measured reliably without undue cost or effort (see paragraph G19.28)) shall be reviewed at each reporting date and adjusted to reflect the current estimate of the most likely amount of the contingent consideration at that reporting date. Any adjustments to the amounts previously recognised shall be recognised in surplus or deficit.

Disclosures

For business combinations during the period

G19.38 For each business combination during the period, the acquiring NPO shall disclose the following:

- (a) the name and description of the acquiree;
- (b) the acquisition date;
- (c) the percentage of voting equity holdings acquired;
- (d) the acquisition-date fair value of the total consideration transferred and a description of the components of that consideration (such as cash, equity holdings and debt instruments);
- (e) for contingent consideration arrangements:
 - (i) the amount recognised as of the acquisition date;
 - (ii) a description of the arrangement and the basis for determining the amount of the payment; and
 - (iii) if the acquisition-date fair value of contingent consideration cannot be measured reliably without undue cost or effort (see paragraph G19.28), at the acquisition date, the acquiring NPO shall disclose that fact and the reasons why a reliable fair value measurement would involve undue cost or effort.
- (f) the amounts recognised at the acquisition date for each class of the acquiree's assets, and liabilities;
- (g) for a bargain purchase, the amount of any surplus recognised in surplus or deficit in accordance with paragraph G19.24 and the line item in the **Statement of Changes in Net Assets** or **Statement of Income and Expenses** in which the gain is recognised;
- (h) a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquiring NPO, intangible assets not recognised in accordance with paragraph G19.17 or other factors; and
- (i) for each contingent liability that is not recognised in accordance with paragraph G19.20 because its fair value cannot be measured reliably, the acquiring NPO shall disclose the information required by paragraph G21.16.

For all business combinations

G19.39 An acquiring NPO shall disclose the useful lives used for goodwill and a reconciliation of the **carrying amount** of goodwill at the beginning and end of the reporting period. The reconciliation should show separately:

- (a) additional goodwill recognised during the reporting period changes arising from new business combinations;
- (b) impairment losses recognised during the reporting period applying Section 27;

- (c) goodwill derecognised during the reporting period disposals of previously acquired businesses; and
- (d) other changes.

This reconciliation need not be presented for prior periods.

For each reporting period after the acquisition date

- G19.40 For each reporting period after the acquisition date until the NPO collects, sells or otherwise loses the right to a contingent consideration asset, or until the NPO settles a contingent consideration liability or the liability is cancelled or expires, the NPO shall disclose for each material business combination and in aggregate for individually immaterial business combinations that are **material** collectively:
- (a) any changes in the recognised amounts, including any differences arising upon settlement; and
 - (b) the valuation techniques and key model inputs used to measure contingent consideration.

Application Guidance: Section 19 – Business combinations including goodwill

Definition of a business (application of paragraph G19.3)

- AG19.1 A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The three elements of a business are defined as follows:
- (a) **input:** any economic resource that creates outputs, or has the ability to contribute to the creation of outputs when one or more processes are applied to it. Examples include noncurrent assets, intellectual property, the ability to obtain access to necessary materials or rights and employees.
 - (b) **process:** any system, standard, protocol, convention or rule that when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs. Examples include strategic management processes, operational processes and resource management processes.
 - (c) **output:** the result of inputs and processes applied to those inputs that provide goods or services to service beneficiaries, customers, generate investment income or generate other income from ordinary activities.
- AG19.2 A business will exist where these criteria are met regardless of the size of the inputs, processes or outputs. The requirements of this section will therefore apply to all businesses of all sizes including small businesses.

Optional test to identify concentration of fair value

- AG19.2 Paragraph AG19.3 sets out an optional concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. An NPO may elect to apply, or not apply, the test. An NPO may make such an election separately for each transaction or other event. The concentration test has the following consequences:
- (a) if the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.
 - (b) if the concentration test is not met, or if the NPO elects not to apply the test, the NPO shall then perform the assessment set out in paragraphs AG19.4–AG19.10.
- AG19.3 The concentration test is met if substantially all of the fair value of the gross assets (not net assets) acquired is concentrated in a single identifiable asset or group of similar identifiable assets. For the concentration test:

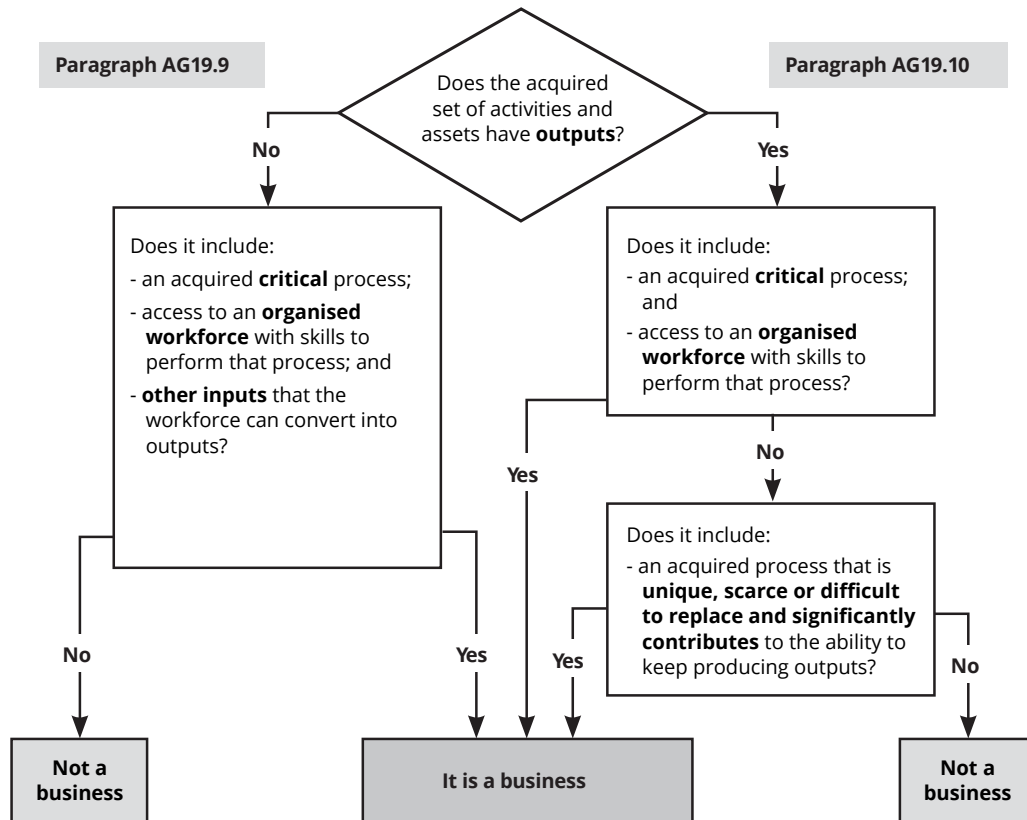
- (a) gross assets acquired shall exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities.
- (b) the fair value of the gross assets acquired shall include any consideration transferred (plus the non controlling interest's proportionate share in the recognised amounts of the acquiree's net identifiable assets and the fair value of any previously held interest) in excess of the fair value of net identifiable assets acquired.
- (c) a single identifiable asset shall include any asset or group of assets that would be recognised and measured as a single identifiable asset in a business combination.
- (d) if a tangible asset is attached to, and cannot be physically removed and used separately from, another tangible asset, without incurring significant cost, or significant diminution in utility or fair value to either asset (for example, land and buildings), those assets shall be considered a single identifiable asset.
- (e) when assessing whether assets are similar, an NPO shall consider the nature of each single identifiable asset and the risks associated with managing and creating outputs from the assets (that is, the risk characteristics).

Elements of a business

- AG19.4 Although businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be capable of being conducted and managed for the purpose identified in the definition of a business, an integrated set of activities and assets requires two essential elements – inputs and processes applied to those inputs. A business need not include all of the inputs or processes that were used in operating that business. However, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Paragraphs AG19.7–AG19.10 specify how to assess whether a process is substantive.
- AG19.5 If an acquired set of activities and assets has outputs, continuation of **revenue** does not on its own indicate that both an input and a substantive process have been acquired.
- AG19.6 Determining whether a particular set of activities and assets is a business shall be based on whether the integrated set is capable of being conducted and managed as a business by a market participant. Thus, in evaluating whether a particular set is a business, it is not relevant whether a seller operated the set as a business or whether the acquiring NPO intends to operate the set as a business.

Assessing whether an acquired process is substantive

AG19.7 Paragraphs AG19.8–AG19.10 explain how to assess whether an acquired process is substantive if the acquired set of activities and assets does not have outputs (paragraph AG19.9) and if it does have outputs (paragraph AG19.10). The following decision tree summarises how an NPO assesses whether an acquired process is substantive.



AG19.8 An example of an acquired set of activities and assets that does not have outputs at the acquisition date is an early-stage entity that has not started generating revenue. Moreover, if an acquired set of activities and assets was generating revenue at the acquisition date, it is considered to have outputs at that date, even if subsequently it will no longer generate revenue from external customers, for example because it will be integrated by the acquiring NPO.

AG19.9 If a set of activities and assets does not have outputs at the acquisition date, an acquired process (or group of processes) shall be considered substantive only if:

- (a) it is critical to the ability to develop or convert an acquired input or inputs into outputs; and
- (b) the inputs acquired include both an organised workforce that has the necessary skills, knowledge, or experience to perform that process (or group of processes) and other inputs that the organised workforce could develop or convert into outputs. Those other inputs could include:
 - (i) intellectual property that could be used to develop a good or service;
 - (ii) other economic resources that could be developed to create outputs; or
 - (iii) rights to obtain access to necessary materials or rights that enable the creation of future outputs.

Examples of the inputs mentioned in subparagraphs (b)(i)–(iii) include technology, in-process research and development projects and real estate.

- AG19.10 If a set of activities and assets has outputs at the acquisition date, an acquired process (or group of processes) shall be considered substantive if, when applied to an acquired input or inputs, it:
- (a) is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge or experience to perform that process (or group of processes); or
 - (b) significantly contributes to the ability to continue producing outputs and:
 - (i) is considered unique or scarce; or
 - (ii) cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

Identifying the acquirer (application of paragraphs G19.8–G19.10)

- AG19.11 In a business combination effected primarily by transferring cash or other assets or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets or incurs the liabilities.
- AG19.12 In a business combination effected primarily by exchanging equity instruments, the acquirer is usually the entity that issues its equity holdings. Other pertinent facts and circumstances shall also be considered in identifying the acquirer in a business combination effected by exchanging equity instruments. For example, the acquirer is usually the combining entity:
- (a) whose owners as a group retain or receive the largest portion of the voting rights in the combined entity – after the business combination.
 - (b) whose single owner or organised group of owners holds the largest minority voting interest in the combined entity – if no other owner or organised group of owners has a significant voting interest.
 - (c) whose owners have the ability to elect or appoint or to remove a majority of the members of the governing body of the combined entity.
 - (d) whose (former) management dominates the senior management of the combined entity.
 - (e) that pays a premium over the pre combination fair value of the equity instruments of the other combining entity or entities.
- AG19.13 The acquirer is usually the combining entity whose relative size (measured in, for example, assets, revenues or profit) is significantly greater than that of the other combining entity or entities.
- AG19.14 In a business combination involving more than two entities, determining the acquirer shall include a consideration of, among other things, which of the combining entities initiated the combination, as well as the relative size of the combining entities.
- AG19.15 A new entity formed to effect a business combination is not necessarily the acquirer. If a new entity is formed to issue equity instruments to effect a business combination, one of the combining entities that existed before the business combination shall be identified as the acquirer by applying the guidance in paragraph G19.10 and paragraphs AG19.11–AG19.14. In contrast, a new entity that transfers cash or other assets or incurs liabilities as consideration may be the acquirer.

Comparison of Section 19 with the IFRS for SMEs Accounting Standard

Section 19 of INPAG has been drawn from Section 19 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 19 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 19 of INPAG are as follows:

- The concept of ‘business’ may not resonate with NPOs and minor amendments have been made to the text to include circumstances more relevant to NPOs. This includes additional examples of control, the purpose of the organisation and to make clear that the section applies to all NPOs.
- A simplification has been added for the combination of two NPOs that both have positive net assets. The requirement to follow the additional procedures in paragraph G19.25 have been removed.
- INPAG Section 19 uses different terminology, referring specifically to acquiring NPOs rather than acquirers more generally when this is relevant, and to other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.
- Alignments have also been made to other sections in removing references to share price and equity where these are not relevant to NPOs.
- INPAG Section 19 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Specific matter for comment	
<p>Question 9:</p> <p>(a) Do you agree that the term ‘business’ can be applied by NPOs when taken alongside the amendments proposed, (including the expansion of examples of control)? If not, why not? Are there issues that NPOs experience in practice that need to be addressed in the guidance? If so, why?</p> <p>(b) Do you agree with the proposed exemption for two NPOs that have net assets and that it should not apply where one NPO has net liabilities? If not, describe the practical and accounting issues that arise.</p>	<p>References</p> <p>G19.4, G19.5, AG19.1 and AG19.2</p> <p>G19.24</p>

Section 20 – Leases

Scope of this section

- G20.1 This section covers accounting for all leases other than:
- (a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (see Section 34 *Specialised activities*);
 - (b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights (see Section 18 *Intangible assets other than goodwill*);
 - (c) measurement of property held by lessees that is accounted for as **investment property** and measurement of investment property provided by lessors under operating leases (see Section 16 *Investment property*);
 - (d) measurement of **biological assets** held by lessees under **finance leases** and biological assets provided by lessors under operating leases (see Section 34);
 - (e) leases that could lead to a loss to the lessor or the lessee as a result of contractual terms that are unrelated to changes in the price of the leased asset, changes in foreign exchange rates, changes in lease payments based on variable market interest rates, or a default by one of the counterparties (see paragraph G11.60(f)); and
 - (f) operating leases that are onerous.
- G20.2 This section applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This section does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.
- G20.3 Some arrangements, such as some outsourcing arrangements, telecommunication contracts that provide rights to capacity and take-or-pay contracts, do not take the legal form of a lease but convey rights to use assets in return for payments. Such arrangements are in substance leases of assets and they shall be accounted for under this section.

Classification of leases

- G20.4 A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.
- G20.5 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction instead of the form of the **contract**. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:
- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
 - (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the **fair value** at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
 - (c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
 - (d) at the inception of the lease the **present value** of the **minimum lease payments** amounts to at least substantially all of the fair value of the leased asset; and
 - (e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.
- G20.6 Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

- (a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- (b) **gains** or losses from the fluctuation in the **residual value** of the leased asset accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- (c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

G20.7 The examples and indicators in paragraphs G20.5 and G20.6 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, this may be the case if ownership of the asset is transferred to the lessee at the end of the lease for a variable payment equal to the asset's then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all risks and rewards incidental to ownership.

G20.8 Lease classification is made at the inception of the lease and is not changed during the term of the lease unless the lessee and the lessor agree to change the provisions of the lease (other than simply by renewing the lease), in which case the lease classification shall be re-evaluated.

Financial statements of lessees – finance leases

Initial recognition

G20.9 At the commencement of the lease term, a lessee shall recognise its rights of use and obligations under finance leases as assets and liabilities in its **Statement of Financial Position** at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease. Any initial direct costs of the lessee (incremental costs that are directly attributable to negotiating and arranging a lease) are added to the amount recognised as an asset.

G20.10 The present value of the minimum lease payments shall be calculated using the **interest rate implicit in the lease**. If this cannot be determined, the **lessee's incremental borrowing rate** shall be used.

Subsequent measurement

G20.11 A lessee shall apportion minimum lease payments between the finance charge and the reduction of the outstanding liability using the **effective interest method** (see paragraphs G11.19–G11.24). The lessee shall allocate the finance charge to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. A lessee shall charge contingent rents as **expenses** in the periods in which they are incurred.

G20.12 A lessee shall depreciate an asset leased under a finance lease in accordance with the relevant section of this Guidance for that type of asset, for example, Section 17 *Property, plant and equipment*, Section 18, or Section 19 *Business combinations and goodwill*. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its **useful life**. A lessee shall also assess at each **reporting date** whether an asset leased under a finance lease is impaired (see Section 27 *Impairment of assets*).

Disclosures

G20.13 A lessee shall make the following disclosures for finance leases:

- (a) for each **class of asset**, the net **carrying amount** at the end of the **reporting period**;

- (b) the total of future minimum lease payments at the end of the reporting period, for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years; and
 - (iii) later than five years.
- (c) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases and restrictions imposed by lease arrangements.

G20.14 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessees for assets leased under finance leases.

Financial statements of lessees – operating leases

- G20.15 A lessee shall recognise lease payments under operating leases (excluding costs for services such as insurance and maintenance) as an expense over the lease term on a straight-line basis unless either:
- (a) another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis; or
 - (b) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases.

If payments to the lessor vary because of factors other than general inflation, then condition (b) is not met.

Disclosures

- G20.16 A lessee shall make the following disclosures for operating leases:
- (a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years; and
 - (iii) later than five years.
 - (b) lease payments recognised as an expense; and
 - (c) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

Financial statements of lessors – finance leases

Initial recognition and measurement

- G20.17 A lessor shall recognise assets held under a finance lease in its Statement of Financial Position and present them as a receivable at an amount equal to the **net investment in the lease**. The net investment in a lease is the lessor's **gross investment in the lease** discounted at the interest rate implicit in the lease. The gross investment in the lease is the aggregate of:
- (a) the minimum lease payments receivable by the lessor under a finance lease; and
 - (b) any unguaranteed residual value accruing to the lessor.

G20.18 For finance leases other than those involving manufacturer or dealer lessors, initial direct costs (costs that are incremental and directly attributable to negotiating and arranging a lease) are included in the initial measurement of the finance lease receivable and reduce the amount of revenue recognised over the lease term.

Subsequent measurement

G20.19 The **recognition** of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income. If there is an indication that the estimated unguaranteed residual value used in computing the lessor's gross investment in the lease has changed significantly, the income allocation over the lease term is revised, and any reduction in respect of amounts accrued is recognised immediately in **surplus or deficit**.

Manufacturer or dealer lessors

G20.20 Manufacturers or dealers often offer to customers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or dealer lessor gives rise to two types of income:

- (a) surplus or deficit equivalent to the surplus or deficit resulting from an outright sale of the asset being leased, at normal selling prices, reflecting any applicable volume or trade discounts; and
- (b) finance income over the lease term.

G20.21 The sales **revenue** recognised at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest. The cost of sale recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased asset less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the **surplus**, which is recognised in accordance with the NPO's policy for outright sales.

G20.22 If artificially low rates of interest are quoted, surplus shall be restricted to that which would apply if a market rate of interest were charged. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease shall be recognised as an expense when the surplus is recognised.

Disclosures

G20.23 A lessor shall make the following disclosures for finance leases:

- (a) a reconciliation between the gross investment in the lease at the end of the reporting period and the present value of minimum lease payments receivable at the end of the reporting period. In addition, a lessor shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period, for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years; and
 - (iii) later than five years.
- (b) unearned finance income.
- (c) the unguaranteed residual values accruing to the benefit of the lessor.
- (d) the accumulated allowance for uncollectable minimum lease payments receivable.
- (e) contingent rents recognised as income in the period.

- (f) a general description of the lessor's significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

Financial statements of lessors – operating leases

Recognition and measurement

- G20.24 A lessor shall present assets subject to operating leases in its Statement of Financial Position according to the nature of the asset.
- G20.25 A lessor shall recognise lease income from operating leases (excluding amounts for services such as insurance and maintenance) in surplus or deficit on a straight-line basis over the lease term, unless either:
- (a) another systematic basis is representative of the time pattern of the lessee's benefit from the leased asset, even if the receipt of payments is not on that basis; or
 - (b) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases.
- If payments to the lessor vary according to factors other than inflation, then condition (b) is not met.
- G20.26 A lessor shall recognise as an expense costs, including **depreciation**, incurred in earning the lease income. The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets.
- G20.27 A lessor shall add to the carrying amount of the leased asset any initial direct costs it incurs in negotiating and arranging an operating lease and shall recognise such costs as an expense over the lease term on the same basis as the lease income.
- G20.28 To determine whether a leased asset has become impaired, a lessor shall apply Section 27.
- G20.29 A manufacturer or dealer lessor does not recognise any surplus on entering into an operating lease because it is not the equivalent of a sale.

Disclosures

- G20.30 A lessor shall disclose the following for operating leases:
- (a) the future minimum lease payments under non-cancellable operating leases for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years; and
 - (iii) later than five years.
 - (b) total contingent rents recognised as income; and
 - (c) a general description of the lessor's significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses and restrictions imposed by lease arrangements.
- G20.31 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessors for assets provided under operating leases.

Sale and leaseback transactions

G20.32 A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends on the type of lease.

Sale and leaseback transaction results in a finance lease

G20.33 If a sale and leaseback transaction results in a finance lease, the seller-lessee shall not recognise immediately, as income, any excess of sales proceeds over the carrying amount. Instead, the seller-lessee shall defer such excess and amortise it over the lease term.

Sale and leaseback transaction results in an operating lease

G20.34 If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, the seller-lessee shall recognise any surplus or deficit immediately. If the sale price is below fair value, the seller-lessee shall recognise any surplus or deficit immediately unless the deficit is compensated for by future lease payments at below market price. In that case the seller-lessee shall defer and amortise such deficit in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the seller-lessee shall defer the excess over fair value and amortise it over the period for which the asset is expected to be used.

Disclosures

G20.35 Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of significant leasing arrangements includes description of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.

Comparison of Section 20 with the *IFRS for SMEs Accounting Standard*

Section 20 of INPAG has been drawn from Section 20 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 20 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 20 of INPAG are as follows:

- INPAG Section 20 uses different terminology, referring to surpluses and deficits and to other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Specific matter for comment	
<p>Question 10:</p> <p>(a) Do you agree that no further alignment changes are needed to:</p> <p>(iii) Section 20 Leases?</p> <p>If not, why not?</p>	<p>References</p> <p>Section 20</p>

Section 21 – Provisions and contingencies

Section 21 *Provisions and contingencies* was included in **ED2**, which closed for comment on 15 March 2024.

Section 22 – Liabilities and equity claims

Scope of this section

- G22.1 This Section establishes principles for classifying **financial instruments** as either liabilities or **equity claims** and addresses accounting for equity instruments issued to individuals or other parties acting in their capacity as investors in equity instruments (ie in their capacity as **holders of equity claims**).
- G22.2 This section shall be applied when classifying all types of financial instruments except:
- (a) those interests in **controlled entities, associates** and **joint arrangements** that are accounted for in accordance with Section 9 *Consolidated and separate financial statements*, Section 14 *Investments in associates* or Section 15 *Joint arrangements*.
 - (b) employers' rights and obligations under **employee benefit** plans, to which Section 28 *Employee benefits* applies.

Classification of a financial instrument as liability or equity claims

- G22.3 For the purpose of this Section, a liability is a present obligation of the NPO arising from past events, the settlement of which is expected to result in an outflow from the NPO of resources embodying economic benefits. Equity claims are the financial interest in the net assets of an NPO. Equity claims include investments by the holders of equity claims, plus or minus changes to those investments earned through their share of retained surpluses, minus reductions as a result of deficits and distributions.
- G22.4 An NPO shall classify a financial instrument as a **financial liability** or as equity claims in accordance with the substance of the contractual arrangement, not merely its legal form, and in accordance with the definitions of a financial liability and an equity claims instrument. Unless an NPO has an unconditional right to avoid delivering **cash** or another **financial asset** to settle a contractual obligation, the obligation meets the definition of a financial liability, and is classified as such, except for those instruments classified as equity claims instruments in accordance with paragraph G22.5.
- G22.5 Some financial instruments that meet the definition of a liability are classified as equity claims because they represent a financial interest in the net assets of the NPO:
- (a) a puttable instrument is a financial instrument that gives the holder the right to sell that instrument back to the issuer for cash or another financial asset or is automatically redeemed or repurchased by the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder. A puttable instrument that has all of the following features is classified as an equity claims instrument:
 - (i) it entitles the holder to a pro rata share of the NPO's net assets in the event of the NPO's liquidation or ceasing to be an NPO as set out in the equity claims agreement.
 - (ii) the instrument is in the class of instruments that is subordinate to all other classes of instruments.
 - (iii) all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.
 - (iv) apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the NPO, and it is not a contract that will or may be settled in the NPO's own equity claims instruments.

- (b) instruments, or components of instruments, that are subordinate to all other classes of instruments are classified as equity claims if they impose on the NPO an obligation to deliver to another party a financial interest in the net assets of the NPO only on liquidation or ceasing to be an NPO.

G22.6 The following are examples of instruments that are classified as liabilities instead of equity claims:

- (a) an instrument is classified as a liability if the distribution of net assets on liquidation or on ceasing to be an NPO is subject to a maximum amount (a ceiling). For example, the holders of the instrument receive a pro rata share of the net assets, but this amount is limited to a ceiling and the excess net assets are distributed to another NPO or the **government**, the instrument is not classified as equity claims.
- (b) an instrument is classified as a liability if the instrument can only be redeemed at par or at an amount index linked to the amount originally paid. In other words, the holder of the equity claims instrument does not have a financial interest in the net assets of the NPO.
- (c) a puttable instrument is classified as equity claims if, when the put option is exercised, the holder receives a financial interest in the net assets of the NPO as set out in the equity claim arrangement measured in accordance with this Guidance. However, if the holder is entitled to an amount measured on some other basis (such as local GAAP), the instrument is classified as a liability.
- (d) an instrument is classified as a liability if it obliges the NPO to make payments to the holder before liquidation or on ceasing to be an NPO, such as a mandatory distribution.
- (e) a puttable instrument that is classified as equity or equity claims in a controlled entity's **financial statements** is classified as a liability in the **controlling NPO's consolidated financial statements**.
- (f) a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

G22.7 Members' shares in a co-operative and similar instruments are equity claims if:

- (a) the NPO has an unconditional right to refuse redemption of the members' shares; or
- (b) redemption is unconditionally prohibited by local law, regulation or the NPO's governing charter.

Original issue of shares or other equity claim instruments

G22.8 An NPO shall recognise the issue of shares or other equity claim instrument as equity claims when it issues those instruments and another party is obliged to provide cash or other resources to the NPO in exchange for the instruments:

- (a) if the equity claim instruments are issued before the NPO receives the cash or other resources, the NPO shall present the amount receivable as an offset to equity claims in its **Statement of Financial Position**, not as an **asset**;
- (b) if the NPO receives the cash or other resources before the equity claim instruments are issued, and the NPO cannot be required to repay the cash or other resources received, the NPO shall recognise the corresponding increase in equity claims to the extent of consideration received; and
- (c) to the extent that the equity claim instruments have been subscribed for but not issued, and the NPO has not yet received the cash or other resources, the NPO shall not recognise an increase in equity claims.

G22.9 An NPO shall measure equity claim instruments, other than those issued as part of a **business combination** or those accounted for in accordance with paragraphs G22.13–G22.15, at the **fair value**

of the cash or other resources received or receivable, net of **transaction costs**. If payment is deferred and the time value of money is **material**, the initial measurement shall be on a **present value** basis.

- G22.10 An NPO shall account for the transaction costs of an equity claim transaction as a deduction from equity claims. **Income tax** relating to the transaction costs shall be accounted for in accordance with Section 29 *Income tax*.
- G22.11 How the increase in equity claims arising on the issue of shares or other equity claim instruments is presented in the Statement of Financial Position is determined by applicable laws. For example, the par value (or other nominal value) of shares and the amount paid in excess of par value may be required to be presented separately.

Capitalisation or bonus issues of shares and share splits

- G22.12 A capitalisation or bonus issue (sometimes referred to as a stock dividend) is the issue of new shares to equity claim holders in proportion to their existing holdings. For example, an NPO may give its equity claim holders one dividend or bonus share for every five shares held. A share split (sometimes referred to as a stock split) is the dividing of an NPO's existing shares into multiple shares. For example, in a share split, each equity claim holder may receive one additional share for each share held. In some cases, the previously outstanding shares are cancelled and replaced by new shares. Capitalisation and bonus issues and share splits do not change total equity claims. An NPO shall reclassify amounts within equity claims as required by applicable laws.

Convertible debt or similar compound financial instruments

- G22.13 On issuing convertible debt or similar **compound financial instruments** that contain both a liability and an equity claims component, an NPO shall allocate the proceeds between the liability component and the equity claims component. To make the allocation, the NPO shall first determine the amount of the liability component as the fair value of a similar liability that does not have a conversion feature or similar associated equity component. The NPO shall allocate the residual amount as the equity component. Transaction costs shall be allocated between the debt component and the equity component on the basis of their relative fair values.
- G22.14 The NPO shall not revise the allocation in a subsequent period.
- G22.15 In periods after the instruments were issued, the NPO shall account for the liability component as follows:
- in accordance with Part I of Section 11 *Basic financial instruments* if the liability component meets the conditions in paragraph G11.8. In these cases, the NPO shall systematically recognise any difference between the liability component and the principal amount payable at maturity as additional interest **expense** using the **effective interest method** (see paragraphs G11.19–G11.24).
 - in accordance with Part II of Section 11 *Other financial instrument issues* if the liability component does not meet the conditions in paragraph G11.8.

Distributions to holders of equity claims

- G22.16 An NPO shall reduce equity claims for the amount of distributions to its holders of equity claims (holders of its equity instruments). Income tax relating to **distributions to holders of equity claims** shall be accounted for in accordance with Section 29.
- G22.17 Sometimes an NPO distributes assets other than cash to its holders of equity claims ('non-cash distributions'). When an NPO declares such a distribution and has an obligation to distribute non-cash assets to its holders of equity claims, it shall recognise a liability. It shall measure the liability at the fair value of the assets to be distributed unless it meets the conditions in paragraph G22.18. At the end of each **reporting period** and at the date of settlement, the NPO shall review and adjust the

carrying amount of the capital distribution payable to reflect changes in the fair value of the assets to be distributed, with any changes recognised in equity claims as adjustments to the amount of the distribution. When an NPO settles the capital distribution payable, it shall recognise in surplus or deficit any difference between the carrying amount of the assets distributed and the carrying amount of the capital distribution payable.

- G22.18 If the fair value of the assets to be distributed cannot be measured reliably without undue cost or effort, the liability shall be measured at the carrying amount of the assets to be distributed. If prior to settlement the fair value of the assets to be distributed can be measured reliably without undue cost or effort, the liability is remeasured at fair value with a corresponding adjustment made to the amount of the distribution and accounted for in accordance with paragraph G22.17.
- G22.19 Paragraphs G22.17–G22.18 do not apply to the distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an NPO that makes the distribution.

Disclosures

- G22.20 If the fair value of the assets to be distributed as described in paragraphs G22.17–G22.18 cannot be measured reliably without undue cost or effort, the NPO shall disclose that fact and the reasons why a reliable fair value measurement would involve undue cost or effort.

Comparison of Section 22 with the *IFRS for SMEs Accounting Standard*

Section 22 of INPAG has been drawn from Section 22 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 22 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 22 of INPAG are as follows:

- 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. The definition of equity has been amended in Section 2 and as a consequence references to equity have been replaced by equity claims.
- References to share-based payments have been removed consistent with the proposal to remove Section 26 on share-based payments.
- The paragraphs relating to the sale of options, rights and warrants, extinguishing financial liabilities with equity claim instruments and treasury shares have been removed as they are not considered relevant to NPOs.
- Additional text has been added to clarify that an instrument shall be classified as a liability if the instrument can only be redeemed at par or at an amount index linked to the amount originally paid. This is because in substance the holder of the equity claim instrument does not have a financial interest in the net assets of the NPO.
- Amendments have been made to the guidance on puttable instruments to reflect the definition of equity claims used in INPAG and the expectation that future cashflows from a puttable instrument will not be a feature of equity claims for NPOs. The example of a puttable instrument has been removed from illustrative examples as it is considered to be less relevant for NPOs.
- The example of an instrument that can only be redeemed at par or an index-linked amount has been added. All examples are included in the Implementation Guidance.
- Terminology has been updated to align with that used throughout INPAG, which includes the use of NPOs rather than entities and the references to the INPAG financial statements.

Specific matter for comment	
<p>Question 5:</p> <p>(b) Do you agree with the approach of using the term equity claims in Sections 2 and 22 rather than equity and that equity claims are a subset of net assets? If not, what would you change and why?</p> <p>(c) Do you agree that the paragraphs relating to the sale of options, rights and warrants, extinguishing financial liabilities with equity claim instruments and treasury shares are removed and the paragraphs relating to capitalisation or bonus issues of shares and share splits and convertible debt or similar compound financial instruments are retained? If not, why not?</p>	<p>References</p> <p>G2.74, AG2.6, AG2.7 Section 22</p> <p>G22.12–G22.15</p>

Sections 23 – 24 Part I

Section	
23	Revenue
24 Part I	Expenses on grants and donations

Sections 23–24 Part I were included in **ED2** which closed for comment on 15 March 2024.

Section 24 – Expenses Part II Classification of expenses

Scope

G24.42 This Section specifies the requirements for an analysis of **expenses** that an NPO shall present in accordance with paragraph G5.11.

Classification methods

G24.43 An NPO shall provide an analysis of expenses using a **classification** based on either the nature of expenses, the function of expenses within the NPO, or a mixed presentation (with part natural expenses classification and part functional classification), whichever provides information that is more **relevant** and **reliable** to the users of the **financial statements**. This analysis shall be presented in the **Statement of Income and Expenses** or in the **notes** to the financial statements.

G24.44 There is a rebuttable presumption that the most relevant and reliable information to users will be provided by an analysis of expenses based on the nature of expenses. If the presumption is rebutted and a classification based on the function of expenses within the NPO or a mixed presentation is used, an NPO must explain by way of a note why this provides information that is more relevant and reliable to the users of the financial statements.

Analysis by nature of expense

G24.45 The nature of expense analysis provides information about expenses arising from the inputs that are consumed to accomplish an NPO's activities. Using this classification, expenses are aggregated in the Statement of Income and Expenses or in the notes to the financial statements according to their nature or type (for example employment costs, travel and subsistence, supplies and materials, external services) without reference to how expenses are allocated to functions or activities within the NPO.

Analysis by function of expense

G24.46 The function of expense analysis allocates and combines expenses according to the activity to which the item relates. For example, costs of distributing humanitarian aid could be a functional line item that combines employee benefits, travel and subsistence, supplies and materials, external services related to that activity. Other functional line items could include major operational programmes or administrative support activities, whatever is most relevant to the NPO. Where an NPO presents functional line items it shall disclose a narrative description of what types of expenses (based on their nature) are included in each functional line item.

Analysis by mixed presentation

G24.47 The mixed presentation combines analysis by nature and analysis by function. Under this classification, expenses are aggregated in the Statement of Income and Expenses partly according to their nature and partly according to their function. Where an NPO presents functional line items as part of a mixed presentation it shall disclose a narrative description of what types of expenses (based on their nature) are included in each functional line item.

Allocation and aggregation of expenses

G24.48 Analysis by function of expense and analysis using a mixed presentation involves the allocation and **aggregation** of some or all expenses to the activity to which the consumed resource relates. NPOs

shall ensure that the methods of allocating and aggregating expenses are reasonable and consistently applied and consistent between **reporting periods** unless circumstances change. NPOs shall select a method that ensures that the accounts provide a faithful representation of the costs of activities.

- G24.49 In attributing costs to activities, NPOs shall apply the following general principles:
- (a) direct costs attributable to a single activity shall be allocated directly to that activity (for example the salary cost of someone solely employed on a particular activity or the cost of running a vehicle used wholly for a particular activity);
 - (b) shared costs that contribute directly to more than one activity shall be apportioned between those activities (for example the cost of a staff member whose time is divided between a fundraising activity and working on the delivery of a programme);
 - (c) support costs that are organisation wide shall be apportioned between the activities being supported (for example governance costs) or disclosed separately.

Disclosures

- G24.50 An NPO shall disclose the basis used in apportioning shared costs and support costs where an analysis by function or mixed presentation of expenses has been used.
- G24.51 An NPO shall disclose, if not already presented in the Statement of Income and Expenses, in the analysis of expenses or the notes:
- (a) benefits received by volunteers;
 - (b) losses, write-offs and special payments.

Benefits received by volunteers

- G24.52 Where volunteers receive benefits such as free or subsidised services or goods, these shall be disclosed separately from employee benefit disclosures required by Section 28 *Employee benefits*.
- G24.53 Where volunteers are part of key management personnel, these benefits shall not be included in this disclosure but separately disclosed as per paragraph G33.6 of Section 33 *Related party disclosures*.

Losses, write-offs and special payments

- G24.54 Losses, write-offs and special payments relate to a range of expenses that are outside of the normal activities of an NPO. Given the different nature of NPOs activities, it is not possible to provide an exhaustive list of the expenses that may be included in this disclosure. Judgement shall be applied by an NPO to determine whether the substance of an expense means it should be included in this disclosure.
- G24.55 Losses and write-offs include expenses arising from **cash** losses, unrecoverable overpayments, losses from fraud, theft, arson or other deliberate acts, payments for which a **liability** should not have been incurred, constructive losses, claims waived or abandoned and similar items.
- G24.56 Special payments include extra-contractual payments, payments to contractors outside of a binding contract, compensation payments, special severance payments, and payments that those charged with governance of the NPO have no legal obligation or legal power to make but which they believe they have a moral obligation to make.
- G24.57 NPOs shall disclose details of losses, write-offs and special payments made including those where the NPO has been required to obtain authority to make payments from a court, regulator or similar body. NPOs may aggregate losses, write-offs and special payments of a similar nature where this does not impact on the **understandability** of the information provided. For each loss, write-off or special payment (or aggregation) the notes to the accounts shall state the amount and provide an explanation of the nature of the loss, write-off or special payment and the reason why it occurred.

Application Guidance: Section 24 Part II – Classification of expenses

Determining which analysis of expenses is most relevant and reliable

AG24.45 Paragraph G24.43 requires an NPO to provide an analysis of expenses using a classification based on either the nature of expenses, the function of expenses within the NPO, or a mixed presentation, whichever provides information that is more relevant and reliable to the users of the financial statements. There is a rebuttable presumption in paragraph G24.44 that the most relevant and reliable information to users will be provided by an analysis of expenses using a classification based on the nature of expenses.

AG24.46 In determining whether to rebut the presumption, an NPO shall consider:

- (a) which analysis provides the most useful relevant and reliable information to users of the financial statements about key components of the NPO's **surplus or deficit**. For example, for an NPO that primarily generates **revenue** through retail activities before distributing surpluses to local good causes, a key component of surplus or deficit could be costs of sales. Presenting a cost of sales line item can provide relevant information about whether the revenue generated from the sale of goods covers direct costs associated with those sales and by what margin. However, presenting a cost of sales line item is unlikely to provide relevant information when the link between revenue and costs is less direct. For example, if the same NPO instead primarily generated revenue through returns on capital endowments, information about the expenses presented using a nature of expense analysis, such as investment costs, may be more relevant to users.
- (b) which analysis most closely represents the way the NPO is managed and how management reports internally. For example, an international humanitarian NPO managed on the basis of major functions such as emergency response, long-term humanitarian programmes, and governmental lobbying and legal activities, might use a function of expense method for internal reporting. However, an NPO that has a single predominant function, such as medical research related to an individual disease, may find a more detailed analysis of expenses by nature of expense provides more useful information.
- (c) sector practice. The use of similar analyses of expenses would enable users to more easily compare expenses across entities in the same sector.
- (d) whether the allocation of expenses to functions would be arbitrary and therefore would not provide a sufficiently faithful representation of the line items presented. In such cases, the nature of expense analysis shall be used.

AG24.47 There may be occasions where a mixed presentation can provide more relevant information to users. For example, an NPO with two or more distinct types of activities may present some of its expenses by function and others by nature, to provide information about the key components of surplus or deficit.

AG24.48 Paragraphs G24.47 and G24.48 require an NPO to provide a narrative description of the types of expenses (based on their nature) that contribute to the total costs of each functional line item. This will include, for example, employee benefits, supplies and materials and **depreciation**. Quantification of these amounts may be useful to the users of the financial statements as part of the narrative description.

Allocation and aggregation of expenses

AG24.49 Support costs are essential to enable the NPO to carry out its activities and are often organisation wide. Support costs cannot be directly attributed to one or more activities. Where such costs are apportioned to functions or activities as per paragraph G24.49(c), a basis shall be selected that most faithfully represents the use of the components that comprise support costs.

Specific matter for comment	
Question 2:	References
(a) Do you agree that there is a rebuttable presumption that a by nature classification of expenses is used unless this doesn't provide the most relevant and reliable information to the users of the financial statements? If not, why not?	G24.43–G24.47, AG24.45–AG24.47
(b) Do you agree that the rationale for using a classification of expenses other than by nature should be disclosed? If not, why not?	G24.44
(c) Do you agree that where a functional or mixed presentation of expenses is used, a narrative description of the types of expenses incurred on each function line item is sufficient and that a requirement for these to be quantified is not necessary? If not, why not?	G24.46, AG24.48
(d) Do you agree with the expense disclosure requirements? If not, what would you change and why?	G24.50–G24.57
(e) Do you agree with the description of direct costs, shared costs and support costs, and that these allow the full cost of an activity to be identified? If not, why not?	G24.48–G24.49

Section 24 – Expenses Part III Fundraising costs

Scope of this Section

G24.58 This Part of Section 24 specifies the requirements for calculating and disclosing costs associated with fundraising activities. Whichever expense analysis permissible under Part II of Section 24 is adopted by an NPO, fundraising costs shall be separately calculated and disclosed either in the Statement of Income and Expenses or the notes to the financial statements.

Fundraising activities

G24.59 Fundraising activities can be one of three distinct categories of activity that an NPO carries out in order to generate funds for the provision of services and goods for the benefit of the public, carrying out programme and similar activities in pursuit of the NPO's stated mission or objectives, or supporting other activities.

G24.60 The three categories of fundraising activities under INPAG are:

- (i) donations, gifts, grants and similar transfers;
- (ii) commercial and trading;
- (iii) investment management.

G24.61 Under INPAG fundraising activities do not include the development of corporate documents applicable to the whole of an NPO's activities such as business plans or annual reports.

Donations, gifts, grants and similar transfers

G24.62 This category involves activities relating to requesting or obtaining present or future donations, gifts, grants and similar transfers of cash or non-cash assets from entities or individuals external to the NPO.

G24.63 Fundraising costs in this category include but are not limited to those costs incurred in:

- (a) seeking donations, grants and legacies including application costs;
- (b) researching and developing fundraising strategies and plans for approaching prospective donors;
- (c) operating membership schemes or social lotteries;
- (d) staging events, including performance fees, licence fees and other related costs;
- (e) contracting with agents to raise funds on behalf of the NPO;
- (f) advertising, marketing and direct mail materials, but *not* costs associated with educational material designed to further an NPO's mission.

Commercial and trading

G24.64 This category includes those activities where an NPO aims to generate profits from transactions that are on a commercial and trading basis for use in achieving the NPO's mission. Fundraising costs in this category include but are not limited to those costs incurred in:

- (a) operating a trading outlet to sell donated and/or bought-in goods; and
- (b) operating a trading company undertaking other commercial or trading activities.

G24.65 Where a charge is made to partially cover the costs of services or goods provided to those intended to directly benefit from the NPO's activities, and those charges are part of the operating model established to meet an NPO's mission or objectives, the costs of those activities are not fundraising costs.

Investment management

- G24.66 Where an NPO holds an investment that it relies on to generate returns to be able to carry out its missional purposes, investment management is considered as a category of fundraising costs. Fundraising costs in the investment management category include but are not limited to those costs incurred in:
- (a) portfolio management;
 - (b) obtaining investment advice;
 - (c) administration of the investments;
 - (d) costs of licensing intellectual property; and
 - (e) rent collection, property repairs and maintenance charges for **investment property**.

Calculating fundraising costs

- G24.67 In many cases, fundraising costs will need to be calculated by attributing direct, shared and support costs to fundraising activities to determine the full cost of those activities. In attributing costs to a fundraising activity, an NPO shall apply the general principles in paragraph G24.49.
- G24.68 In accordance with paragraph G24.49, NPOs shall select methods of cost allocation that ensure that the financial reports provide a reliable and faithful representation of the costs of fundraising activities and provide information that is relevant to the users of the financial statements. Different methods may be appropriate depending on the type of fundraising activity.
- G24.69 NPOs shall ensure that the methods of allocating and aggregating costs attributed to fundraising activities are reasonable and consistently applied within and between reporting periods unless circumstances change.
- G24.70 Where an NPO has the commercial and trading activities outlined in paragraph G24.63, fundraising costs shall include all costs to sell donated or commercial products including direct production costs, shared production costs and support costs.
- G24.71 Where an NPO has investments and investment managers deduct management fees from investment income, the NPO shall report the gross investment income before fees and then report the management fees charged as a cost. Investment management costs specific to a fund shall be charged to that specific fund in accordance with the requirements of Section 36 *Fund accounting*.

Activities that have more than one purpose

- G24.72 Where an NPO has expenses that have been incurred for more than one purpose, such as raising funds while also raising awareness of the activities of the NPO, they shall be split between those related to fundraising and those that are not related to fundraising using the cost allocation methods in paragraph G24.49.
- G24.73 NPOs may consider all such costs as either relating to fundraising or to another activity depending on what is the primary purpose of the activity where splitting the costs results in undue cost or effort.

Disclosures

- G24.74 Costs related to each category of fundraising activities shall be disclosed separately.
- G24.75 An NPO shall present fundraising costs in each category on a gross basis. Costs shall not be netted off from the **income** they have assisted in generating. This follows the general INPAG requirement to account for transactions gross except where explicitly permitted. Where an NPO deems that users of the **general purpose financial reports** would find the information useful, it may present an analysis of revenue raised alongside the costs associated with specific activities provided that the costs and related revenue are presented gross.

G24.76 An NPO shall provide a narrative description of the method of cost allocation and bases of apportionment adopted to calculate fundraising costs. Where activities have more than one purpose, an NPO shall provide a narrative description of these activities including whether costs have been allocated between more than one purpose and/or whether the pragmatic exemption in paragraph G24.71 has been applied.

Application Guidance: Section 24 Part III – Fundraising costs

Activities that have more than one purpose

AG24.50 NPOs may utilise the pragmatic exemption in paragraph G24.71 and consider all fundraising costs for a particular activity/campaign as either relating to fundraising activities or another activity where the costs are for more than one purpose. The pragmatic exemption applies when the costs of estimating or measuring the split are greater than the benefit. It is most likely to be used when the amounts involved are small or the allocation between fundraising activities and other activities involves amounts that are immaterial. The allocation shall depend on the primary purpose of the activity/campaign.

Disclosures

AG24.51 Costs related to each category of fundraising activities shall be disclosed separately unless an individual category is immaterial. This is necessary to ensure transparency and comparability of fundraising costs as the nature of the costs associated with each category of fundraising activity may vary significantly.

Specific matter for comment	
Question 2:	References
(f) Do you agree that commercial and trading activities that are for the purposes of fundraising and investment management costs associated with a fund whose purpose is to generate future returns are included as fundraising costs? If not, why not?	G24.64–G24.66
(g) Do you agree with the pragmatic exception that fundraising costs do not need to be split from other costs where the cost of doing so would exceed the information benefits to stakeholders? If not, what would you change and why?	G24.72
(h) Do you agree that the costs for each of the three categories of fundraising activity should be separately disclosed and presented gross? If not, what should be disclosed and why?	G24.74

Sections 25–26

Section	
25	Borrowing costs
26	Share-based payments

Section 25 *Borrowing costs* was included in ED2.

Section 26 *Share-based payments* was proposed to be deleted in ED2.

ED2 closed for comments on 15 March 2024.

Section 27 – Impairment of assets

Scope and objective of this section

- G27.1 An **impairment loss** occurs when the **carrying amount** of an **asset** exceeds its **recoverable amount**. This section shall be applied in accounting for the impairment of all assets other than the following, for which other sections of this Guidance establish impairment requirements:
- (a) **deferred tax assets** (see Section 29 *Income tax*);
 - (b) assets arising from **employee benefits** (see Section 28 *Employee benefits*);
 - (c) **financial assets** within the scope of Section 11 *Financial instruments*;
 - (d) **investment property** measured at **fair value** (see Section 16 *Investment property*);
 - (e) **biological assets** related to **agricultural activity** measured at fair value less estimated costs to sell (see Section 34 *Specialised activities*); and
 - (f) **contract assets** and assets arising from costs to obtain or fulfil a **contract** (see Section 23 *Revenue*).

Impairment of inventories

Measurement basis

- G27.2 An NPO shall assess at each **reporting date** whether any **inventories** are impaired. An NPO shall make the assessment by comparing the carrying amount of each item of inventory, (or group of similar items – see paragraph G27.5) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, the NPO shall reduce the carrying amount of the inventory (or the group) to its selling price less costs to complete and sell.
- G27.3 For inventories held for distribution at no or nominal consideration, the cost adjusted for any loss of **service potential** (adjusted cost) shall be used instead of its selling price less costs to complete and sell. An NPO may refer to the replacement cost of an item in determining whether there has been a loss of service potential. If inventory held for distribution at no or nominal consideration is impaired, the NPO shall reduce the carrying amount to its adjusted cost.
- G27.4 Such reductions are an impairment loss, which is recognised immediately in **surplus or deficit**.
- G27.5 If it is **impracticable** to determine the selling price less costs to complete and sell for inventories held for sale or, for inventories held for distribution at no or nominal consideration, the adjusted cost item by item, the NPO may group items of inventory relating to the same product line that have similar purposes or end uses and are produced and, where relevant, marketed in the same geographical area for the purpose of assessing impairment.

Reversal of impairment

- G27.4 An NPO shall make a new assessment of selling price less costs to complete and sell or, for inventories held for distribution at no or nominal consideration, adjusted cost at each subsequent reporting date. When the circumstances that previously caused inventories to be impaired no longer exist or when there is clear evidence of an increase in selling price less costs to complete and sell or adjusted cost because of changed economic circumstances, the NPO shall reverse the amount of the impairment (ie the reversal is limited to the amount of the original impairment loss) so that the new carrying amount is the lower of the cost and the revised selling price less costs to complete and sell or adjusted cost.

Impairment of assets other than inventories

General principles

- G27.5 If, and only if, the recoverable amount of an asset is less than its carrying amount, the NPO shall reduce the carrying amount of the asset to its recoverable amount. That reduction is an impairment loss. Paragraphs G27.11–G27.20 provide guidance on measuring recoverable amount.
- G27.6 An NPO shall recognise an impairment loss immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with the revaluation model in Section 17 *Property, plant and equipment*. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with paragraph G17.20.
- G27.7 An NPO shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the NPO shall estimate the recoverable amount of the asset. If there is no indication of impairment, it is not necessary to estimate the recoverable amount.
- G27.8 If it is not possible to estimate the recoverable amount of the individual asset, an NPO shall estimate the recoverable amount of the **operating unit** to which the asset belongs. This may be the case because measuring recoverable amount requires forecasting **cash flows** and sometimes individual assets do not generate cash flows by themselves. An asset's operating unit is the smallest identifiable group of assets that includes the asset and that are operated largely independently from other assets or groups of assets.
- G27.9 In assessing whether there is any indication that an asset may be impaired, an NPO shall consider, as a minimum, the following indications:

External sources of information

- (a) *during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.*
- (b) *significant changes with an adverse effect on the NPO have taken place during the period, or will take place in the near future, in the technological, market, economic, service delivery, or legal environment in which the NPO operates or in the activities to which an asset is dedicated.*
- (c) *market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect materially the discount rate used in calculating an asset's value in use and decrease the asset's fair value less costs to sell.*
- (d) *the carrying amount of the net assets of the NPO is more than the estimated fair value of the NPO as a whole (such an estimate may have been made, for example, in relation to the potential sale of part or all of the NPO).*

Internal sources of information

- (e) *evidence is available of obsolescence or physical damage of an asset.*
 - (f) *significant changes with an adverse effect on the NPO have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs and plans to dispose of an asset before the previously expected date.*
 - (g) *evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. In this context economic performance includes operating results and cash flows.*
- G27.10 If there is an indication that an asset may be impaired, this may indicate that the NPO should review the remaining **useful life**, the **depreciation (amortisation)** method or the **residual value** for the asset and adjust it in accordance with the section of this Guidance applicable to the asset (for example,

Section 17 and Section 18 *Intangible assets other than goodwill*), even if no impairment loss is recognised for the asset.

- G27.11 The recoverable amount of an asset or an operating unit is the higher of its fair value less costs to sell and its value in use. If it is not possible to estimate the recoverable amount of an individual asset, references in paragraphs G27.12–G27.20 to an asset should be read as references also to an asset's operating unit.
- G27.12 It is not always necessary to determine both an asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.
- G27.13 If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will often be the case for an asset that is held for disposal.

Fair value less costs to sell

- G27.14 Section 12 *Fair value measurement* provides guidance on fair value measurement.

Value in use

- G27.15 Value in use is the **present value** of the future cash flows, other economic benefits or service potential expected to be derived from an asset. This present value calculation involves the following steps:
- (a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal;
 - (b) estimating the economic benefit or service potential the NPO expects to derive from the asset; and
 - (c) applying the appropriate discount rate to those future cash flows.
- G27.16 The following elements shall be reflected in the calculation of an asset's value in use:
- (a) an estimate of the future cash flows, other economic benefits or service potential the NPO expects to derive from the asset;
 - (b) expectations about possible variations in the amount or timing of those future benefits;
 - (c) the time value of money, represented by the current market risk-free rate of interest;
 - (d) the price for bearing the uncertainty inherent in the asset; and
 - (e) other factors, such as illiquidity, that **market participants** would reflect in pricing the future cash flows the NPO expects to derive from the asset.
- G27.17 In measuring value in use, estimates of future cash flows shall include:
- (a) projections of cash inflows from the continuing use of the asset;
 - (b) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
 - (c) net cash flows, if any, expected to be received (or paid) for the disposal of the asset at the end of its useful life in an arm's length transaction between knowledgeable, willing parties.

The NPO may wish to use any recent financial budgets or forecasts to estimate the cash flows, if available. To estimate cash flow projections beyond the period covered by the most recent budgets or forecasts an NPO may wish to extrapolate the projections based on the budgets or forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified.

- G27.18 Estimates of future cash flows shall not include:
- (a) cash inflows or outflows from **financing activities**; or
 - (b) **income tax** receipts or payments.
- G27.19 Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:
- (a) a future restructuring to which an NPO is not yet committed; or
 - (b) improving or enhancing the asset's performance.
- G27.20 The discount rate (rates) used in the present value calculation shall be a pre-tax rate (rates) that reflect(s) current market assessments of:
- (a) the time value of money; and
 - (b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.
- The discount rate (rates) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted, to avoid double-counting.

Recognising and measuring an impairment loss for an operating unit

- G27.21 An impairment loss shall be recognised for an operating unit if, and only if, the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit in the following order:
- (a) first, to reduce the carrying amount of any **goodwill** allocated to the operating unit; and
 - (b) then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the operating unit.
- G27.22 However, an NPO shall not reduce the carrying amount of any asset in the operating unit below the highest of:
- (a) its fair value less costs to sell (if determinable);
 - (b) its value in use (if determinable); and
 - (c) zero.
- G27.23 Any excess amount of the impairment loss that cannot be allocated to an asset because of the restriction in paragraph G27.22 shall be allocated to the other assets of the unit pro rata on the basis of the carrying amount of those other assets.

Additional requirements for impairment of goodwill

- G27.24 Goodwill, by itself, cannot be sold. Nor does it generate cash flows to an entity that are independent of the cash flows of other assets. As a consequence, the fair value of goodwill cannot be measured directly. Consequently, the fair value of goodwill must be derived from measurement of the fair value of the operating unit(s) of which the goodwill is a part.
- G27.25 For the purpose of impairment testing, goodwill acquired in a **business combination** shall, from the acquisition date, be allocated to each of the **acquiring NPO's** operating units that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the **acquiree** are assigned to those units.
- G27.26 Part of the recoverable amount of an operating unit is attributable to the **non-controlling interest** in goodwill. For the purpose of impairment testing a non-wholly-owned operating unit with goodwill, the carrying amount of that unit is notionally adjusted, before being compared with its recoverable

amount, by grossing up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This notionally adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the operating unit is impaired.

- G27.27 If goodwill cannot be allocated to individual operating units (or groups of operating units) on a non-arbitrary basis, then for the purposes of testing goodwill the NPO shall test the impairment of goodwill by determining the recoverable amount of either:
- (a) the acquired entity in its entirety, if the goodwill relates to an acquired entity that has not been integrated (integrated means the acquired operation has been restructured or dissolved into the **reporting NPO** or other **controlled entities**); or
 - (b) the entire group of entities, excluding any entities that have not been integrated, if the goodwill relates to an entity that has been integrated.

In applying this paragraph, an NPO will need to separate goodwill into goodwill relating to entities that have been integrated and goodwill relating to entities that have not been integrated. Also, the NPO shall follow the requirements for operating units in this section when calculating the recoverable amount of, and allocating impairment losses and reversals to assets belonging to, the acquired entity or group of entities.

Reversal of an impairment loss

- G27.28 An impairment loss recognised for goodwill shall not be reversed in a subsequent period.
- G27.29 For all assets other than goodwill, an NPO shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Indications that an impairment loss may have decreased or may no longer exist are generally the opposite of those set out in paragraph G27.9. If any such indication exists, the NPO shall determine whether all or part of the prior impairment loss should be reversed. The procedure for making that determination will depend on whether the prior impairment loss on the asset was based on:
- (a) the recoverable amount of that individual asset (see paragraph G27.30); or
 - (b) the recoverable amount of the operating unit to which the asset belongs (see paragraph G27.31).

Reversal where recoverable amount was estimated for an individual impaired asset

- G27.30 When the prior impairment loss was based on the recoverable amount of the individual impaired asset, the following requirements apply:
- (a) the NPO shall estimate the recoverable amount of the asset at the current reporting date.
 - (b) if the estimated recoverable amount of the asset exceeds its carrying amount, the NPO shall increase the carrying amount to recoverable amount, subject to the limitation described in (c). That increase is a reversal of an impairment loss. The NPO shall recognise the reversal immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with the revaluation model in paragraph G17.18. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with paragraph G17.19.
 - (c) the reversal of an impairment loss shall not increase the carrying amount of the asset above the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.
 - (d) after a reversal of an impairment loss is recognised, the NPO shall adjust the depreciation (amortisation) charge for the asset in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal when recoverable amount was estimated for an operating unit

- G27.31 When the original impairment loss was based on the recoverable amount of the operating unit to which the asset belongs, the following requirements apply:
- (a) the NPO shall estimate the recoverable amount of that operating unit at the current reporting date.
 - (b) if the estimated recoverable amount of the operating unit exceeds its carrying amount, that excess is a reversal of an impairment loss. The NPO shall allocate the amount of that reversal to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets, subject to the limitation described in (c). Those increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and be recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with the revaluation model in paragraph G17.18. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with paragraph G17.19.
 - (c) in allocating a reversal of an impairment loss for an operating unit, the reversal shall not increase the carrying amount of any asset above the lower of:
 - (i) its recoverable amount; and
 - (ii) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.
 - (d) any excess amount of the reversal of the impairment loss that cannot be allocated to an asset because of the restriction in (c) shall be allocated pro rata to the other assets of the operating unit, except for goodwill.
 - (e) after a reversal of an impairment loss is recognised, if applicable, the NPO shall adjust the depreciation (amortisation) charge for each asset in the operating unit in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Disclosures

- G27.32 An NPO shall disclose the following for each **class of assets** indicated in paragraph G27.33:
- (a) the amount of impairment losses recognised in surplus or deficit during the period and the line item(s) in the **Statement of Income and Expenses**, in which those impairment losses are included; and
 - (b) the amount of reversals of impairment losses recognised in surplus or deficit during the period and the line item(s) in the Statement of Income and Expenses, in which those impairment losses are reversed.
- G27.33 An NPO shall disclose the information required by paragraph G27.32 for each of the following classes of asset:
- (a) **property, plant and equipment** (including investment property accounted for by the cost method);
 - (b) goodwill;
 - (c) **intangible assets** other than goodwill;
 - (d) investments in **associates**; and
 - (e) investments in **jointly controlled entities**.

Comparison of Section 27 with the *IFRS for SMEs Accounting Standard*

Section 27 of INPAG has been drawn from Section 27 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 27 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 27 of INPAG are as follows:

- The scope of inventory in Section 13 *Inventories* was broadened to include inventory held for distribution and specifically inventory held for distribution to service recipients at no or nominal consideration. Additional measurement requirements were included for these types of inventories. As a consequence a method of assessing the impairment of this type of inventory was added. Inventory held for distribution at no or nominal consideration is valued at the cost adjusted for any loss of service potential (adjusted cost).
- The term cash-generating unit is used in Section 27 of the *IFRS for SMEs Accounting Standard*. Many NPOs hold assets to deliver its missional objectives rather than to generate cash flows. As a consequence the term cash-generating unit has been broadened to include all activities and termed 'operating unit'.
- The description of value in use used in Section 27 of the *IFRS for SMEs Accounting Standard* has been broadened to include other economic benefits and service potential. This is consistent with the description of value in use in INPAG Section 2 *Concepts and pervasive principles*.
- With the inclusion of other economic benefits and service potential in the description of value in use an additional step has been added into the calculation of present value. NPOs are required to estimate future other economic benefit and service potential in carrying out such calculations.
- INPAG Section 27 uses different terminology, referring specifically to NPOs rather than entities more generally, and has been updated to align with other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Specific matter for comment

Question 8:	References
(a) Do you agree that inventory held for distribution is measured for impairment using cost adjusted for any loss of service potential? If not, what would you change and why?	G27.2–G27.4
(b) Do you agree that the term operating unit better reflects the nature of an NPO's operation and with its proposed definition? If not, what alternative term would you use and why?	G27.8
(c) Do you agree that impairments to assets that form an operating unit can take account of other economic benefits and service potential? If not, what would you change and why?	G27.15

Sections 28–32

Section	
28	Employee benefits
29	Income tax
30	Foreign currency translation
31	Hyperinflation
32	Events after the end of the reporting period

Section 28–32 were included in **ED2**, which closed for comment on 15 March 2024.

Consequential amendments to Section 28 arising from the development of Section 24 Part II *Classification of expenses* have been made. These relate to the disclosure of short-term employee benefits.

In addition, Section 30 has been updated from that included in ED2 to reflect the content of the Addendum to the draft Third edition of the *IFRS for SMEs Accounting Standard* issued on 28 March 2024. The added content relates to lack of exchangeability.

Section 28 – Employee benefits

As part of the development of the content of ED3 consequential amendments are proposed to the disclosure of short-term employee benefits. New text is underlined. Removed text is ~~struck through~~.

Disclosures

Disclosures about short-term employee benefits

G28.38 ~~This section does not require specific disclosures about short-term employee benefits. Disclosure shall be made for each of the following short-term employee benefits that are recognised as an expense in the reporting period:~~

- (a) wages, salaries and social security contribution;
- (b) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services (other than those provided on the same terms as other eligible service recipients) for current employees;
- (c) bonuses paid within 12 months after the end of the reporting period in which the employees render the related service; and
- (d) other staff-related statutory or contractual costs.

Short-term employee benefits shall be disclosed separately from other employee benefits. **Termination benefits** shall be reported in accordance with paragraph G28.47. The cost of pension arrangements shall be reported in accordance with paragraphs G28.39 (defined contribution plans) and G28.40 (defined benefit plans).

G28.38A Members of the NPO's governing body are not considered employees for the purposes of this disclosure and their personnel compensation and expenses are to be disclosed in accordance with paragraph G33.7.

Comparison of Section 28 consequential amendments with the *IFRS for SMEs Accounting Standard*.

Section 28 of INPAG has been drawn from Section 28 of the *IFRS for SMEs Accounting Standard*. The main difference to the comparison provided in ED2 is as follows:

- A new disclosure has been added requiring information about short-term employee benefits. This covers the major categories of employee expenses including salaries, wages, taxes and national insurance, as well as bonuses and non-cash benefits and other staff related statutory or contractual costs.

Specific matter for comment

Question 2

(c) Do you agree with the proposed expense disclosure requirements? If not, what would you change and why?

References

G28.38

Section 30 – Foreign currency translation

Paragraph G30.5A (including its related heading) and paragraphs G30.31–30.32 are added.

Reporting foreign currency transactions in the functional currency

Estimating the spot exchange rate when a currency is not exchangeable (paragraphs AG30.37–AG30.43)

G30.5A If, at a measurement date, a currency is not exchangeable into another currency (as described in paragraphs AG30.27–AG30.36), an NPO shall estimate the spot exchange rate at that date. An NPO's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

...

Disclosures

...

G30.31 When an NPO estimates a spot exchange rate because a currency is not exchangeable into another currency (see paragraph G30.5A), the NPO shall disclose:

- the currency and a description of the restrictions that result in that currency not being exchangeable into the other currency;
- a description of affected transactions;
- the carrying amount of affected assets and liabilities;
- the spot exchange rates used and whether those rates are:
 - observable exchange rates without adjustment (see paragraphs AG30.38–AG30.42); or
 - spot exchange rates estimated using another estimation technique (see paragraph G30.43); and
- information about the estimation process, including qualitative and quantitative information about the inputs and assumptions used.

G30.32 When a foreign operation's functional currency is not exchangeable into an NPO's presentation currency or the presentation currency is not exchangeable into a foreign operation's functional currency, an NPO shall disclose:

- (a) the name of the foreign operation; whether the foreign operation is a controlled entity, joint arrangement, associate or branch; and its principal place of business;
- (b) summarised financial information about the foreign operation; and
- (c) the nature and terms of any contractual arrangements that could require the NPO to provide financial support to the foreign operation, including events or circumstances that could expose the NPO to a loss.

Application Guidance: Section 30 – Foreign currency translation

Paragraphs AG30.26–AG30.48 are added.

Exchangeability

AG30.26 The purpose of this application guidance is to help entities assess whether a currency is exchangeable (see paragraphs AG30.27–AG30.36) and estimate the spot exchange rate when a currency is not exchangeable (see paragraphs AG30.37–AG30.43).

Step I: Assessing whether a currency is exchangeable

AG30.27 A currency is exchangeable into another currency when an NPO is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. An NPO assesses whether a currency is exchangeable into another currency:

- (a) at a measurement date; and
- (b) for a specified purpose.

AG30.28 If an NPO is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency.

AG30.29 An NPO might determine that a currency is not exchangeable into another currency, even though that other currency might be exchangeable in the other direction. For example, an NPO might determine that currency PC is not exchangeable into currency LC, even though currency LC is exchangeable into currency PC.

Time frame

AG30.30 A spot exchange rate is the exchange rate for immediate delivery. However, an exchange transaction might not always complete instantaneously because of legal or regulatory requirements, or for practical reasons such as public holidays. A normal administrative delay in obtaining the other currency does not preclude a currency from being exchangeable into that other currency. What constitutes a normal administrative delay depends on the facts and circumstances surrounding the exchange transaction.

Ability to obtain the other currency

AG30.31 In assessing whether a currency is exchangeable into another currency, an NPO shall consider its ability to obtain the other currency (either directly or indirectly), instead of its intention or decision to do so. For example, subject to the other requirements in paragraphs AG30.27–AG30.36, regardless of whether the NPO intends or decides to obtain currency PC, currency LC is exchangeable into currency PC if the NPO is able either (directly) to exchange LC for PC, or (indirectly) to exchange LC for another currency (FC) and then exchange FC for PC.

Markets or exchange mechanisms

AG30.32 In assessing whether a currency is exchangeable into another currency, an NPO shall consider only markets or exchange mechanisms in which a transaction to exchange the currency for the other currency would create enforceable rights and obligations. Enforceability is a matter of law. Whether an exchange transaction in a market or exchange mechanism would create enforceable rights and obligations depends on the facts and circumstances surrounding the exchange transaction.

Purpose of obtaining the other currency

AG30.33 Exchange rates might vary depending on how the currency is to be used. For example, the relevant authorities of a jurisdiction might set a preferential exchange rate for imports of specific goods and a 'penalty' exchange rate for dividend payments to other jurisdictions.

AG30.34 Accordingly, whether a currency is exchangeable into another currency could depend on the purpose for which an NPO obtains (or hypothetically might need to obtain) the other currency. In assessing exchangeability, an NPO shall assume its purpose in obtaining the other currency is:

- (a) to realise or settle individual foreign currency transactions, assets or liabilities when the NPO reports foreign currency transactions in its functional currency (see paragraphs G30.6–G30.12 and G30.15–G30.17).
- (b) to realise or settle its net assets or net liabilities when the NPO uses a presentation currency other than its functional currency (see paragraphs G30.18–G30.22). The NPO's net assets might be realised by, for example, distributions to holders of equity claims.
- (c) to realise or settle its net investment in the foreign operation when the NPO translates the results and financial position of a foreign operation into a presentation currency (see paragraphs G30.23–G30.24). The NPO's beneficial interest in a foreign operation might be realised by, for example, receipt of distributions from the foreign operation or disposal of its beneficial interest in the foreign operation.

AG30.35 An NPO shall assess whether a currency is exchangeable into another currency separately for each purpose specified in paragraph AG30.34.

Ability to obtain only limited amounts of the other currency

AG30.36 A currency is not exchangeable into another currency at the measurement date if, for a purpose specified in paragraph AG30.34, an NPO is able to obtain no more than an insignificant amount of the other currency. For example, an NPO with a functional currency of LC has liabilities denominated in currency FC. The NPO assesses whether the total amount of FC it can obtain for the purpose of settling those liabilities is no more than an insignificant amount compared with the aggregated amount (the sum) of its liability balances denominated in FC.

Step II: Estimating the spot exchange rate when a currency is not exchangeable (paragraph G30.5A)

AG30.37 This Guidance does not specify how an NPO estimates the spot exchange rate when a currency is not exchangeable. In estimating the spot exchange rate to meet the objective in paragraph G30.5A, an NPO is permitted to use either:

- (a) an observable exchange rate without adjustment (see paragraphs AG30.38–AG30.42); or
- (b) another estimation technique (see paragraph AG30.43).

Using an observable exchange rate without adjustment

AG30.38 Examples of an unadjusted observable exchange rate include:

- (a) a spot exchange rate for a purpose other than that for which an NPO assesses exchangeability (see paragraphs AG30.39–AG30.40); and
- (b) the first exchange rate at which an NPO is able to obtain the other currency for the specified purpose after exchangeability of the currency is restored (first subsequent exchange rate) (see paragraphs AG30.41–AG30.42).

Using an observable exchange rate for another purpose

AG30.39 A currency that is not exchangeable into another currency for one purpose might be exchangeable into that currency for another purpose. For example, an NPO might be able to obtain a currency to import specific goods but not to pay dividends. In such situations, the NPO might conclude that an observable exchange rate for another purpose meets the objective described in paragraph G30.5A.

AG30.40 An observable exchange rate for another purpose might not reflect the prevailing economic conditions when, for example:

- (a) it includes an 'incentive' or 'penalty' set to encourage, or deter, NPOs from obtaining the other currency for particular purposes;
- (b) an NPO is able to obtain the other currency only for limited purposes (such as to import emergency supplies);
- (c) it is set through regular interventions by the relevant authorities; or
- (d) it is unchanged over time instead of being updated daily (or even more frequently).

Using the first subsequent exchange rate

AG30.41 A currency that is not exchangeable into another currency at the measurement date for a specified purpose might subsequently become exchangeable into that currency for that purpose. In such situations, an NPO might conclude that the first subsequent exchange rate meets the objective described in paragraph G30.5A.

AG30.42 The first subsequent exchange rate might not reflect the prevailing economic conditions when, for example:

- (a) the date at which exchangeability is restored is long after the measurement date; or
- (b) an economy is subject to hyperinflation or high inflation and prices often change quickly, perhaps several times a day.

Using another estimation technique

AG30.43 An NPO using another estimation technique is permitted to use any observable exchange rate – including rates from exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations – and adjust that rate, as necessary, to meet the objective described in paragraph G30.5A.

Comparison of Section 30 additions with the IFRS for SMEs Accounting Standard.

Section 30 of INPAG has been drawn from Section 30 of the *IFRS for SMEs Accounting Standard*. This Section was updated following the decision by the International Accounting Standards Board to extend the scope of the Second Comprehensive Review of the *IFRS for SMEs Accounting Standard*. The main differences to the *IFRS for SMEs Accounting Standard* are as follows:

- References to dividend payments made to shareholders and the disposal of investments in NPOs to realise or settle currency transactions has been amended to align with the characterisation of equity claims in INPAG.
- Minor amendments have been made to reflect the terminology used in other sections of INPAG.
- The paragraph numbers have been updated to follow those used in Section 30 of INPAG.

Specific matter for comment

Question 11

(a) Do you agree that the guidance on lack of exchangeability is useful and relevant to NPOs? If not, what would you change and why?

References

G30.5A, G30.31–
G30.32, AG30.26–
AG30.43

Section 33 – Related party disclosures

Scope of this section

G33.1 This section requires an NPO to include in its **financial statements** the disclosures necessary to draw attention to the possibility that its **financial position** and **surplus or deficit** have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Related party defined

G33.2 A **related party** is a person or entity that is related to the NPO that is preparing its financial statements (the **reporting NPO**):

- (a) a person or a **close member of that person's family** is related to a reporting NPO if that person:
 - (i) is a member of the key management personnel of the reporting NPO or of an entity that **controls** the reporting NPO;
 - (ii) is a member of the reporting NPO's governing body (paid or not) which provides oversight of the NPO's activities;
 - (iii) has control or **joint control** over the reporting NPO; or
 - (iv) has significant influence over the reporting NPO.
- (b) an entity is related to a reporting NPO if any of the following conditions applies:
 - (i) the entity and the reporting NPO are members of the same **group** (which means that each **controlling NPO**, and any **controlled entity**, is related to the others).
 - (ii) the entity is an **associate** or **jointly controlled** by the reporting NPO (or an associate or jointly controlled entity of a member of a group of which the reporting NPO is a member).
 - (iii) both entities are jointly controlled entities of the same third entity.
 - (iv) one entity is a jointly controlled entity of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a **post-employment benefit plan** for the benefit of employees of either the reporting NPO or an entity related to the reporting NPO. If the reporting NPO is itself such a plan, the sponsoring employers are also related to the reporting NPO.
 - (vi) the NPO is controlled or jointly controlled by a person identified in (a).
 - (vii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting NPO or to the **parent** of the reporting NPO.
 - (viii) a person identified in (a)(iii) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

G33.3 In considering each possible related party relationship, an NPO shall assess the substance of the relationship and not merely the legal form. This includes an assessment of the characteristics of the NPO's governance arrangements.

G33.4 In the context of this Guidance, the following are not necessarily related parties:

- (a) two NPOs simply because they have members of key management personnel in common;
- (b) two parties simply because they share joint control over a jointly controlled NPO;

- (c) any of the following simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an NPO or participate in its decision-making process):
 - (i) providers of finance;
 - (ii) trade unions;
 - (iii) public utilities; or
 - (iv) government departments and agencies.
- d) a **customer, grant provider**, supplier, franchisor, distributor or general agent with whom an NPO transacts a significant volume of business, merely by virtue of the resulting economic dependence.

Disclosures

Disclosure of controlling party relationships

G33.5 Relationships between a controlling NPO and its controlled entities shall be disclosed irrespective of whether there have been **related party transactions**. An NPO shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the NPO's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so (if any) shall also be disclosed.

Disclosure of key management personnel compensation

G33.6 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the NPO, directly or indirectly, including any director (whether executive or otherwise) of that NPO. Compensation includes all **employee benefits** (as defined in Section 28 *Employee benefits*). Employee benefits include all forms of consideration paid, payable or provided by the NPO, or on behalf of the NPO (for example, by its parent), in exchange for services rendered to the NPO. It also includes such consideration paid on behalf of a parent of the NPO in respect of goods or services provided to the NPO.

G33.7 An NPO shall disclose key management personnel compensation in total.

Disclosure of governing body member compensation

G33.8 Governing body members are those persons having authority and responsibility for oversight of the NPO's activities (whether paid or not). Compensation includes all **employee benefits** (as defined in Section 28 *Employee benefits*). Employee benefits include all forms of consideration paid, payable or provided by the NPO, or on behalf of the NPO (for example, by its parent), in exchange for services rendered to the NPO. It also includes such consideration paid on behalf of a parent of the NPO in respect of goods or services provided to the NPO.

G33.9 A disclosure shall be made in the **notes** to the financial statements that either:

- (a) none of the members of the governing body have been paid any compensation (see paragraph G33.8) or benefits from employment with the NPO; or
- (b) one or more of the members of the governing body has been paid compensation or other benefits from employment with the NPO.

- G33.10 Where paragraph G33.8(b) is required to be followed, the disclosure shall include:
- (a) who was paid and the nature of the work for which they were paid;
 - (b) the amounts paid broken down into salary, pension, other benefits;
 - (c) the legal arrangement for payment, ie employment or self-employed services and how this is distinguished from any governance role within the NPO; and
 - (d) confirmation that the NPO is allowed to make such payments under law/constitution.
- G33.11 Where any member of the governing body has claimed expenses, then the disclosure shall include:
- (a) how many members have been paid; and
 - (b) the value of expenses paid where **material**, with disclosure of expenses by natural category.
- G33.12 An NPO that obtains key management personnel services from another entity (management entity) is not required to make any disclosure that might otherwise be required by paragraph G33.7 in relation to the compensation paid or payable by the management entity to the management entity's employees or directors. However, the amounts incurred by an NPO for the provision by a separate management entity of such services shall be disclosed.

Disclosure of related party transactions

- G33.13 A related party transaction is a transfer of resources, services or obligations between a reporting NPO and a related party, regardless of whether a price is charged. Examples of related party transactions that are common to NPOs include, but are not limited to:
- (a) transactions between an NPO and those that have **equity claims**;
 - (b) transactions between an NPO and another entity when both entities are under the common control of a single entity or person; and
 - (c) transactions in which an entity or governing body member and/or key management personnel of the reporting NPO incurs **expenses** directly that otherwise would have been borne by the reporting NPO.
- G33.14 If an NPO has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements in paragraphs G33.7 and G33.9–G33.10 to disclose key management personnel and governing body member compensation including expenses. At a minimum, disclosures shall include:
- (a) the amount of the transactions;
 - (b) the amount of outstanding balances and commitments and:
 - (i) their terms and conditions, including whether they are secured and the nature of the consideration to be provided in settlement; and
 - (ii) details of any guarantees given or received.
 - (c) **provisions** for uncollectable receivables related to the amount of outstanding balances; and
 - (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

Such transactions could include **income** or expense items, transfers (or donations) of goods, services; **leases**; guarantees; and settlements by the NPO on behalf of the related party or vice versa.

- G33.15 An NPO shall make the disclosures required by paragraph G33.13 separately for each of the following categories:
- (a) entities or individuals with control, joint control or significant influence over the NPO;
 - (b) entities over which the NPO has control, joint control or significant influence;

- (c) key management personnel and governing body members of the NPO or its parent (in the aggregate); and
 - (d) other related parties.
- G33.16 An NPO is exempt from the disclosure requirements of paragraph G33.13 in relation to related party transactions and outstanding balances, including commitments, with:
- (a) a **government** that has control, joint control or significant influence over the reporting NPO; and
 - (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting NPO and the other entity.
- G33.17 The following are examples of transactions that shall be disclosed if they are with a related party:
- (a) purchases or sales of goods (finished or unfinished);
 - (b) donations;
 - (c) purchases or sales of property and other **assets**;
 - (d) rendering or receiving of services;
 - (e) leases;
 - (f) transfers of **research and development**;
 - (g) transfers under license agreements;
 - (h) transfers under finance arrangements (including loans and equity contributions in **cash** or in kind);
 - (i) provision of guarantees or collateral;
 - (j) commitments to do something if a particular event occurs or does not occur in the future;
 - (k) settlement of **liabilities** on behalf of the NPO or by the NPO on behalf of another party; and
 - (l) participation in a **defined benefit plan** that shares risks between the reporting NPO and other entities in the group.
- G33.18 Transactions with a governing body member need not be disclosed where the governing body member:
- (a) makes a donation, provided that this is an arm's length transaction and have not required the NPO to amend its normal activities, eg use certain suppliers or sources of inputs;
 - (b) is a recipient of services made in accordance with the NPO's primary purpose, where the services are provided on the same terms as other eligible **service recipients**.
- G33.19 An NPO shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.
- G33.20 An NPO may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the NPO.
- G33.21 If a reporting NPO applies the exemption in paragraph G33.15, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph G33.15:
- (a) the name of the government and the nature of its relationship with the reporting NPO (that is, control, joint control or significant influence);
 - (b) the nature and amount of each individually significant transaction;
 - (c) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent. Types of transactions include those listed in paragraph G33.16.

Application Guidance: Section 33 – Related party disclosures

Related parties for NPOs

- AG33.1 NPOs often have a separate governing body exercising authority, separately from the executive officers. Such members of governing bodies may be connected to counterparts, eg with funders or other NPOs, which is common in the sector to leverage co-operation. Transactions between NPOs with connected governing body members are related party transactions. This is because it is important for users of financial statements to understand where such links exist.
- AG33.2 While in some jurisdictions it is not legal to compensate the governing body members for their governing body membership, in others it may be customary practice to do so. In either case it is necessary to make disclosures to show no potential for a conflict of interest. Paragraphs G33.8–G33.10 therefore require the disclosure of personnel compensation, other benefits or employment and expenses claimed.
- AG33.3 Paragraph G33.15 provides exemptions from reporting related party transactions with government entities. This exemption has been provided to reduce the potential burden of reporting such transactions. NPO's may report such transactions where this is important to the understanding of the NPO's financial position.
- AG33.4 Paragraph G33.17(a) permits donations from a governing body member to not be included as a related party transaction, provided there are no obligations for the NPO to vary its normal activities beyond those that would be required in an arm's length transaction. Grant arrangements that include any form of obligation on the NPO to undertake to deliver specified outputs, carry out specified activities or use resources in a specified way will create a unique obligation. Paragraph G33.17(a) will therefore not apply to such arrangements.

Comparison of Section 33 with the *IFRS for SMEs Accounting Standard*

Section 33 of INPAG has been drawn from Section 33 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 33 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 33 of INPAG are as follows:

- The description of related parties has been broadened to specifically include members of a reporting NPO's governing body (paid or not) who provide oversight of the NPO's activities.
- The scope of possible related party transactions has been widened in paragraph G33.3 to include an assessment of the characteristics of an NPO's governance arrangements as these can take a variety of forms.
- INPAG Section 33 requires that the NPO shall disclose details of the personnel compensation paid to governing board members (if any) and the legal basis of those payments. There is also a requirement to disclose the nature and amount of all out-of-pocket expenses reimbursed.
- Where a governing body member makes a donation that does not create obligations for the NPO to amend its normal activities beyond those that would be required in an arm's length transaction, the transaction does not need to be disclosed.
- Similarly, services received in accordance with an NPO's primary purpose and that are provided on the same terms as any other eligible individual or entity do not need to be disclosed.
- The type of relationships that might not be a related party relationship has been widened to include grant providers.
- The wording in paragraphs G33.2 and G33.16 has been slightly amended such that in paragraph G33.2 'controlled entity and fellow controlled entities' is replaced with 'any controlled entities' to encompass them both. In paragraph G33.16 the words 'parent and subsidiary' have been removed in the context of participation in shared benefit plans as this is clear in the description of the entities that participate in the sharing of risks.
- The disclosures in paragraph G33.14(a) have been broadened from only entities to also include individuals with control, joint control or significant influence, reflecting the broader nature of those who might hold equity claims.
- INPAG Section 33 uses different terminology, referring specifically to NPOs rather than entities more generally, and has been updated to be consistent with other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Specific matter for comment

Question 2:	References
(d) Do you agree with the proposed expense disclosure requirements? If not, what would you change and why?	G33.7–G33.11
(i) Do you agree that donations or grants or donations made in arm's length transactions with governing body members and any services they receive on the same terms as other eligible service recipients need not to be disclosed as a related party transaction? If not, why not?	G33.18(a)–G33.18(b)

Section 34 – Specialised activities

Scope of this section

G34.1 This section provides guidance on financial reporting by NPOs involved in three types of specialised activities – agriculture, extractive activities and service concessions.

Agriculture

G34.2 An NPO applying this Guidance that is engaged in **agricultural activity** shall determine its accounting policy for each class of its **biological assets**, except for **bearer plants** that can be measured separately from the produce on them without undue cost or effort, as follows:

- (a) the NPO shall use the **fair value** model in paragraphs G34.6–G34.9 for those biological assets for which fair value is readily determinable without undue cost or effort; and
- (b) the NPO shall use the cost model in paragraphs G34.10–G34.12 for all other biological assets.

G34.3 This section does not apply to bearer plants that can be measured separately from the produce on them without undue cost or effort (see Section 17 *Property, plant and equipment*). However, this section applies to the produce on those bearer plants. If bearer plants cannot be measured separately from the produce on them without undue cost or effort, this section applies to the entire plant.

G34.4 The following are not bearer plants:

- (a) plants cultivated to be harvested as **agricultural produce** (for example, trees grown for use as lumber or trees that are cultivated both for their fruit and their lumber); and
- (b) annual crops (for example, maize and wheat).

Recognition

G34.5 An NPO shall recognise a biological asset or agricultural produce when, and only when:

- (a) the NPO controls the **asset** as a result of past events;
- (b) it is **probable** that future economic benefits associated with the asset will flow to the NPO; and
- (c) the fair value or cost of the asset can be measured reliably without undue cost or effort.

Measurement – fair value model

G34.6 An NPO shall **measure** a biological asset on initial **recognition** and at each **reporting date** at its fair value less costs to sell. Changes in fair value less costs to sell shall be recognised in **surplus or deficit**.

G34.7 Agricultural produce harvested from an NPO's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying Section 13 *Inventories* or another applicable section of this Guidance.

G34.8 Section 12 *Fair value measurement* provides guidance on determining fair value measurement.

Disclosures – fair value model

G34.9 An NPO shall disclose the following with respect to its biological assets measured at fair value:

- (a) a description of each class of its biological assets.

- (b) a reconciliation of changes in the **carrying amount** of biological assets between the beginning and the end of the current period. The reconciliation shall include:
- (i) the gain or loss arising from changes in fair value less costs to sell;
 - (ii) increases resulting from purchases;
 - (iii) decreases resulting from harvest;
 - (iv) increases resulting from **business combinations**;
 - (v) net exchange differences arising on the translation of **financial statements** into a different **presentation currency** and on the translation of a **foreign operation** into the presentation currency of the **reporting entity**; and
 - (vi) other changes.

This reconciliation need not be presented for prior periods.

Measurement – cost model

- G34.10 The NPO shall measure at cost less any accumulated **depreciation** and any accumulated **impairment** losses those biological assets whose fair value is not readily determinable without undue cost or effort.
- G34.11 The NPO shall measure agricultural produce harvested from its biological assets at fair value less estimated costs to sell at the point of harvest. Such measurement is the cost at that date when applying Section 13 or other sections of this Guidance.

Disclosures – cost model

- G34.12 An NPO shall disclose the following with respect to its biological assets measured using the cost model:
- (a) a description of each class of its biological assets;
 - (b) an explanation of why fair value cannot be measured reliably without undue cost or effort;
 - (c) the depreciation method used;
 - (d) the useful lives or the depreciation rates used; and
 - (e) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

Exploration for and evaluation of mineral resources

- G34.13 An NPO using this Guidance that is engaged in the exploration for, or evaluation of, mineral resources shall determine an accounting policy that specifies which expenditures are recognised as exploration and evaluation assets in accordance with paragraph G10.4 and apply the policy consistently. An entity is exempt from applying paragraph G10.5 to its **accounting policies** for the recognition and measurement of exploration and evaluation assets.
- G34.14 The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):
- (a) acquisition of rights to explore;
 - (b) topographical, geological, geochemical and geophysical studies;
 - (c) exploratory drilling;
 - (d) trenching;
 - (e) sampling; and
 - (f) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets.

- G34.15 Exploration and evaluation assets shall be measured on initial recognition at cost. After initial recognition, an NPO shall apply Section 17 and Section 18 *Intangible assets other than goodwill* to the exploration and evaluation assets according to the nature of the assets acquired subject to paragraphs G34.17–G34.19. If an NPO has an obligation to dismantle or remove an item, or to restore the site, such obligations and costs are accounted for in accordance with Section 17 and Section 21 *Provisions and contingencies*.
- G34.16 Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its **recoverable amount**. An NPO shall measure, present and disclose any resulting impairment loss in accordance with Section 27 *Impairment of assets*, except as provided by paragraph G34.19.
- G34.17 For the purposes of exploration and evaluation assets only, paragraph G34.18 shall be applied instead of paragraphs G27.7–G27.10 when identifying an exploration and evaluation asset that may be impaired. Paragraph G34.18 uses the term ‘assets’ but applies equally to separate exploration and evaluation assets or an **operating unit**.
- G34.18 One or more of the following facts and circumstances indicate that an NPO should test exploration and evaluation assets for impairment (the list is not exhaustive):
- (a) the period for which the NPO has the right to explore in the specific area has expired during the period, or will expire in the near future, and is not expected to be renewed;
 - (b) substantive expenditure on further exploration for, and evaluation of, mineral resources in the specific area is neither budgeted nor planned;
 - (c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the NPO has decided to discontinue such activities in the specific area; or
 - (d) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.
- The NPO shall perform an impairment test, and recognise any impairment loss, in accordance with Section 27.
- G34.19 An NPO shall determine an accounting policy for allocating exploration and evaluation assets to operating units or groups of operating units for the purpose of assessing such assets for impairment.
- G34.20 An NPO shall treat exploration and evaluation assets as a separate **class of assets** and make the disclosures required by either Section 17 or Section 18 consistent with how the assets are classified.

Service concession arrangements

- G34.21 A service concession arrangement is an arrangement whereby a **government** or other public sector body (the grantor) **contracts** with a private operator to develop (or upgrade), operate and maintain the grantor’s infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals. In those arrangements, the grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.
- G34.22 There are two principal categories of service concession arrangements:
- (a) in one, the operator receives a **financial asset** – an unconditional contractual right to receive a specified or determinable amount of **cash** or another financial asset from the government in return for constructing or upgrading a public sector asset, and then operating and maintaining the asset for a specified period of time. This category includes guarantees by the government to pay for any shortfall between amounts received from users of the public service and specified or determinable amounts.

- (b) in the other, the operator receives an **intangible asset** – a right to charge for use of a public sector asset that it constructs or upgrades and then operates and maintains for a specified period of time. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service.

Sometimes, a single contract may contain both types: to the extent that the government has given an unconditional guarantee of payment for the construction of the public sector asset, the operator has a financial asset; to the extent that the operator has to rely on the public using the service in order to obtain payment, the operator has an intangible asset.

Accounting – financial asset model

G34.23 The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The operator shall measure the financial asset at fair value. Thereafter, it shall follow Section 11 *Financial instruments* in accounting for the financial asset.

Accounting – intangible asset model

G34.24 The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. The operator shall initially measure the intangible asset at fair value. Thereafter, it shall follow Section 18 in accounting for the intangible asset.

Operating revenue

G34.25 The operator of a service concession arrangement shall recognise, measure and disclose **revenue** in accordance with Section 23 *Revenue* for the services it performs.

Comparison of Section 34 with the *IFRS for SMEs Accounting Standard*

Section 34 of INPAG has been drawn from Section 34 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 34 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 34 of INPAG are as follows:

- INPAG Section 34 uses different terminology, referring specifically to NPOs rather than entities more generally, and has been updated to be consistent with other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Specific matter for comment

Question 10:

(b) Is any of the guidance in Section 34 needed by NPOs? If yes, which elements of the section are needed and why?

References

Section 34

Section 35 – Narrative reporting

Section 35 *Narrative reporting* was included in **ED1**, which closed for comment on 31 March 2023.

Section 36 – Fund accounting

Scope of this Section

- G36.1 Fund accounting is one of the key concepts in this Guidance. All 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 uses the term general fund. Unless other funds exist, the general fund will contain all of the historic surpluses and deficits of an NPO.
- G36.2 This Section sets out the characteristics of a fund for the purposes of INPAG 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:
- (a) an operating choice by an NPO about how it manages itself;
 - (b) a requirement as a result of jurisdictional law relating to NPOs;
 - (c) a legal or equivalent requirement arising from arrangements with grantors or donors; or
 - (d) a result of the publicly communicated actions by the NPO that have created reasonable expectations that resources will be used for a specific purpose.
- G36.4 For the purposes of INPAG a separate fund will exist where:
- (a) there is a legal or equivalent requirement to separately track resources and the use of those resources; or
 - (b) there are reasonable expectations by an individual stakeholder or a group of stakeholders that resources used for a specific set of activities will be tracked.
- G36.5 Separate accounting records shall be kept for sets of activities identified in paragraph G36.4, comprising each fund's **income, expenses, assets and liabilities**.
- 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 **funds with restrictions** or **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 funds with restrictions (see paragraphs G36.9–G36.13) or part of funds without restrictions (see paragraphs G36.14–G36.17).

Funds with restrictions

- G36.9 A fund shall be presented as a fund with restrictions when one of the following criteria are met:
- (a) use of the resources in the fund is limited to a specific purpose or activity as a consequence of externally imposed legal or equivalent arrangements. 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

(b) an NPO has made an externally communicated public commitment at or before the launch of a fundraising campaign that the resources obtained through the campaign will be used for a specific purpose creating a valid expectation on the use of those resources.

- G36.10 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 AG36.1 sets out the key decision points.
- G36.11 A reasonable allocation of support costs associated with managing the fund shall be charged to a fund, even if inclusion of such costs is not permitted under the terms of any arrangement that has resulted in the creation of a fund.
- G36.12 A restricted fund shall show all of the transactions related to its specific purpose. The legitimate expenses attributable to a restricted fund shall be charged to the fund even if there is an insufficient balance on that fund at that time to fund all the expenses. Such expenses shall only be charged to the fund if the specific purpose for which the fund was created is not yet complete. Negative balances shall be reviewed at the reporting date to determine if it is a temporary shortfall that will be addressed in a future **reporting period** or whether it is a permanent shortfall that needs to be addressed by the NPO transferring funds from funds without restrictions.
- G36.13 When a fund that was previously presented as with restrictions 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 funds without restrictions and the fund closed where this is legally permissible. Where not currently legally permissible the balance on the fund will be reported until it can be closed.

Funds without restrictions

- G36.14 Funds without restrictions are those funds that can be used at the discretion of the governing body of an NPO to further its missional purposes. The general fund is a fund without restrictions.
- G36.15 An NPO's governing body can designate funds for 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. These internally designated funds shall be presented as funds without restrictions as the NPO's governing body has the discretion to alter any such allocations.
- G36.16 Funds without restrictions shall include:
- (a) any fund that has been created by internal designation by an NPO's governance body; and
 - (b) any other fund that is not presented as a fund with restrictions.
- G36.17 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 reserves shall be treated as unrestricted unless any reserve movement relates to a fund with restrictions. In these circumstances the reserve shall be split to show any element that is restricted. These reserves shall be shown separately to funds with restrictions and funds without restrictions.

Transfers between funds

- G36.18 A transfer between funds may only be made where this is legally permissible.
- G36.19 A transfer between funds with restrictions and funds without restrictions may be made for several reasons, including:
- (a) to make good the shortfall on a fund with restrictions;
 - (b) to transfer a non-current asset purchased from a fund with restrictions that is now held for a general rather than a restricted purpose;

- (c) where the balance on a fund with restrictions has been released by the grantor or donor and can be used for any purpose; or
- (d) where the balance on a fund with restrictions can be used for an alternative purpose without legal or regulatory consequences.

G36.20 The total transfers recorded between funds with restrictions and funds without restrictions in the reporting period shall always net to nil.

Disclosures

G36.21 In deciding on the most suitable form of presentation, consideration shall be given to the volume and complexity of the funds held by the NPO.

G36.22 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 G36.21(a), and reconciling the opening and closing fund balances;
- (c) details of the reasons for any transfers between funds with restrictions and funds without restrictions;
- (d) an explanation of balances on any fund with restrictions where the purpose of the fund has ceased and the balance has not or cannot be transferred to funds without restrictions; and
- (e) details of the planned use of any designated funds (where disclosed), explaining the purpose of the designation.

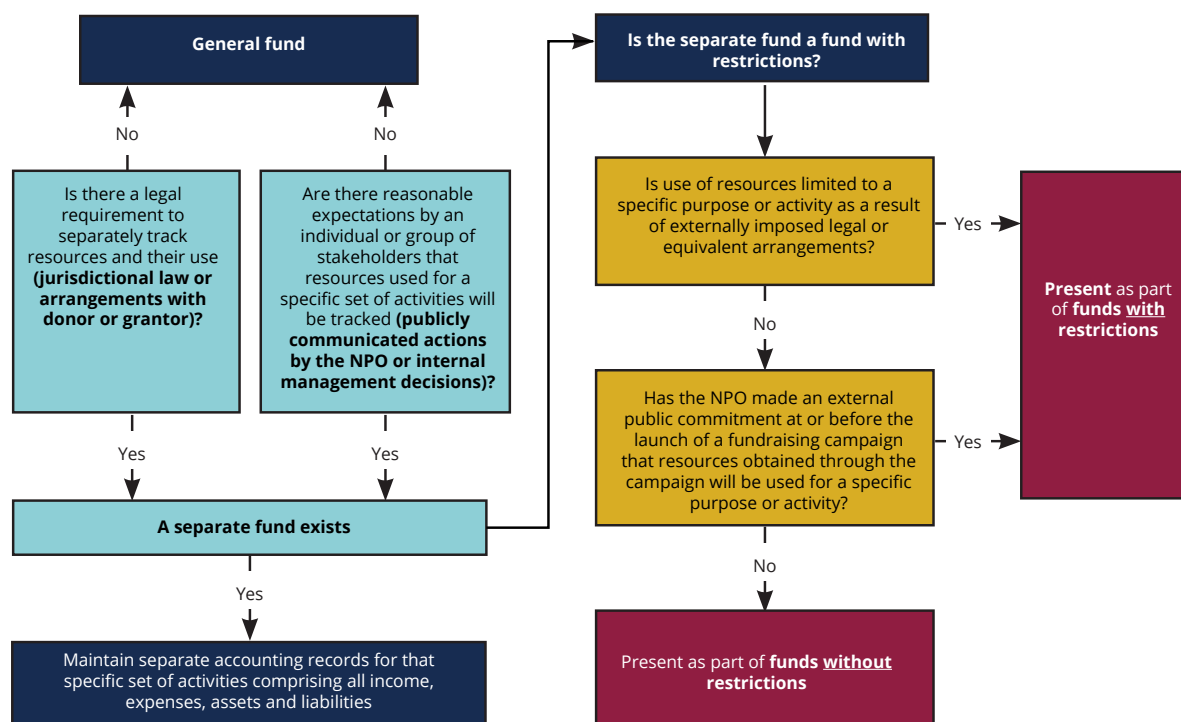
G36.23 Small funds that are individually immaterial may be aggregated where they have a similar purpose. If it is not possible to aggregate small funds they shall be shown individually.

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.
- AG36.13 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.
- AG36.14 At each reporting date the balance on the fund shall be assessed to determine whether there is a permanent or temporary shortfall. Where future income is not likely to be received to cover the shortfall, the NPO shall make good the shortfall from its own resources and disclose the reasons for this shortfall in line with paragraph G36.22(c).
- AG36.15 A non-current asset may be funded through a fundraising campaign, or through a grant or donation. In determining whether the asset is part of a fund with or without restrictions, any terms attached to the acquisition of the asset shall be considered. 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 fund with restrictions to a fund without restrictions.

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 period.

Specific matter for comment	
<p>Question 1:</p> <p>b) Do you agree that the guidance in Section 36 will ensure that material funds can be identified? If not, what changes would you propose? Is there a risk that funds are not identified?</p> <p>c) Do you agree that income, expenses, assets and liabilities are tracked for each fund? What are the costs and benefits? If not, what would you change and why? What are the practical considerations?</p> <p>d) Do you agree with the two criteria for a fund to be a fund with restrictions? If not, what would you change and why?</p> <p>e) In order to provide transparency about the finances of an individual fund, do you agree that all the expenses should be charged against a fund that is presented as funds with restrictions even if there are currently insufficient resources to cover these or specific costs are not eligible under a grant arrangement? If not, what alternative would you propose and why?</p> <p>f) Do you agree with the disclosures proposed for an NPO's funds? If not, what would you change and why?</p> <p>g) Do the Illustrative examples demonstrate the key concepts in fund accounting. If not, what would you change and why?</p>	<p>References</p> <p>G36.3–G36.4, Figure AG36.1</p> <p>G36.5, G36.7, AG36.3</p> <p>G36.9</p> <p>G36.11–G36.12</p> <p>G36.21–G36.23</p> <p>Implementation Guidance – Section 36</p>

Section 37 – Supplementary information

Scope of this Section

- G37.1 Section 37 specifies the supplementary information that shall be disclosed by NPOs that produce one or more Supplementary statements in accordance with INPAG Practice Guide 1– Supplementary statements.
- G37.2 Supplementary information is the additional information not presented elsewhere in the **general purpose financial statements** prepared under INPAG that is required to enable the preparation of a whole of NPO Supplementary statement. The information shall conform to the format of INPAG Practice Guide 1 – Supplementary statement.
- G37.3 An NPO may adopt the requirements of this Section including the publication a whole of entity Supplementary statement irrespective of whether it has produced one or more Supplementary statements.

Recognition and measurement of supplementary information

- G37.4 Supplementary information required by this Section shall be produced using the relevant INPAG **recognition** and **measurement** principles.
- G37.5 Exceptionally, if an NPO departs from these recognition and measurement principles, an NPO shall disclose by way of note, the recognition and measurement principles it has used and explain why it has been necessary to depart from the INPAG recognition and measurement principles in order to produce the supplementary information.

Presentation of supplementary 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 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.
- G37.8 An NPO shall disclose all of the information required to meet the **classifications of income and expenses** that are required in INPAG Practice Guide 1 – Supplementary statements. Disclosures shall be made for each category 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 INPAG Practice Guide 1 – Supplementary statements, it shall disclose in a note to the **financial statements** its total expenses on support activities.
- G37.10 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 INPAG Practice Guide 1 – Supplementary statements where they are not otherwise disclosed in the financial statements. Each piece of supplementary information may be disclosed individually or as part of a whole of NPO Supplementary statement.
- G37.11 NPOs are not required to repeat disclosures already made elsewhere in the financial statements. Unless a whole of NPO Supplementary statement is produced, NPOs shall identify in the disclosures made in accordance with other Sections of INPAG the relevant Supplementary statement income and/or expenses category.
- G37.12 NPOs are encouraged, but not required, to produce a whole of entity Supplementary statement using the format in INPAG Practice Guide 1 – Supplementary Statements.

Specific matter for comment	
Question 3: (a) Do you agree that the requirements of Section 37 do not have to be met unless Supplementary statements are prepared in accordance with INPAG Practice Guide 1 – Supplementary statements? If not, why not? (b) Do you agree that a whole of NPO Supplementary statement need not be presented if the additional information is already in the financial statements and/or notes? If not, why not?	References G37.1–G37.2 G37.3, G37.10–G37.12

Section 38 – Transition to INPAG

Scope of this section

- G38.1 This section applies to a **first-time adopter of this Guidance**, regardless of whether its previous accounting framework was **IFRS, IPSAS based accounting standards**, another set of generally accepted accounting principles (GAAP) such as its national accounting standards, or a different framework such as the local income tax basis.
- G38.2 An entity that has applied INPAG in a previous **reporting period**, but whose most recent previous annual **financial statements** did not contain an explicit and unreserved statement of compliance with INPAG, must either apply this section or apply INPAG retrospectively in accordance with Section 10 *Accounting policies, estimates and errors* as if the NPO had never stopped applying INPAG. 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.
- G38.4 An NPO's first financial report that conforms to this Guidance is the first annual financial report in which the NPO makes an explicit and unreserved statement in that financial report of compliance with INPAG. A financial report prepared in accordance with this Guidance 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 in all respects; or
 - (c) presented its most recent previous financial statements in conformity with **full IFRS Accounting Standards**.
- G38.5 As part of transitional arrangements, 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. Where an NPO makes an explicit and unreserved statement in its financial report of compliance with INPAG it must meet all of the requirements of paragraphs G38.7–G38.19. Exceptions are not permitted for investments in **associates** or **beneficial interests** in 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 INPAG. If the full requirements are not met within the two years following the date of adoption of INPAG, the NPO shall explain that it has not met the full requirements of INPAG and is unable to make an explicit and unreserved statement of compliance. This shall be the case even if the financial statements comply with INPAG. In these circumstances the NPO shall follow the requirements of paragraph G38.2. It may also make the attestation permitted by paragraph G38.21.
- 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 INPAG** is the beginning of the earliest period for which the NPO presents full comparative information in accordance with the financial statement requirements of this Guidance 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 INPAG (ie the beginning of the earliest period presented):
- (a) recognise all **assets** and **liabilities** whose **recognition** is required by INPAG;
 - (b) not recognise items as assets or liabilities if this Guidance does not permit such recognition;
 - (c) 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 Guidance;
 - (d) apply this Guidance in measuring all recognised assets and liabilities; and
 - (e) apply this Guidance 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 Guidance 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 Guidance. 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 Guidance.
- G38.11 On first-time adoption of this Guidance, an NPO shall not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following transactions:
- (a) **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 INPAG. Conversely, for financial assets and liabilities that would have been derecognised under INPAG 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 INPAG or (b) to continue to recognise them until disposed of or settled.
 - (b) hedge accounting. An NPO shall not change its hedge accounting policies before the date of transition to INPAG 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.
 - (c) **accounting estimates**.
 - (d) **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 INPAG (or from such earlier date as this Guidance 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 Guidance. 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 Guidance, it shall use its previous GAAP **carrying amount** of the loan at the date of transition to this Guidance 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 INPAG. 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 INPAG or were due to be completed within 12 months of the transition date. A completed EGA is a grant arrangement where the NPO has satisfied 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 Guidance:

- (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 Guidance. 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 Guidance at its fair value and use that fair value basis 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 Guidance 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 Guidance, 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 Guidance, but during the periods covered by the first financial statements that conform to this Guidance, 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 Guidance, 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 INPAG (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 INPAG 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 Guidance.
- (h) deferred income tax. A first-time adopter may apply Section 29 *Income tax* prospectively from the date of transition to INPAG.
- (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 Guidance.
- (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 INPAG 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 Guidance 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 INPAG 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 INPAG, 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 Guidance 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 Guidance 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 Guidance 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 Guidance 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.

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 Guidance, including those for comparative periods, the omission shall be disclosed.

Disclosures

Explanation of transition to INPAG

- G38.14 An NPO shall explain how the transition from its previous financial reporting framework to this Guidance affected its reported **financial position**, financial performance and **cash flows**.
- G38.15 An NPO that has applied INPAG in a previous period, as described in paragraph G38.2, shall disclose:
- (a) the reason it stopped applying INPAG or was unable to meet the full requirements of INPAG;
 - (b) the reason it is resuming the application of INPAG; and
 - (c) whether it has applied this section or has applied INPAG retrospectively in accordance with Section 10.

Reconciliation

- G38.16 To comply with paragraph G38.14, an NPO's first financial report prepared using this Guidance 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 Guidance for both of the following dates:
 - (i) the date of transition to this Guidance; 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 Guidance 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 Guidance.
- 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 INPAG narrative reporting. Information in respect of the previous comparable period for amounts and descriptive information that forms the narrative report shall be provided.
- G38.20 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.
- G38.21 An NPO that is not able to express compliance with the full requirements of INPAG shall include an attestation that is it working towards compliance with INPAG. The attestation shall include the Sections of INPAG yet to be fully implemented.

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

Section 38 of INPAG 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 INPAG 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.
- INPAG requires minimum narrative reporting information as well as the financial statements. Compliance with INPAG therefore requires compliance with the narrative reporting requirements in addition to the financial statements. To aid the transition INPAG 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 INPAG until it produces the narrative reporting information.
- The ability to use the fair value basis 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.
- INPAG 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 INPAG. 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 INPAG and references elsewhere have also been deleted.
- INPAG 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 INPAG rather than the *IFRS for SMEs Accounting Standard*.

Specific matter for comment

Question 6:	References
(a) Do you agree with the pragmatic approaches proposed for the first-time adoption of INPAG? If not, what are the practical challenges that are likely to be experienced?	G38.5–G38.6
(b) Do you agree that compliance with INPAG can be expressed in relation to the financial statements only for a two-year transition period? If not, why not?	G38.11–G38.12

Glossary of terms

This glossary is an integral part of INPAG.

Not all of the terms included in this glossary are used in ED3. Additional terms may be added as INPAG is developed. All terms will be used in the final INPAG.

accounting estimates	Monetary amounts in financial statements that are subject to measurement uncertainty.
accounting policies	The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
accounting profit	Profit or loss for a period before deducting tax expense.
accumulating compensated absences	Compensated absences that are carried forward and can be used in future periods if the current period's entitlement is not used in full.
active market	A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
acquiree	The business or businesses that the acquirer obtains control of in a business combination.
acquirer	The entity that obtains control of the acquiree.
acquiring NPO	The NPO that obtains control of the acquiree.
aggregation	The adding together of assets, liabilities, equity, income or expenses that have shared characteristics and are included in the same classification.
agricultural activity	The management by an entity of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets.
agricultural produce	The harvested product of the entity's biological assets.
amortisation	The systematic allocation of the depreciable amount of an asset over its useful life.
amortised cost of a financial asset or financial liability	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.
asset	A present economic resource controlled by the entity as a result of past events.
associate	An entity, including an unincorporated entity such as a partnership, over which the controlling NPO has significant influence and that is neither a controlled entity nor an interest in a joint arrangement.
bearer plant	A bearer plant is a living plant that: <ul style="list-style-type: none">(a) is used in the production or supply of agricultural produce;(b) is expected to bear produce for more than one period; and(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.
beneficial interest	An interest resulting from the control of another entity that arises other than through equity ownership.
biological asset	A living animal or plant.
borrowing costs	Interest and other costs incurred by an entity in connection with the borrowing of funds.
business	An integrated set of activities and assets that is capable of being conducted and managed for the purpose of: <ul style="list-style-type: none">(a) providing goods or services to customers; or service recipients;(b) generating investment income (such as dividends or interests); or(c) generating other income from ordinary activities.
business combination	A transaction or other event in which an acquirer obtains control of one or more businesses.
capital grant	An inflow that arises from an EGA of cash or another asset with a specification that the NPO acquires or constructs a non-financial asset that will be controlled by the NPO.
carrying amount	The amount at which an asset, liability or equity is recognised in the Statement of Financial Position.
cash	Cash on hand and demand deposits.
cash equivalent	Short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.
cash flows	Inflows and outflows of cash and cash equivalents.

cash-generating unit	The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
cash-settled share-based payment transaction	A share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity.
class of assets	A grouping of assets of a similar nature and use in an entity's operations.
classification	The sorting of assets, liabilities, equity, funds in net assets, income or expenses on the basis of shared characteristics for presentation and disclosure purposes.
close members of the family of a person	Those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity, including: <ul style="list-style-type: none"> (a) that person's children and spouse or domestic partner; (b) children of that person's spouse or domestic partner; and (c) dependants of that person or that person's spouse or domestic partner.
combined financial statements	Financial statements of a reporting entity that comprises two or more entities that are not all linked by a parent–subsidiary (controlling NPO-controlled entity) relationship.
component of an entity	Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.
compound financial instrument	A financial instrument that, from the issuer's perspective, contains both a liability and an equity element.
consolidated financial statements	The financial statements of a controlling NPO and its controlled entities presented as those of a single economic entity.
construction contract	A contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.
constructive obligation	An obligation that derives from an entity's actions where: <ul style="list-style-type: none"> (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
contingent asset	A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
contingent consideration	Usually, an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.
contingent liability	<ul style="list-style-type: none"> (a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or (b) a present obligation that arises from past events but is not recognised because: <ul style="list-style-type: none"> (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability.
contract	An agreement between two or more parties that creates enforceable rights and obligations.
contract asset	An NPO's right to consideration in exchange for goods or services that the NPO has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the NPO's future performance).
contract liability	An NPO's obligation to transfer goods or services to a customer for which the NPO has received consideration (or the amount is due) from the customer.
contributions from holders of equity claims	An inflow of resources to an NPO, contributed by parties external to the NPO, which establishes or increases a financial interest in the net assets of the NPO.
control (of an entity)	A controlling NPO controls an investee (controlled entity) when the controlling NPO is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

controlled entity	An entity that is controlled by another entity.
controlling NPO	The NPO that has control of an entity as a result of the application of the principles of control.
credit loss	The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (that is, all cash shortfalls), discounted at the original effective interest rate.
current tax	The amount of income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period or past periods.
customer	A party that has contracted with an NPO to obtain goods or services that are an output of the NPO's ordinary activities in exchange for consideration.
date of initial application	The date an entity first applies the first edition of INPAG.
date of transition to INPAG	The beginning of the earliest period for which an NPO presents full comparative information under INPAG in its first financial statements that comply with INPAG.
deductible temporary differences	Temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
deferred tax	Income tax payable (recoverable) in respect of the taxable profit (tax loss) for future periods as a result of past transactions or events.
deferred tax assets	The amounts of income tax recoverable in future periods in respect of: <ul style="list-style-type: none"> (a) deductible temporary differences; (b) the carry forward of unused tax losses; and (c) the carry forward of unused tax credits.
deferred tax liabilities	The amounts of income tax payable in future periods in respect of taxable temporary differences.
defined benefit liability	The present value of the defined benefit obligation at the reporting date minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.
defined benefit obligation	The expected future payments, without deducting any plan assets, required to settle the obligation resulting from employee service in the current and prior periods.
defined benefit plans	Post-employment benefit plans other than defined contribution plans.
defined contribution plans	Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
depreciable amount	The cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value.
depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
derecognition	The removal of all or part of a recognised asset or liability from an entity's Statement of Financial Position.
development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.
direct costs	Costs attributable to a single activity that are allocated directly to that activity.
discontinued operation	A component of an entity that either has been disposed of or is held for sale and: <ul style="list-style-type: none"> (a) represents a separate major line of business or geographical area of operations; (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a controlled entity acquired exclusively with a view to resale.
distributions to holders of equity claims	An outflow of resources from an NPO, distributed to parties external to the NPO, which returns or reduces a financial interest in the net assets of the NPO. It may also be an inflow of resources to an NPO in return for its financial interest in the net assets of another entity (for example, a dividend received).
dividends	Distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital.
economic phenomena	Economic phenomena are economic resources, claims against those resources, and the effects of transactions and other events and conditions that change those resources and claims.

economic resource	A right that has the potential to produce economic benefits or service potential.
effective interest method	A method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
effective interest rate	The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.
effectiveness of a hedge	The degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.
employee benefits	All forms of consideration given by an entity in exchange for service rendered by employees.
enforceable grant arrangement (EGA)	A grant arrangement where both a donor and grant recipient have both rights and obligations, enforceable through legal or equivalent means. A grant recipient's undertakings under an EGA are EGOs. An EGA must have at least one EGO.
enforceable grant arrangement asset	An NPO's right to a grant amount for satisfying its EGOs in an EGA prior to the grant provider transferring resources.
enforceable grant arrangement liability	An NPO's obligation to satisfy its EGO in an EGA for which the NPO has received consideration (or the amount is due) from the grant provider.
enforceable grant obligation (EGO)	A grant recipient's undertaking in an EGA to achieve a specified outcome, to carry out a specified activity, to use distinct services, goods or other assets internally for a specified purpose or to transfer distinct services, goods, cash or other assets to a service recipient.
enhancing qualitative characteristic	A qualitative characteristic that makes useful information more useful. The enhancing qualitative characteristics are comparability, verifiability, timeliness and understandability.
equity	The residual interest in the assets of an entity after deducting all its liabilities.
equity claim	A financial interest in the net assets of an NPO that is due to holders of those claims.
equity-settled share-based payment transaction	A share-based payment transaction in which the entity: <ul style="list-style-type: none"> (a) receives goods or services as consideration for its own equity instruments (including shares or share options); or (b) receives goods or services but has no obligation to settle the transaction with the supplier.
errors	Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: <ul style="list-style-type: none"> (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.
executory contract	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 fulfilled their obligations to an equal extent.
existence uncertainty	Uncertainty about whether an asset or liability exists.
expenses	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.
fair presentation	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.
fair value	The price that would be received to sell, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.
finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. A lease that is not a finance lease is an operating lease.

financial asset	Any asset that is: <ul style="list-style-type: none"> (a) cash; (b) an equity instrument of another entity; (c) a contractual right: <ul style="list-style-type: none"> (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or (d) a contract that will or may be settled in the entity's own equity instruments and: <ul style="list-style-type: none"> (i) under which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.
financial guarantee contract	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
financial instrument	A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
financial liability	Any liability that is a contractual obligation: <ul style="list-style-type: none"> (i) to deliver cash or another financial asset to another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.
financial position	The relationship of the assets, liabilities and equity of an entity as reported in the Statement of Financial Position.
financial statements	Structured representation of the financial position, income and expenses and cash flows of an entity.
financing activities	Activities that result in changes in the size and composition of the equity and borrowings of the entity.
firm commitment	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.
first-time adopter of INPAG	An entity that presents its first annual financial statements that conform to INPAG, regardless of whether its previous accounting framework was full IFRS Accounting Standards or another set of accounting standards.
forecast transaction	An uncommitted but anticipated future transaction.
foreign operation	An entity that is a controlled entity, associate, joint arrangement or branch of a reporting NPO, the activities of which are based or conducted in a country or currency other than those of the reporting entity.
full IFRS Accounting Standards	Standards and Interpretations issued by the International Accounting Standards Board (IASB). They comprise: <ul style="list-style-type: none"> (a) International Financial Reporting Standards; (b) International Accounting Standards; (c) IFRIC Interpretations; and (d) SIC Interpretations.
functional currency	The currency of the primary economic environment in which the entity operates.
functional currency normalisation date	The date when an entity's functional currency no longer has either, or both, of the two characteristics of severe hyperinflation, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.
fundamental qualitative characteristic	A qualitative characteristic that financial information must possess to be useful to the primary users of general purpose financial reports. The fundamental qualitative characteristics are relevance and faithful representation.
funding (of post-employment benefits)	Contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid.

funds with restrictions	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 funding or other legal arrangements placed on the NPO by a resource provider.
funds without restrictions	Funds 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 (including designation by the NPO's board of directors), 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 and are therefore not funds with restrictions.
general purpose financial statements	Financial statements directed to the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.
general purpose financial reports	Financial reports that present management commentary and other narrative reporting alongside the financial information contained in the general purpose financial statements and that are directed to the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.
going concern	An entity is a going concern unless management either intends to liquidate the entity, cease operations, or has no realistic alternative but to do so.
goodwill	An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.
government	Government, government agencies and similar bodies whether local, national or international.
government grants	Assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.
grant provider	The party that provides a resource to the NPO.
gross investment in a lease	The aggregate of: <ul style="list-style-type: none"> (a) the minimum lease payments receivable by the lessor under a finance lease; and (b) any unguaranteed residual value accruing to the lessor.
group	A parent (controlling NPO) and all its controlled entities.
hedged item	For the purpose of special hedge accounting by NPOs under Part II of Section 11 of this Standard, a hedged item is: <ul style="list-style-type: none"> (a) interest rate risk of a debt instrument measured at amortised cost; (b) foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction; (c) price risk of a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; or (d) foreign exchange risk in a net investment in a foreign operation.
hedging instrument	For the purpose of special hedge accounting by NPOs under Part II of Section 11 of this Standard, a hedging instrument is a financial instrument that meets all of the following terms and conditions: <ul style="list-style-type: none"> (a) it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in paragraph G11.65 that is designated as the hedged risk; (b) it involves a party external to the reporting entity (ie external to the group, segment or individual entity being reported on); (c) its notional amount is equal to the designated amount of the principal or notional amount of the hedged item; (d) it has a specified maturity date not later than: <ul style="list-style-type: none"> (i) the maturity of the financial instrument being hedged; (ii) the expected settlement of the commodity purchase or sale commitment; or (iii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged; (e) it has no prepayment, early termination or extension features.
highly probable impairment (loss)	Significantly more likely than probable. The amount by which the carrying amount of an asset exceeds: <ul style="list-style-type: none"> (a) in the case of inventories, its selling price less costs to complete and sell add in ' or the cost adjusted for any loss of service potential (adjusted cost); or (b) in the case of other non-financial assets, its recoverable amount.

impracticable	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
imputed rate of interest	The more clearly determinable of either: <ul style="list-style-type: none"> (a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or (b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.
income	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.
income statement	A financial statement that presents all items of income and expense recognised in a reporting period, excluding the items of other comprehensive income.
income tax	All domestic and foreign taxes that are based on taxable profits. Income tax also includes taxes, such as withholding taxes, that are payable by a controlled entity, associate or joint arrangement on distributions to the reporting entity.
insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
intangible asset	An identifiable non-monetary asset without physical substance. Such an asset is identifiable when it: <ul style="list-style-type: none"> (a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
interest rate implicit in the lease	The discount rate that, at the inception of the lease, causes the aggregate present value of (a) the minimum lease payments and (b) the unguaranteed residual value to be equal to the sum of (i) the fair value of the leased asset and (ii) any initial direct costs of the lessor.
interim financial report	A financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period.
interim period	A financial reporting period shorter than a full financial year.
International Public Sector Accounting Standards (IPSAS)	Standards and Interpretations issued by the International Public Sector Accounting Standards Board (IPSASB) for use by public sector entities other than government business enterprises. They comprise: <ul style="list-style-type: none"> (a) International Public Sector Accounting Standards; and (b) International Recommended Practice Guidelines.
intrinsic value	The difference between the fair value of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares. For example, a share option with an exercise price of CU15 on a share with a fair value of CU20 has an intrinsic value of CU5.
inventories	Assets: <ul style="list-style-type: none"> (a) held for sale in the ordinary course of operations; (b) held for distribution to service recipients in the ordinary course of operations; (c) held for use as prizes for fundraising events (or similar circumstances) where the items will be transferred to another party in the course of the NPO's fundraising activities; (d) in the process of production for such sale; or (e) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.
investment property	Property (land or a building, part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, instead of for: <ul style="list-style-type: none"> (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.
joint arrangement	An arrangement in which two or more parties have joint control. Joint arrangements can take the form of jointly controlled operations, jointly controlled assets or jointly controlled entities.
joint control	The contractually agreed sharing of control of an arrangement. It exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

jointly controlled entity	A joint arrangement that involves the establishment of a corporation, partnership or other entity in which each party has an interest. The entity operates in the same way as other entities, except that an arrangement between the parties establishes joint control.
lease	An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
lessee's incremental borrowing rate of interest	The rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.
liability	A present obligation of the entity to transfer an economic resource as a result of past events.
loans payable	Financial liabilities other than short-term trade payables on normal credit terms.
market participants	Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics: <ul style="list-style-type: none"> (a) they are independent of each other – that is, they are not related parties as defined in Section 33; (b) they are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information; (c) they are able to enter into a transaction for the asset or liability; and (d) they are willing to enter into a transaction for the asset or liability – that is, they are motivated but not forced or otherwise compelled to do so.
market vesting condition	A performance condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group), such as: <ul style="list-style-type: none"> (a) attaining a specified share price or a specified amount of intrinsic value of a share option; or (b) achieving a specified target that is based on the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group) relative to an index of market prices of equity instruments of other entities. <p>A market condition requires the counterparty to complete a specified period of service (that is, a service condition); the service requirement can be explicit or implicit.</p>
material	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 entity.
measure	The result of applying a measurement basis to an asset or liability and related income and expenses.
measurement basis	An identified feature – for example, historical cost, fair value or fulfilment value – of an item being measured.
measurement uncertainty	Uncertainty that arises when monetary amounts in financial reports cannot be observed directly and must instead be estimated.
minimum lease payments	The payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with: <ul style="list-style-type: none"> (a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or (b) for a lessor, any residual value guaranteed to the lessor by: <ul style="list-style-type: none"> (i) the lessee; (ii) a party related to the lessee; or (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. <p>However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.</p>
monetary items	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.
most advantageous market	The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

multi-employer (benefit) plans	Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that: <ul style="list-style-type: none"> (a) pool the assets contributed by various entities that are not under common control; and (b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.
net investment in a lease	The gross investment in a lease discounted at the interest rate implicit in the lease.
non-controlling interest	The equity in a controlled entity not attributable, directly or indirectly, to a controlling NPO.
notes (to financial statements)	Notes contain information in addition to that presented in the Statement of Financial Position, Statement of Income and Expenses, Statement of Changes in Net Assets and 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.
notional amount	The quantity of currency units, shares, bushels, pounds or other units specified in a financial instrument contract.
objective of financial statements	To provide information about the financial position, income and expenses and cash flows of an entity that is useful for decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.
observable inputs	Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.
offsetting	Grouping an asset and liability that are recognised and measured as separate units of account into a single net amount in the Statement of Financial Position.
onerous contract	A contract in which the unavoidable costs of meeting the obligations under the contract EGA exceed the economic benefits expected to be received under it.
operating activities	The principal activities of the entity that are not investing or financing activities.
operating lease	A lease that does not transfer substantially all the risks and rewards incidental to ownership. A lease that is not an operating lease is a finance lease.
operating unit	The smallest identifiable group of assets that are operated largely independently from other assets or groups of assets.
orderly transaction	A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).
other comprehensive income	Items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by the IFRS for SMEs Accounting Standard.
outcome uncertainty	Uncertainty about the amount or timing of any inflow or outflow of economic benefits that will result from an asset or liability.
parent	An entity that has one or more subsidiaries or controlled entities. The term 'controlling NPO' is used where an NPO is a parent.
performance condition	A vesting condition that requires: <ul style="list-style-type: none"> (a) the counterparty to complete a specified period of service (that is, a service condition); the service requirement can be explicit or implicit; and (b) specified performance target(s) to be met while the counterparty is rendering the service required in (a). <p>The period of achieving the performance target(s):</p> <ul style="list-style-type: none"> (a) shall not extend beyond the end of the service period; and (b) may start before the service period on the condition that the commencement date of the performance target is not substantially before the commencement of the service period. <p>A performance target is defined by reference to:</p> <ul style="list-style-type: none"> (a) the entity's own operations (or activities) or the operations or activities of another entity in the same group (that is, a non-market condition); or (b) the price (or value) of the entity's equity instruments or the equity instruments of another entity in the same group (including shares and share options) (that is, a market condition). <p>A performance target might relate either to the performance of the entity as a whole or to some part of the entity (or part of the group), such as a division or an individual employee.</p>

plan assets (of an employee benefit plan)	Assets held by a long-term employee benefit fund and qualifying insurance policies.
post-employment benefits	Employee benefits (other than termination benefits) that are payable after the completion of employment.
post-employment benefit plans	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.
potential to produce economic benefits	Within an economic resource, a right that already exists and that, in at least one circumstance, would produce for the entity economic benefits or service potential beyond those available to all other parties.
present value	A current estimate of the present discounted value of the future net cash flows in the normal course of operations.
presentation currency	The currency in which the financial statements are presented.
primary users	Existing and potential investors, lenders and other creditors.
principal market	The market with the greatest volume and level of activity for the asset or liability.
probable	More likely than not.
profit or loss	The total of income less expenses, excluding the components of other comprehensive income of for-profit entities.
projected unit credit method	An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method).
promise (in a contract with a customer)	An obligation to transfer a good or service (or bundle of goods or services) that is distinct.
property, plant and equipment	Tangible assets that: <ul style="list-style-type: none"> (a) are held for use in the production or supply of goods or services, for rental to others or for administrative purposes; and (b) are expected to be used during more than one period.
prospective application (of a change in accounting policy)	Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed.
provision	A liability of uncertain timing or amount.
prudence	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.
public accountability	An entity has public accountability if: <ul style="list-style-type: none"> (a) its debt or equity instruments are traded in a public market, or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).
publicly traded (debt or equity instruments)	Traded, or in the process of being issued for trading, in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
recognition	The process of capturing for inclusion in the Statement of Financial Position or the statement(s) of financial performance 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.
recoverable amount	The higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use.

related party	<p>A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity):</p> <ul style="list-style-type: none"> (a) a person or a close member of that person's family is related to a reporting entity if that person: <ul style="list-style-type: none"> (i) is a member of the key management personnel of the reporting entity or (ii) of a parent of the reporting entity; (iii) has control or joint control over the reporting entity; or has significant influence over the reporting entity. (iv) is a member of the reporting NPO's governing body (paid or not) which provides oversight of the NPO's activities; (b) an entity is related to a reporting entity if any of the following conditions apply: <ul style="list-style-type: none"> (i) the entity and the reporting entity are members of the same group (which means that each controlling NPO, controlled entity and fellow controlled entity is related to the others); (ii) one entity is an associate or jointly controlled entity of the other entity (or an associate or jointly controlled entity of a member of a group of which the other entity is a member); (iii) both entities are jointly controlled entities of the same third entity; (iv) one entity is a jointly controlled entity of a third entity, and the other entity is an associate of the third entity; (v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity; (vi) the entity is controlled or jointly controlled by a person identified in (a); (vii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity; (viii) a person identified in (a)(ii) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
related party transaction	A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.
relevance	Relevant financial information is capable of making a difference in the decisions made by users.
relevant activities (of an investee)	The activities that significantly affect the investee's returns.
reliability	The quality of information that makes it free from material error and bias and represents faithfully that which it either purports to represent or could reasonably be expected to represent.
reporting date	The end of the latest period covered by the financial report or by an interim financial report.
reporting entity	An entity that is required, or chooses, to prepare general purpose financial reports.
reporting NPO	A reporting NPO is a single NPO, part of an NPO or a combination of NPOs that is required, or chooses, to prepare general purpose financial reports.
reporting period	The period covered by a financial report or by an interim financial report.
research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
residual value (of an asset)	The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
retrospective application (of a change in accounting policy)	Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.
revenue	Income arising in the course of an NPO's ordinary activities.
separate financial statements	Those presented by an entity in which the entity could elect, in accordance with paragraphs G9.25–G9.26, to account for its investments in controlled entities, jointly controlled entities and associates, either at cost less impairment, at fair value with changes in fair value recognised in profit or loss, or using the equity method following the procedures in paragraph G14.8.
service recipient	Individual, group of individuals or entity that is in receipt of services, goods or advocacy of an NPO.

service concession arrangement	An arrangement whereby a government or other public sector body contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals.
service condition	A vesting condition that requires the counterparty to complete a specified period of service during which services are provided to the entity. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, it has failed to satisfy the condition. A service condition does not require a performance target to be met.
service potential	The capacity to provide services that contribute to achieving the NPO's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.
severe hyperinflation	The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics: <ul style="list-style-type: none"> (a) a reliable general price index is not available to all entities with transactions and balances in the currency; and (b) exchangeability between the currency and a relatively stable foreign currency does not exist.
share-based payment arrangement	An agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive: <ul style="list-style-type: none"> (a) cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity; or (b) equity instruments (including shares or share options) of the entity or another group entity; provided the specified vesting conditions, if any, are met.
share-based payment transaction	A transaction in which the entity: <ul style="list-style-type: none"> (a) receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment arrangement; or (b) incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.
shared costs	Costs that contribute directly to more than one activity that are apportioned between those activities.
small and medium-sized entities	Entities that: <ul style="list-style-type: none"> (a) do not have public accountability; and (b) publish general purpose financial statements for external users. <p>An entity has public accountability if:</p> <ul style="list-style-type: none"> (a) it files or is in the process of filing its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
social use assets	Assets that are held for delivering benefits to society or a section of society rather than to maximise cash inflows.
societal accountability	An expansive view of accountability that recognises a general accountability to society at large due to the importance of NPO goods and services, the funding environment, the preferential treatment that NPOs can receive compared to other organisations, and the need to ensure the effective operation of the wider sector.
stand-alone value (of a good or service)	The price of a good or service that is used internally or provided separately to a service recipient.
state (employee benefit) plan	Employee benefit plans established by legislation to cover all entities (or all entities in a particular category – for example, a specific industry) and operated by national or local government or by another body (for example, an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity.
Statement of Cash Flows	A financial statement that provides information about the changes in cash and cash equivalents of an entity for a period, showing separately changes during the period from operating, investing and financing activities.
Statement of Changes in Net Assets	A financial statement that presents the surplus or deficit for a period, items of income and expense not recognised directly in Statement of Income and Expenses for the period, the effects of changes in accounting policy and corrections of errors recognised in the period, the amounts of changes in equity and movements between funds.
Statement of Financial Position	A financial statement that presents the relationship of an entity's assets, liabilities and interests of holders of equity claims as of a specific date (also called the balance sheet).

Statement of Income and Expenses	A financial statement that presents all items of income and expense recognised in the period, except for items of income and expense explicitly required to be recognised in the Statement of Changes in Net Assets and totals to the surplus or loss for a period.
surplus or deficit	The difference between items of income and expenses in the reporting period that does not include those items to be shown in the Statement of Changes in Net Assets.
subsidiary	An entity that is controlled by another entity.
support costs	Costs that are not specific to an activity and are likely to be organisation wide, which are apportioned between the activities being supported.
tax base	The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.
tax expense	The aggregate amount included in total comprehensive income or equity for the reporting period in respect of current tax and deferred tax.
taxable profit (tax loss)	The profit (loss) for a reporting period upon which income taxes are payable or recoverable, determined in accordance with the rules established by the taxation authorities. Taxable profit equals taxable income less amounts deductible from taxable income.
taxable temporary differences	Temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
temporary differences	Differences between the carrying amount of an asset or liability in the Statement of Financial Position and its tax base.
termination benefits	Employee benefits payable at the earlier of the following dates: <ul style="list-style-type: none"> (a) when an entity can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of Section 21 and involves the payment of termination benefits.
timeliness	Having information available to decision-makers in time to be capable of influencing their decisions.
timing differences	Income or expenses that are recognised in surplus or deficit in one period but under tax laws or regulations are included in taxable income in a different period.
total comprehensive income	The change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners (equal to the sum of profit or loss and other comprehensive income), as defined by the <i>IFRS for SMEs</i> Accounting Standard.
transaction consideration	The amount of resources to which an NPO expects to be entitled.
transaction costs	The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria: <ul style="list-style-type: none"> (a) they result directly from and are essential to that transaction; and (b) they would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made.
understandability	Classifying, characterising and presenting information clearly and concisely makes it understandable.
unit of account	The right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations, to which recognition criteria and measurement concepts are applied.
unobservable inputs	Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.
useful life	The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.
value in use	The present value of the future cash flows or service potential expected to be derived from an asset or cash-generating unit.
vested benefits	Benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.



www.ifr4npo.org

ISBN: 978 1 84508 599 5