INPAG

International Non-Profit Accounting Guidance Part 3

Invitation to comment

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.

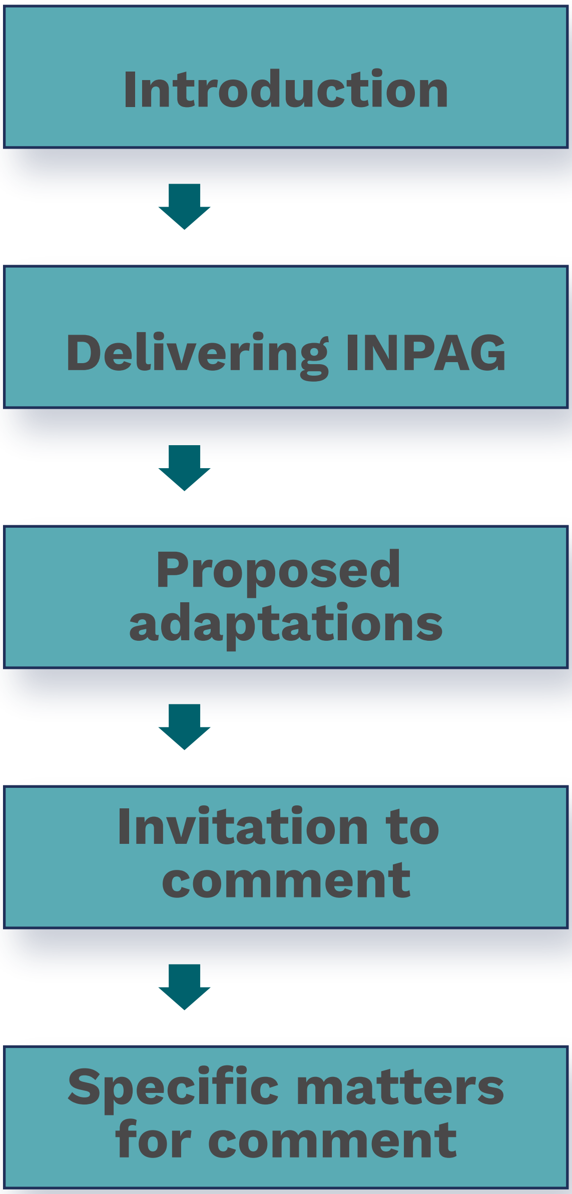
ISBN for this part 978 1 84508 598 8

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

CIPFA

Summary

Overview



Objective: Develop the first ever international financial reporting guidance for non-profit organisations (NPOs).

Proposals: The IFR4NPO project sought views, via a Consultation Paper issued in January 2021, on the proposal that the *IFRS for SMEs* Accounting Standard be used as the basis for a single set of authoritative guidance for NPOs.

Having taken account of the feedback from the consultation, adaptations to the *IFRS for SMEs* Accounting Standard are being proposed to create International Non-Profit Accounting Guidance (INPAG) as NPO specific financial reporting guidance.

The first Exposure Draft was focused on the overarching framework for NPO financial reporting and was issued in November 2022. The second Exposure Draft was focused on key accounting issues and in particular the accounting for grants and donations, and was issued in September 2023. The INPAG Secretariat is currently considering the feedback provided by respondents.

Next steps: The INPAG Secretariat will consider feedback on this Exposure Draft, together with the feedback on the first and the second Exposure Drafts in the development of the final proposals, that collectively will comprise INPAG.

Comment deadline: 16 September 2024

Documents to be reviewed

ED3 – Authoritative Guidance
ED3 – Basis for Conclusions
ED3 – Implementation Guidance
INPAG Practice Guide 1 – Supplementary statements

Introduction

As noted in the previous Exposure Drafts, in many countries Non-Profit Organisations (NPOs) have no guidance or frameworks to support the preparation of financial statements. These are crucial for transparency, accountability and decision making. Funding organisations have filled this void by developing their own reporting requirements for NPOs. While all have their merits, the variety of different requirements can create a heavy burden on the very organisations they want to support.

Private and public sector entities and their stakeholders have benefited greatly from the development and use of international standards since the 1970s. In a **2014 international survey**, which had more than 600 responses from 179 countries, the majority of respondents agreed or strongly agreed that an international accounting standard or guidance specifically for NPOs would be useful.

A **Consultation Paper** was issued in January 2021, setting out proposals to develop high-quality, trusted, internationally recognised financial reporting guidance for NPOs (now called INPAG). It sought feedback on a number of proposals including priority topics. There was overwhelming support for the development of INPAG and the proposals set out in the document.

Objectives

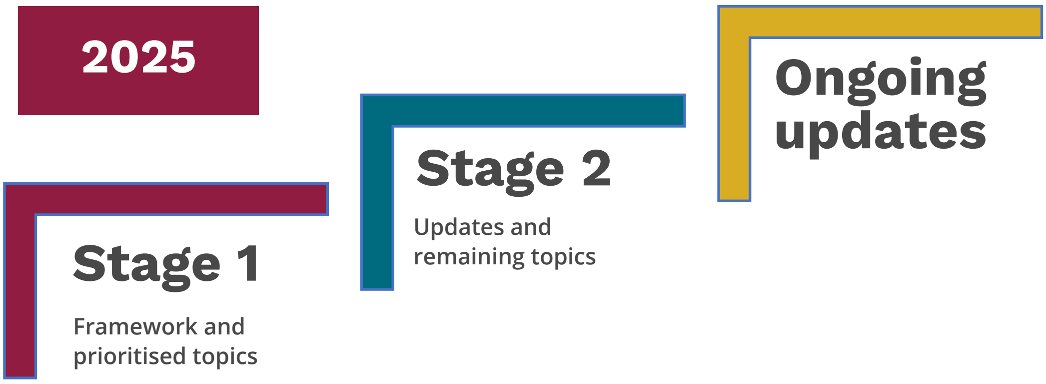
The credibility of NPOs to stakeholders, including those who contribute funds or benefit from an NPO's work, is dependent on creating and maintaining trust. To strengthen the governance and financial management of NPOs, INPAG is being developed to meet the following three objectives:

INPAG development

INPAG is accrual-based financial reporting guidance that is being developed to provide a comprehensive view of an NPO's financial position and activity. Accrual information is accepted as the basis of high-quality financial reporting standards. It can improve the quality and transparency of financial reports to enhance accountability and decision-making.

Non-financial information is an essential part of the general-purpose financial reports being developed for INPAG. It allows the presentation of management commentary and other narrative reporting alongside the financial information contained in general purpose financial statements. Non-financial information provide users with information to allow a meaningful understanding of an NPO's nature, objectives, strategies, risks and performance.

To complete the development of NPO-specific accrual-based financial reporting guidance by 2025, within the resources available, stakeholders were asked for their views on the priority topics to be addressed in the first version of INPAG.



To underpin the development of INPAG the following foundational concepts were set out in Exposure Draft 1 (ED1):

- a description of the entities to whom INPAG will apply;
- concepts and principles on which to base the accounting proposals;
- a description of the financial statements; and
- identification of narrative reporting requirements.

These foundational concepts have been used to develop each of the other Sections that together will comprise INPAG and have been issued for public consultation in Exposure Draft 2 (ED2) and Exposure Draft 3 (ED3). Views have been actively sought from a diverse range of stakeholders across all continents. The comments received on each of the three Exposure Drafts will be used in finalising INPAG.

Delivering INPAG

Approach

INPAG is divided into sections. In most cases, these sections have the same purpose as the equivalent section in the *IFRS for SMEs* Accounting Standard. However, sections may be renumbered in the final guidance if this is helpful to prospective users of INPAG.

To make it easier to understand the level of change to each section from the *IFRS for SMEs* Accounting Standard, a status indicator has been added to the Section heading in the Authoritative Guidance.

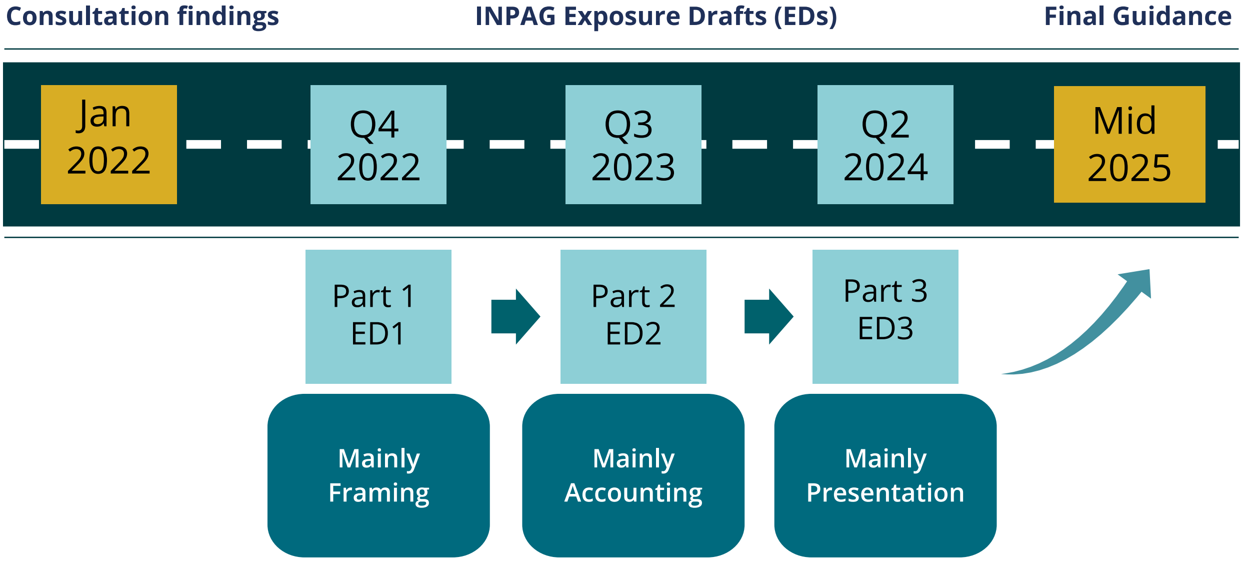
References to the *IFRS for SMEs* Accounting Standard are to the draft Third edition of the *IFRS for SMEs* Accounting Standard unless otherwise stated.

Status	Description
Modified	The Section has been fully reviewed and updated to reflect NPO requirements.
Updated	The Section has been reviewed and updated to align with Sections that have been modified.
Editorial	The Section has been updated for alignment changes as well as terminology changes but is otherwise unamended.
New	The Section does not exist in the *IFRS for SMEs* Accounting Standard and has been developed specifically for NPOs.
Removed	The Section is not required in INPAG as it does not include requirements relevant to NPOs.

This Exposure Draft (ED) is the third of three Exposure Drafts that taken together will comprise the full INPAG.

Publishing the draft guidance through three Exposure Drafts is intended to make it easier for stakeholders to comment on the proposals. Feedback on ED1 has influenced some aspects of the development of ED3.

In the time available it has not been possible to incorporate into ED3 all of the feedback from ED1, or any of the feedback from ED2. However, in the light of the feedback received, some of the original proposals in Exposure Draft 1 have been amended in this Exposure Draft. Changes made following stakeholder feedback have been identified and explained in the Basis for Conclusions.



Exposure Draft 1 (ED1)

ED1 was focused on the overarching framework for NPO financial reporting. This included a description of NPOs and the reporting entity, the concepts and pervasive principles that underpin financial reporting, and the proposals for financial statement presentation and narrative reporting. The Preface, Sections 1–10 and a new Section 35 (narrative reporting) were published in Exposure Draft 1 (ED1).

Exposure Draft 2 (ED2)

ED2 was focused on some of the key accounting transactions that are relevant for NPO financial reporting. It included a new section on revenue from grants and donations as distinct from revenue from contracts with customers, a new section on grant expenses, and important modifications to the sections on inventories and foreign currency translation.

ED2 was built on the equivalent sections from the *IFRS for SMEs* Accounting Standard where these exist, but required the development of some new sections for NPO-specific transactions. ED2 also proposed that the section on share-based payments in the *IFRS for SMEs* Accounting Standard is not relevant to NPOs and therefore should not be part of INPAG. ED2 included a number of Sections that had been updated for terminology or alignment changes but were not updated for other reasons. The full contents were listed at the front of ED2.

Exposure Draft 3 (ED3)

In ED3 the focus is on the presentation of financial information. It includes new sections on fund accounting, the classification of expenses and fundraising costs. It also includes a new section on supplementary information that has links to a complementary document – INPAG Practice Guide 1 – Supplementary statements (Practice Guide), which is also issued for comment as part of ED3. This Practice Guide provides proposals for supplementary statements that support individual stakeholder reporting requirements, including donors. There is also an important update in ED3 relating to the definition of equity, as well as proposals for the first-time adoption of INPAG. As with ED2, ED3 includes a number of Sections that are updated for terminology or alignment changes but are not updated for other reasons.

Fund accounting
Section 36

Classification of expenses
Section 24 Part II

Supplementary information
Section 37

Fundraising costs
Section 24 Part III

Transition to INPAG
Section 38

Annex B shows the content of each Exposure Draft. It describes whether a section is new and if not, the expected level of change from the *IFRS for SMEs* Accounting Standard.

The following sections set out the adaptations that are proposed to the *IFRS for SMEs* Accounting Standard to address NPO-specific accounting and reporting needs.

Proposed Adaptations

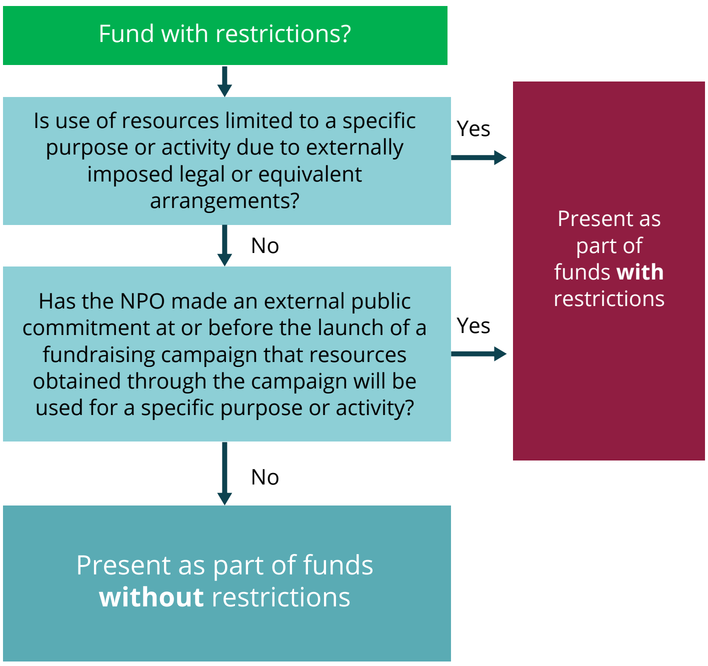
1. Fund accounting

Proposal

Fund accounting tracks the receipt and use of resources, according to their intended use, with fund balances carried between financial reporting periods. All NPOs will have a general fund, sometimes called a general reserve or accumulated fund for resources that can be used for any purpose within the objectives of the organisation. NPOs may have funds in addition to the general fund. Funds may exist as a result of choices by management, jurisdictional law, legal or equivalent requirements arising from arrangements with grantors or donors, or as a result of reasonable expectations created by the NPO that resources will be used for a specific purpose.

In INPAG an additional fund will exist when there is a legal or equivalent requirement to separately track resources and their use, or there is a reasonable expectation by an individual or group of stakeholders that resources that are used for a specific set of activities will be tracked. Separate accounting records for each fund must be kept comprising income, expenses, assets and liabilities.

Determining whether a fund is presented as part of funds with restrictions or funds without restrictions uses the following principles-based approach.



Enforceable grant arrangements (EGAs), a type of grant described in INPAG Section 23, are proposed to be disclosed as part of funds with restrictions even if they do not have a fund balance. This presentation provides transparency over their income and expenses. Internally designated funds are presented as part of funds without restrictions, as the limitation on the use of these resources by the NPO can be amended.

Proposal development—what else was considered?

Initial proposals looked at whether a type of grant arrangement on its own could be used to determine if a fund should be presented as part of funds with restrictions, but the substance of a transaction was considered more important than its form. Regulatory requirements were also considered (but there are global variations in these), as were moral and/or ethical requirements to use resources in a particular way. Practically it would be difficult to distinguish between different types of moral and/or ethical requirements and so this was not progressed.

Discussion also focused on whether asset and liability information needs to be fund-specific. This requirement has been included in ED3 to mitigate against the need for immaterial transactions to be separately tracked and create a burden disproportionate to the benefits.

What should I comment on?

- Will the guidance ensure that material funds can be identified? **(Question 1b)**
- Should there be a requirement to track income, expenses, assets and liabilities for each fund? What are the costs and benefits? **(Question 1c)**
- Do you agree with the criteria for a fund to be considered a fund with restrictions? **(Question 1d)**

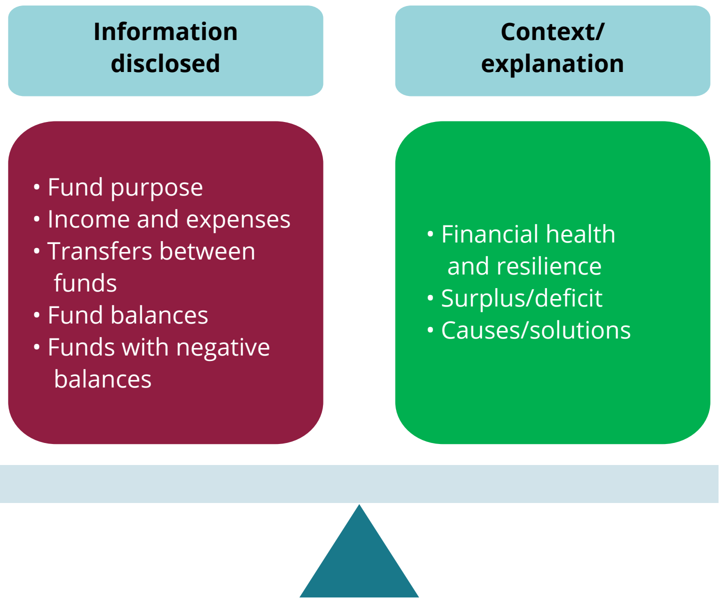
2. Fund accounting disclosures

Proposal

The financial statements should clearly identify the extent to which an NPO's use of its funds is subject to restrictions.

New disclosure requirements require that the amounts of income, expenses, transfers and fund balances are shown for each fund, or aggregation of immaterial funds. This presentation provides transparency over any shortfalls or excesses on a fund. An explanation is required for any funds with a negative balance at the reporting date.

These disclosures can assist NPOs in explaining surpluses or deficits for a particular financial reporting period in context. For example, they may be caused by receiving and using resources in different financial periods, in the normal course of operations. The disclosure requirements also apply to internally designated funds.



ED1 proposed a requirement for the separate presentation of funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses. These new note disclosures replace this previous proposal.

Proposal development – what else was considered?

Consideration was given to whether the information about funds with or without restrictions should be presented on the face of the Statement of Income and Expenses or in the notes to the financial statements. Taking account of the feedback from ED1 and discussions during the development of the fund accounting section, the view was that disclosure by way of note would provide more comprehensive information. The requirement to separately disclose internally designated funds was also considered. TAG members had mixed views, but given the potential usefulness of this information, internally designated funds have been included within the scope of the disclosure requirements for fund accounting.

What should I comment on?

Providing an appropriate level of information about an NPO's funds can provide transparency about its financial resilience and can help to explain its activities and use of resources.

- Do you agree with the removal of the requirement to present funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses? **(Question 1a)**
- Do you agree that relevant expenses should be charged to a fund with restrictions, even if there is currently insufficient resources to cover them? **(Question 1e)**
- Do you agree with the proposed disclosure requirements for funds? **(Question 1f)**

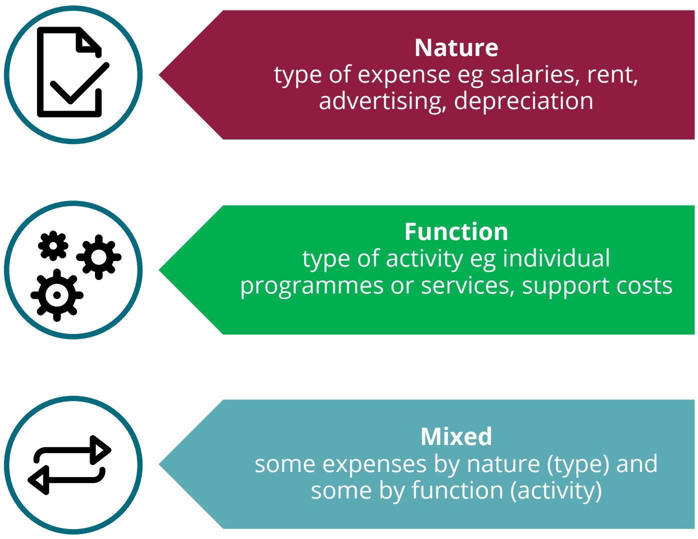
3. Classification of expenses – which presentation?

Proposal

Information about an NPO's expenses is important to support stewardship, transparency and accountability. Not all users are interested in the same information and providing multiple analyses is burdensome. The key consideration is whether to allow or require expenditure analysis according to nature or function, or allow a mixed basis.

To support comparability, INPAG includes the presumption that the most relevant and reliable information for users of the financial statements will be provided by an analysis of expenses based on their nature.

INPAG permits this presumption to be rebutted. This means that a functional or mixed analysis of expenses (with part expenses by nature and part by function) can be presented, if this provides information that is more relevant and reliable to the users of the financial statements. NPOs must provide a note explaining why they have chosen an analysis that is not based on the nature of expenses and why this improves the relevance and reliability of information to the users of their financial statements.



The analysis of expenses must be presented in the Statement of Income and Expenses or in the notes to the financial statements.

Proposal development – what else was considered?

There were a range of views about which presentation of expenses should be used, with insufficient support for a single approach. Consideration was given to allowing a free choice between the different classification approaches. Advisory groups expressed concern that such freedoms would not promote comparability. It was felt that creating a default method of expense classification would be beneficial even if this method was not prescribed. A nature of expenses classification was chosen as the default as it was thought likely to be easier to implement.

What should I comment on?

Given the diversity of NPOs and different information needs of users, it is important that expense information is relevant and reliable for users of the financial statements.

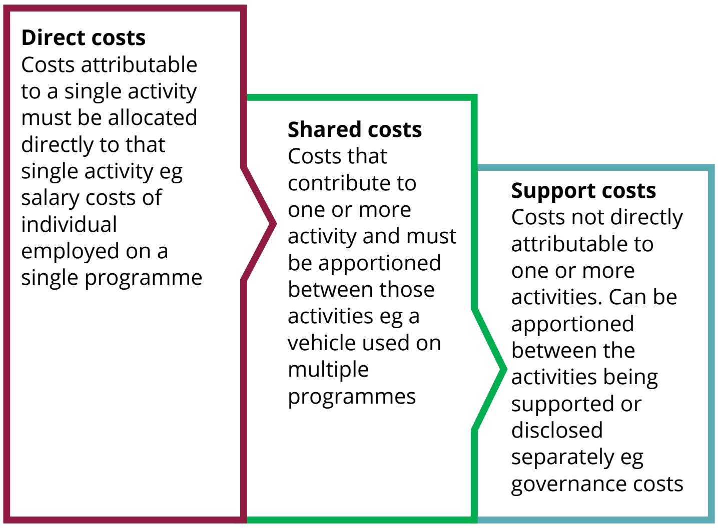
- Do you agree that a natural classification of expenses is used unless this doesn't provide the information that is most relevant and reliable to the users of the financial statements? **(Question 2a)**
- Do you agree that the rationale for using a classification of expenses other than a natural classification is disclosed? **(Question 2b)**

4. Classification of expenses – cost allocation

Proposal

Where an NPO chooses a functional or mixed analysis of expenses it is necessary to allocate and aggregate some or all expenses. NPOs must calculate the cost of the resources used to deliver each identified activity or function.

INPAG provides general principles to attribute costs to activities. Costs are categorised as direct costs (attributable solely to an individual activity), shared costs (attributable to more than one activity) or support costs (not attributable to any specific activities), with cost allocation or apportionment methods dependent on the cost category. In attributing costs to activities, the following general principles apply:



The method selected to allocate or apportion costs must ensure that the financial statements provide a faithful representation of the costs of an activity. The methods of allocating and aggregating expenses must be reasonable, and consistently applied within and between reporting periods unless circumstances change. The Implementation Guidance provides examples of bases for apportionment of costs such as capacity used, per capita allocation and time used.

Cost allocation is likely to be required to calculate fundraising costs and support costs (which will be necessary where Supplementary statements are being provided).

Proposal development – what else was considered?

Consideration was given to whether all costs (particularly support costs) should be reallocated when a functional or mixed analysis is used, or whether support costs should always be reported as a separate activity or category of costs. The Secretariat was of the view that NPOs should be able to choose whether to allocate all costs or retain support costs as a single category based on the information needs of the users of their financial reports.

What should I comment on?

A consistent approach to the identification of support costs, shared costs and direct costs aids consistency and therefore comparability across NPOs carrying out similar activities.

- Do you agree with the description of direct costs, shared costs and support costs to allow the full cost of an activity to be identified? **(Question 2e)**

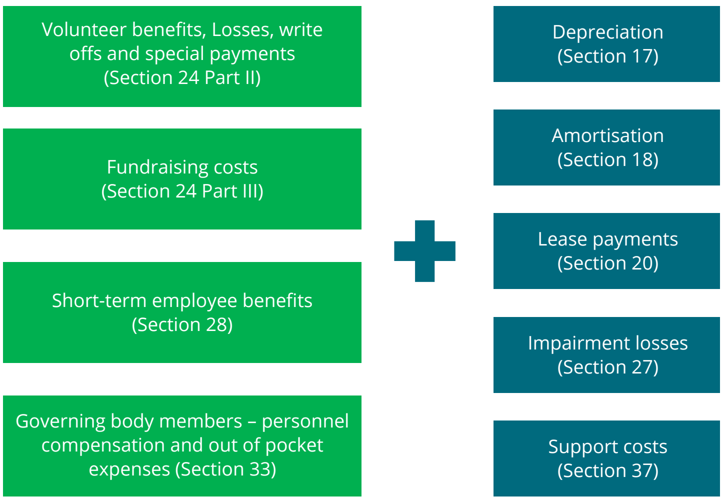
5. Classification of expenses – disclosures

Proposal

Providing flexibility about the way in which expenses can be classified may lead to significant inconsistencies in the information provided by NPOs, even where the NPOs are similar in nature. To mitigate this possibility, specific types of expense information must be included in the financial statements.

Regardless of the classification method used, NPOs must disclose certain expense information in the notes. Information on amounts paid to key management personnel and those charged with the governance of an NPO is critical. An amendment has been made to Section 33 *Related party disclosures* to reference members of the governing body and require disclosures about their personnel compensation (where permitted by law) and any expenses reimbursed. A consequential amendment has also been made to Section 28 *Employee benefits* to require the disclosure of short-term employee costs.

In addition to the expenses disclosures required in other sections of INPAG, there are two new disclosures in Section 24 Part II: benefits received by volunteers, and any losses, write-offs and special payments. The disclosure of losses, write-off and special payments includes transactions that are outside what would be expected for the normal activities of an NPO. It includes losses from fraud and additional payments made to suppliers beyond contract terms. Examples of transactions that would be included as part of this disclosure are included in the Implementation Guidance. A summary of the expense disclosures in INPAG is shown below, with the disclosures highlighted above shown in green.



To avoid duplication, the expense disclosure requirements will be met as long as they appear in the financial statements. Expense information is therefore not required to be repeated in a single separate note solely for expenses.

Proposal development – what else was considered?

A larger number of disclosures were initially considered, including information on programme and support expenses, key management personnel, employee remuneration and expenses on grants and donations. Advisory groups expressed concern that this could create a significant additional burden if applied to all NPOs. As some proposed disclosures repeated requirements in other INPAG sections or were incremental changes, it was proposed to address the requirements in the relevant sections of INPAG. Budget comparison information was considered but not included, as this can be addressed in the narrative report.

What should I comment on?

There is a risk that disclosures, particularly of narrative information, become overly standardised and/or create a burden. There is a need to ensure that they provide useful information and that important information is available from all NPOs.

- Do you agree with the expense disclosure requirements? **(Question 2d)**

6. Fundraising costs

Proposal

INPAG provides guidance about the categories of fundraising costs, how they should be calculated and disclosed.

INPAG describes three distinct categories of fundraising activities.

Donations, gifts, grants and similar transfers	• Seeking grants eg application costs • Operating membership schemes • Staging events • Advertising, marketing and direct mail materials
Commercial and trading	• Operating a trading outlet to sell donated and/or bought-in goods • Operating a trading company carrying out other commercial or trading activities
Investment management	• Portfolio management • Obtaining investment advice • Licensing intellectual property • Management of properties held for investment

Commercial and trading does not include activities relating to an NPO's primary purpose even if a charge or fee is paid for the goods or services. Therefore the costs of delivering the NPO's primary purposes including marketing are not fundraising. Funds raised through investment management do not include the costs involved in the day-to-day investment of funds, for example, managing working capital. Each category of fundraising is to be calculated using the allocation and aggregation principles set out in the classification of expenses and are required to be separately disclosed.

For expenses that are incurred for more than one purpose, such as raising funds while also raising awareness of the activities of the NPO, INPAG requires that these are split, where this does not require undue cost or effort. The concept of materiality needs to be applied in determining whether such expenses should be split.

Proposal development – what else was considered?

Consideration was given to restricting the scope of fundraising costs to cover only activities involving requesting or obtaining present or future donations, gifts or grants. A focus group held on fundraising costs supported a broader scope to include trading and commercial and investment management activities. The group felt that information on these costs that have been incurred in raising funds for the NPO's mission could be useful for users of general purpose financial reports, particularly if these were the single or main source of funds. TAG members discussed the potential for the line between fundraising and income generation to be blurred. There was a range of views on whether to include all three categories.

What should I comment on?

Information about fundraising costs is often of interest users of an NPO's financial report.

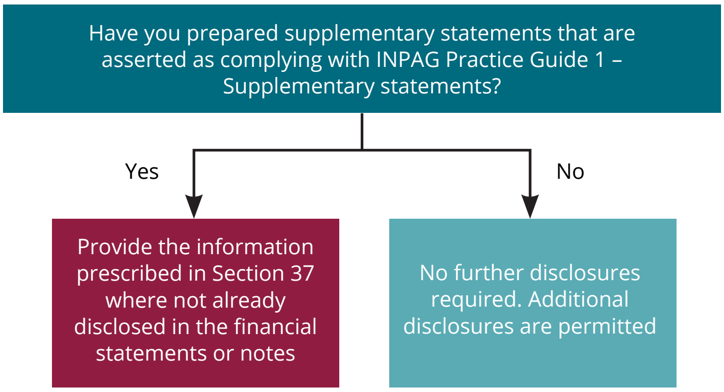
- Do you agree that commercial and trading and investment management activities are included as part of fundraising? **(Question 2f)**
- Do you agree that fundraising costs do not need to be split from other costs where the cost of doing so would exceed the benefits in terms of the information provided? **(Question 2g)**
- Do you agree that the costs of each of the three categories of fundraising activity should be separately disclosed? **(Question 2h)**

7. Supplementary information

Proposal

Supplementary statements may be prepared to provide information about specified funds or activities, such as particular grants or projects. Separate guidance for the creation of Supplementary statements is provided in INPAG Practice Guide 1 – Supplementary statements (the Practice Guide). For NPOs that use this Practice Guide, the requirements of INPAG Section 37 *Supplementary information* must also be met. An NPO can elect to make the disclosures in INPAG Section 37 even if it does not present Supplementary statements.

Section 37 requires presentation of information about the entire NPO, according to the analysis in the Practice Guide, thereby creating a link to any Supplementary statement(s).



This information provides an auditable base from which Supplementary statements can be produced. This is important as the Supplementary statements produced using the Practice Guide will sit outside of the general purpose financial report.

To comply with INPAG Section 37, NPOs may choose to present a note within the general purpose financial statements with information for the whole entity using the format of the Supplementary statement in the Practice Guide. A whole of NPO Supplementary statement provides additional information for all primary users. A whole of entity statement is not, however, required as long as all the information necessary to construct such a note could be found elsewhere within the financial statements and notes.

Proposal development – what else was considered?

Consideration was given to requiring all NPOs to present a whole of NPO Supplementary statement as either a new primary statement or a disclosure note. This was considered to be burdensome, particularly for those NPOs who do not produce Supplementary statements, and it might not benefit users of the general purpose financial reports. Given the choices available in INPAG Section 24 Part II *Classification of Expenses* for the presentation of expenses, NPOs that produce Supplementary statements may converge their expense classification with the prescribed analysis in the Practice Guide over time. The advice was to minimise additional requirements in the interim.

What should I comment on?

Alternative presentations of income and expenses provide additional information that can be useful to the users of general purpose financial reports.

- Do you agree that the requirements of Section 37 do not have to be met unless an NPO is preparing supplementary statements using the Practice Guide? **(Question 3a)**
- Do you agree it is not necessary to present a whole of NPO supplementary statement if the information in the notes is sufficient to construct one? **(Question 3b)**

8. Supplementary statement guide

Proposal

The objective of INPAG Practice Guide 1 – Supplementary statements (the Practice Guide) is to enable the presentation of key financial information about specified activities, projects or grants that could be useful to stakeholders for accountability purposes. The Practice Guide is not part of INPAG, rather it is a complementary publication. Any Supplementary statements presented can be included in an Annex to the general purpose financial statements.

The Practice Guide requires specific categories of income, expenses, other costs, transfers and fund balances to be presented in a prescribed format. The format includes a classification of the direct costs of an activity, grant or project by nature. This reflects the main categories of expense expected to be required by stakeholders. The Practice Guide allows NPOs to choose whether to show support costs as a separate cost category, or to present them alongside the directs costs using the natural expense headings.

There is an optional special treatment for the acquisition of capital items (fixed assets) and inventory items. Where specific funds have been provided for these items NPOs can disclose their acquisition in a special section. Adjustments are made to remove the potential for double counting of depreciation or amortisation, and inventory expenses.

Total expenses

−

Inventory – expenses related to issuing of inventory
Depreciation and amortisation – acquired assets

+

Acquisition or construction of capital items
Purchase of inventory items

=

Expenses, inventory and capital costs

The Practice Guide requires that each Supplementary statement is supported by notes that explain the purpose and scope of each statement and the basis of preparation. A reconciliation to the general purpose financial statements and an attestation is also required. The Practice Guide provides templates for different variants, including comparison to budget, multiple grants, multiple time periods and different currencies.

Proposal development – what else was considered?

The inclusion of the requirements of the Guide within INPAG was considered, but the level of flexibility permitted by the Practice Guide is not consistent with the principles of general purpose financial reporting. Also including requirements to produce supplementary statements within INPAG could place increased burdens on some NPOs without any benefit. Making the treatment of capital and inventory costs mandatory rather than optional was considered, but this was not progressed, in favour of the flexibility for NPOs to apply it to their circumstances.

What should I comment on?

The Supplementary statement format is intended to reflect the information needs of stakeholders, particularly funders, and lead to increased consistency and lower reporting burdens over time. Providing a link to the (audited) general purpose financial report, can improve assurance.

- Do you agree with the format of the Supplementary statement? **(Question 3c)**
- Do you agree with the disclosures for capital and inventory related costs and that these are optional? **(Question 3d)**
- Do you agree that the Supplementary statements can be published as an annex to the general purpose financial report? **(Question 3e)**

9. Equity

Proposal

ED1 included equity as a financial statement element. Respondents raised concerns that the proposed definition of equity was problematic for NPOs. ED3 revises the definition of equity, removing it as a financial statement element, and also provides clarification about the characteristics of equity instruments for NPOs. The guidance addresses the concept of ownership and/or entitlement to the net assets of an NPO.

Net assets replaces equity as a financial statement element.

Net assets	the residual available to the NPO to achieve its objectives after deducting all its liabilities from its assets
Equity claims	the financial interest in the net assets of an NPO that is due to holders of those claims

In the rare instances where NPOs have some form of share capital or similar instrument, INPAG refers to these as equity claims. This term is used to create separation from the term equity used in the private sector. In the private sector equity is the residual interest in the assets of an entity after deducting all its liabilities, whereas in INPAG equity claims are a subset of net assets.

Section 22 has been amended to reflect the use of the term equity claims. This section clarifies that where an NPO issues membership shares that provide no entitlement to the NPO's net assets, that these should be treated as liabilities. Consistent with amendments to other sections, references to share-based payments have been removed, as well as content that reflects the use of commercial value to shares.

The illustrative examples have been updated and an instrument that can only be redeemed at par or an index-linked amount has been added.

Proposal development – what else was considered?

A survey was carried out on the kinds of equity instruments used by NPOs and the entitlements they provide. Largely, share capital did not appear to provide an entitlement to anything other than a return of funds. The interplay between ownership, equity and net assets was also examined. This included consideration of the extent to which control over an NPO by external parties leads to ownership, and the implications of a financial interest in the net assets of the NPO. Redefining equity was also considered, but it was considered preferable to refer to equity claims rather than to amend the established definition of equity for the NPO context.

What should I comment on?

Ownership, in the way used in the private sector, does not work in an NPO context as the net assets are held in a fiduciary capacity for service beneficiaries.

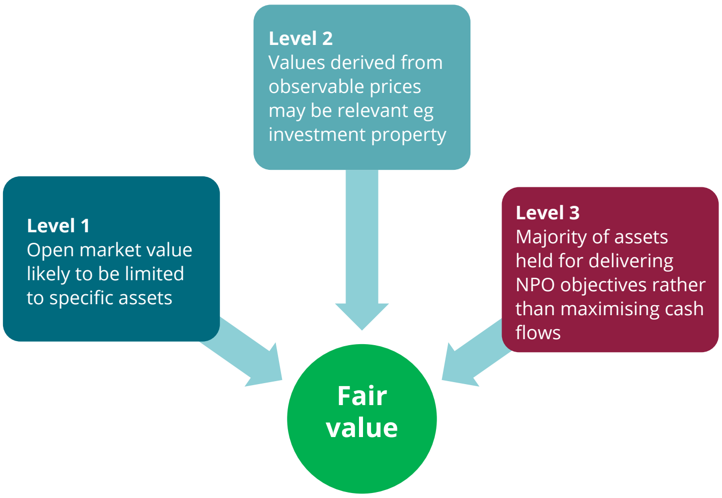
- Do you agree with the revised description of net assets and its inclusion as a financial statement element? **(Question 5a)**
- Do you agree with the use of the term equity claims rather than equity and that equity claims are a subset of net assets? **(Question 5b)**
- Do you agree that the paragraphs relating to the sale of options, rights and warrants, extinguishing financial liabilities with equity claim instruments and treasury shares in Section 22 are removed? **(Question 5c)**

10. Fair value measurement – donated assets

Proposal

The feedback to the Consultation Paper did not prioritise topics associated with the measurement of assets. Therefore, asset measurement has not been subject to in depth review in this phase of the development of INPAG. Amendments are limited to consequential changes needed as a result of new content or modifications made to other Sections.

INPAG requires that donated assets are measured using the fair value basis on initial recognition. INPAG provides application guidance that sets out how the fair value hierarchy is likely to apply to NPO assets and liabilities. This includes the use of a level 3 fair value for donations in-kind. The guidance mirrors the application guidance provided for Section 13 *Inventories*. It includes examples to cover volunteer time and a donation that exceeds the operating requirements of an NPO. The Guidance also clarifies how highest and best use applies to assets that have restrictions.



Donations to NPOs may include property, plant and equipment, investment property and intangible assets. An additional paragraph has been added to Section 16 *Investment property*, Section 17 *Property, plant and equipment* and Section 18 *Intangible assets not including goodwill* to provide guidance on the initial measurement of such assets. In all cases initial measurement requires the use of fair value to establish a 'deemed cost' for the donated asset.

When using the fair value guidance and assessing benefits generated by an asset, the term economic benefit has been expanded to include service potential as this will be a factor in measuring its value, particularly when there is a limitation on the use of an asset.

Proposal development – what else was considered?

The Secretariat considered additional guidance to determine the highest and best use of NPO assets, but were of the view that this might infer a level of review of this section that has not been carried out. Application guidance was considered preferable to adding text to the core guidance.

The TAG discussed the importance of the concept of service potential for NPOs. Given the scope of the topics included in this phase of INPAG, it was acknowledged that there should be limitations on the guidance provided to assist in applying this concept.

What should I comment on?

Where an NPO receives donations of gifts in-kind or services in-kind the use of fair value will be of fundamental importance to measurement.

- Is the guidance about the application of the fair value hierarchy and the illustrative examples for fair valuing donations in-kind useful? **(Question 7a)**
- Do you agree with the additional guidance provided for donated investment property (Section 16), property, plant and equipment (Section 17) and intangible assets (Section 18)? **(Question 7b)**

11. Transition to INPAG

Proposal

The implications for NPOs transitioning to INPAG will vary based on the local guidance or standards that each NPO is following. The date of transition to INPAG is the beginning of the earliest reporting period for which the NPO provides full comparative information in the financial statements.

In adopting INPAG for the first time, NPOs are required to provide comparative information for the previous comparable period. Opening balances for funds with restrictions and funds without restrictions are required. All assets and liabilities that are required to be recognised by INPAG must be included in the Statement of Financial Position, including enforceable grant arrangement (EGA) assets and liabilities. The requirements for EGAs are limited to grant arrangements that are due to be completed more than 12 months after the date of transition to INPAG. Grant arrangements completing before this time can be excluded. All loans that have been provided at a below-market rate of interest much be recognised using the requirements of Section 11 *Financial instruments.* INPAG has proposals for asset valuation that include:

Fair value or revaluation as deemed cost for property, plant and equipment including heritage assets

Fair value as deemed cost for financial assets (including endowments)

Fair value or revaluation value as deemed cost of inventory

INPAG includes the ability to limit the statement of compliance to the requirements for the preparation of the financial statements only, for a two-year transition period. Compliance with the narrative reporting requirements must be achieved within this two-year period. After the transition period, NPOs can only assert compliance with the complete set of INPAG requirements. Compliance for the financial statements only will not be possible after this point.

Proposal development – what else was considered?

Consideration was given to possible simplifications or pragmatic exceptions that could be applied. However, the requirement for opening balances for funds with restrictions and funds without restrictions limited the options available. The need for a transition period for narrative reporting was considered, taking on board feedback from ED1. Not all feedback supported a transition period, but on balance this was considered helpful as long as full compliance with INPAG could not be deferred indefinitely. The prevailing view was that a limited transition window would encourage NPOs to adopt the narrative reporting requirements quickly.

What should I comment on?

Stakeholders have emphasised the importance of narrative reporting and balances on funds with and without restrictions to understanding the financial resilience of an NPO.

- Do you agree with the pragmatic approaches proposed for the first-time adoption of INPAG? What practical challenges are likely to be experienced? **(Question 6a)**
- Do you agree that compliance with INPAG can be expressed in relation to the financial statements only (for a transitional period)? **(Question 6b)**

12. Other topics

Proposal

ED3 includes a number of other INPAG sections, with the majority only updated for terminology revisions or to align with other sections.

Section 14 *Investment in associates*	Section 15 *Joint arrangements*	Section 20 *Leases*
Section 19 *Business combinations including goodwill*	Section 27 *Impairment of assets*	Section 34 *Specialised activities*

Addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard

- Section 7 Statement of Cash Flows (supplier finance arrangements)
- Section 30 Foreign currency translation (lack of exchangeability)

Section 19 *Business combinations including goodwill*. NPOs may acquire other businesses or more likely, merge operations with another NPO. Additional text has been added to reflect the characteristics of NPOs (Section 1 *Non-profit organisations)* and the NPO context (Section 9 *Consolidated and separate financial statements* (eg additional examples of control)). The guidance makes clear that businesses include organisations that provide services to service recipients. It also covers NPO combinations that are motivated by an NPO's missional objectives rather than purely financial considerations.

A simplification has been provided where two NPOs both with positive net assets combine. This is on the basis that the cost of applying additional procedures would be disproportionate to the benefit.

Section 27 *Impairment of assets* has been amended to reflect the new measurement base for donated inventory held for distribution at no or nominal consideration, which is measured at its cost adjusted for any loss of service potential. It also clarifies that in assessing the value in use of an asset, other economic benefits and service potential are considered.

The impairment guidance refers extensively to cash-generating units in making assessments for impairment. In INPAG the term 'cash-generating unit' has been changed to 'operating unit'. An operating unit is the smallest identifiable group of assets that includes the asset being impaired and that is operated independently from other assets or groups of assets. An operating unit will therefore include assets that do not generate cash.

Section 34 *Specialised activities* includes guidance on three types of specialised activity: agriculture, extractive activities and service concessions. No adaptations have been made to this section, but feedback is requested on whether these activities are relevant to NPOs.

Proposal development – what else was considered?

While some NPOs may not see themselves as carrying out a business, the principles were considered relevant. There were concerns that the term 'business combination' might be misunderstood, particularly when two NPOs merge, but changing terminology when 'business' is pervasive in the text would be risky. For impairment of assets, discussions included retaining the term 'cash-generating unit' but this was considered not to be meaningful for NPOs where they carry out activities that do not generate or maximise cash.

What should I comment on?

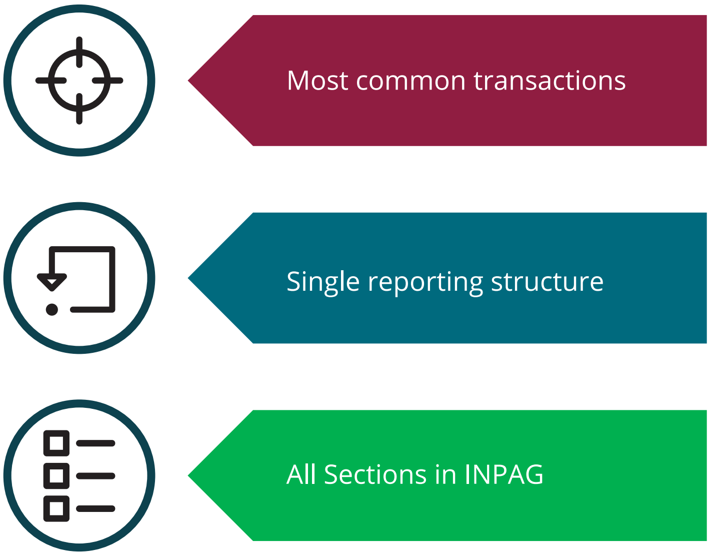
- Do you agree that the term operating unit better reflects the nature of an NPO's operations? **(Question 8b)**
- Do you agree that the term 'business' can be applied by NPOs? **(Question 9a)**
- Is any of the guidance in Section 34 needed by NPOs? **(Question 10b)**

13. Illustrative financial statements

Proposal

Illustrative financial statements were included as templates in ED1. The illustrative financial statements have been further developed to reflect all of the proposals across ED1, ED2 and ED3 and have been populated with data to aid understanding.

The illustrative financial statements show the primary statements and as well as examples of the notes to the financial statements. They are intended to cover those transactions that are most prevalent for NPOs and need to be read in conjunction with the illustrative examples for each Section. The focus is on requirements introduced by INPAG. They are not intended to capture all possible transactions and so do not cover every INPAG requirement.



The illustrative financial statements include information that may be useful in aiding an understanding of the relationship between note disclosures and in particular the Statement of Cash Flows and of an NPO's financial position.

Proposal development – what else was considered?

Multiple sources of material will be available to support users when INPAG is published including the illustrative examples in each Section, training materials and the illustrative financial statements. The intention is not to duplicate these sources.

The type and scope of transactions to be included in the illustrative financial statements was considered, particularly the inclusion of more complex reporting structures and less common transactions. Providing illustrations of more complex reporting structures can be useful. However, for NPOs with simpler structures these illustrations may be more difficult to use. On balance it was concluded to focus on the likely most common transactions. This approach also avoids the illustrative financial statements becoming too long.

Consideration was also given to the need for additional material in the illustrative financial statements that go beyond the INPAG requirements. Some additional information has been included where this could help users to understand the objectives of a note disclosure and/or the relationship between different pieces of information.

What should I comment on?

- Do you agree that the illustrative financial statements cover the transactions that are most prevalent for NPOs? **(Question 4a)**

Specific matters for comment

Question 1: Fund accounting (Section 36 and Section 5)	References
a) Do you agree that the ED1 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?	G5.3, AG5.4
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?	G36.3–G36.4, Figure AG36.1
c) Do you agree that income, expenses, assets and liabilities are tracked for each fund? What are the costs and benefits? What, if anything, would you change and why? What are the practical considerations?	G36.5, G36.7, AG36.3
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?	G36.9
e) In order to provide transparency about the finances of an individual fund, do you agree that all the expenses should be charged against a fund with restrictions even if there are currently insufficient resources to cover these, or specific costs are not eligible under a grant arrangement? If not, what alternative would you propose and why?	G36.11–G36.12
f) Do you agree with the NPO funds disclosures requirements? If not, what would you change and why?	G36.21–G36.23
g) Do the Illustrative examples demonstrate the key concepts in fund accounting? If not, what would you change and why?	Implementation Guidance – Section 36

Question 2: Presentation of expenses, fundraising costs and related disclosures (Section 24 Part I, Section 24 Part II and Section 33)	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, G33.7–G33.11, G28.38
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
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 activities? 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 benefit 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

i) Do you agree that grants or donations made in arms'-length transactions with governing body members and any services they receive on the same terms as other eligible service recipients need not be disclosed as a related party transaction? If not, why not?	G33.18 a)–G33.18 b)
Question 3: Supplementary information (Section 37) and INPAG Practice Guide 1 – Supplementary statements	**References**
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?	G37.1–G37.2
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?	G37.3, G37.10–G37.12
c) Do you agree with the format of the Supplementary statement? If not, what would you change and why?	SS.5
d) Do you agree with the options for the disclosure of capital and inventory related costs? If not, what would you change and why?	SS.18–SS.21
e) Do you agree that the Supplementary statements are not part of the general purpose financial report but can be published as an annex? If not, why not?	SS.25–SS.26
Question 4: Illustrative financial statements (Implementation Guidance)	**References**
a) Do you agree that the illustrative financial statements cover the transactions that are prevalent for NPOs? If not, which prevalent transactions are missing and why do these need to be covered?	Illustrative financial statements
Question 5: Equity (Section 22 and Section 2)	**References**
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?	G2.73
b) Do you agree with the use of the term equity claims in Sections 2 and 22 and that equity claims are a subset of net assets? If not, what would you change and why?	G2.74, AG2.6, AG2.7, Section 22
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 from Section 22 and that 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?	G22.12–G22.15
Question 6: Transition to INPAG (Section 38)	**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?	G38.11–G38.12
b) Do you agree that compliance with INPAG can be expressed in relation to the financial statements only for a two-year transitional period? If not, why not?	G38.5–G38.6
Question 7: Application of fair value (Sections 12, 16, 17 and 18)	**References**
a) 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?	AG12.1–AG12.11
b) Do you agree with the additional guidance provided for donated:	
i) investment property (Section 16)?	G16.7
ii) property, plant and equipment (Section 17)?	G17.10
iii) intangible assets (Section 18)?	G18.14
If not, why not?	

Question 8: Impairments (Section 27)	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 operations 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

Question 9: Combinations of entities (Section 19)	References
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? What practical issues are experienced?	G19.4, G19.5, AG19.1–AG19.2
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?	G19.24

Question 10: Other topics (Sections 14, 15, 20 and 34)	References
a) Do you agree that no further alignment changes are needed to:	
i) Section 14 Investment in associates?	Section 14
ii) Section 15 Joint arrangements?	Section 15
iii) Section 20 Leases?	Section 20
If not, why not?	
b) Is any of the guidance in Section 34 needed by NPOs? If yes, which elements of the section are needed and why?	Section 34

Question 11: Addendum	References
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?	G7.20A–G7.20B,
b) Do you agree that the guidance on lack of exchangeability is useful and relevant to NPOs? If not, what would you change and why?	G30.5A, G30.31–32, AG30.26–AG30.43

Information for respondents to the consultation

CIPFA, as the technical lead for the IFR4NPO project, invites comments on Exposure Draft International Non-Profit Accounting Guidance (INPAG) – Part 3 (ED3).

Specific matters for comment are included at the end of each Section and summarised in this invitation to comment. Feedback to these questions would be helpful, as well as any general comments on the proposals.

Comments are most helpful if they:

a) Address the question asked;
b) Contain a clear explanation to support the response provided, whether this is agreeing or otherwise with any proposals made;
c) Propose alternatives for consideration, where responses are not in agreement with the proposal made;
d) Specify the paragraphs to which any comments relate; and
e) Identify any wording in the proposals that might not be clear because of how they translate.

You do not need to respond to all of the questions.

Who should respond?

ED3 is relevant to a range of NPO stakeholders. Responses are particularly welcomed from:

- Regulators
- Standard setters
- NPOs
- Auditors
- Professional accounting bodies
- Funders/donors
- Academics
- Public interest groups
- Finance ministries
- Tax authorities.

Other relevant documents

The Exposure Draft includes:

- Authoritative Guidance for Sections in INPAG
- The Basis for Conclusions relating to the content of this Exposure Draft, which includes:
  - considerations in developing the proposals
  - the potential effects of the proposals
- Implementation Guidance with illustrative examples and illustrative financial statements
- INPAG Practice Guide 1 – Supplementary statements
- Invitation to comment with significant matters for comment (SMCs).

Submit your comments

Please submit your comments electronically by **16 September 2024**:

- Online: **www.ifr4npo.org/have-your-say**
- By email: **ifr4npo@cipfa.org**

Stay informed: To stay up to date with the latest developments and to sign up for email alerts, please visit **www.ifr4npo.org**

Get in touch: If you would like to discuss the information in this Summary, please contact **info@ifr4npo.org**

Annex A – ED3 at a glance

New content in ED3

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 12 – Fair value measurement	This Section provides guidance on how to measure assets and liabilities using fair value and the required disclosures. Fair value is a market-based measurement and uses assumptions that market participants would use when pricing an asset and liability. Fair value is required to be used by NPOs when measuring donated assets. Additional guidance is provided for donations in-kind, including where a market price is not available. Additional illustrative examples have also been provided.	Editorial – Changes to align with other sections	Question 7 a)
Section 14 – Investments in associates	This Section provides guidance on accounting for associates in consolidated and separate financial statements. It defines an associate as an entity over which an NPO has significant influence, which is not a controlled entity or a joint arrangement.	Editorial – Changes to align with other sections	Question 10 a) i)
Section 15 – Joint arrangements	This Section specifies accounting for joint arrangements in consolidated and separate financial statements. A joint arrangement exists where the parties to the arrangement have collective control of the arrangement.	Editorial – Changes to align with other sections	Question 10 a) ii)
Section 16 – Investment property	This Section specifies the accounting for investments in land or buildings that are held to earn rentals or for their capital appreciation. This Section does not apply to property held to deliver an NPO's missional objectives, such as social housing. Investment property is measured at fair value where it can be measured reliably without undue cost or effort. Otherwise it is measured using the cost model in Section 17 *Property, plant and equipment.* The guidance distinguishes between purchased and donated investment property. All donated investment property is required to be initially measured at fair value.	Editorial – Changes to align with other sections	Question 7 b) i)

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 17 – Property, plant and equipment	This Section specifies the accounting for property, plant and equipment, including capitalisation and depreciation. It applies to all tangible assets that are held for use in the activities of the NPO and are expected to be used during more than one period. **There are no exceptions for assets that are funded by grants or donations**. It also applies to investment property whose fair value cannot be reliably measured without undue cost or effort. The guidance covers which tangible assets should be recognised, how they are measured and what disclosures are required. It permits these assets to be measured using a cost model or revaluation model. Guidance on approaches to depreciation is also provided. The guidance has been amended to require that donated property, plant and equipment are measured at fair value on initial recognition.	Editorial – Changes to align with other sections	Question 7 b) ii)
Section 18 – Intangibles other than goodwill	This Section applies to the accounting for all intangible assets other than goodwill. An intangible asset is an identifiable non-monetary asset that does not have a physical substance (eg licenses). The guidance covers which intangible assets should be recognised, how they are measured and what disclosures are required. The approach to measurement depends on whether the intangible asset was acquired, internally generated or exchanged for another asset. Guidance on the approaches to amortisation is also provided. The guidance has been amended to require that donated intangible assets are measured at fair value on initial recognition.	Editorial – Changes to align with other sections	Question 7 b) iii)

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 19 – Business combinations including goodwill	This Section applies to the combining of entities, (including NPOs) that meet the definition of a business. It provides guidance on the recognition and measurement of the assets and liabilities acquired in the combination. This includes the recognition and measurement of goodwill. The term business has been retained in this Section, with the characteristics of a business broadened to include the types of activities carried out by NPOs. A simplification has been added where there is a combination of two NPOs and both have positive net assets.	Editorial – Changes to align with other sections	Questions 9 a) and b)
Section 20 – Leases	This Section covers the accounting for all leases. It distinguishes between finance leases, where substantially all the risks and rewards incidental to ownership are transferred and operating leases, where they are not. This Section provides guidance on recognition, measurement and disclosures.	Editorial – Changes to align with other sections	Question 10 a) iii)
Section 22 – Liabilities and equity claims	This Section establishes the principles for classifying financial instruments as either liabilities or equity claims. The concept of ownership implied from equity in the private sector does not apply to NPOs 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. This Section has therefore been amended to reflect that INPAG does not use the term equity, with consequential amendments that reflect the expected nature of NPO equity claims.	Updated – minor changes replacing equity with equity claims	Questions 5 b) and c)

Section	**Summary of content**	**Changes from the *IFRS for SMEs* Accounting Standard**	**Comment Questions**
Section 24 – Expenses **Part II Classification of expenses**	Section 24 Part II is a new section that has been written to provide guidance relating to the presentation of expenses. It permits an expense analysis by nature, by function, or a mixture of the two. It includes a rebuttable presumption that an analysis by nature is used unless another analysis provides information that is more relevant and reliable. It permits the presentation of this information to be either on the face of the Statement of Income and Expenses or in the notes to the financial statements. Guidance is provided on the allocation and aggregation of costs where a functional or mixed presentation is used. Additional disclosure is required for for volunteer expenses, and losses, write-offs and special payments.	New Section specifically for NPOs	Questions 2 a) – g)
Part III Fundraising costs	Guidance is provided on the definition of fundraising activities. Three categories are identified that cover: activities to generate donations, gifts and similar transfers; commercial and trading activities; and investment management. The guidance on the allocation or aggregation of costs in Section 24 Part II is required to be used in calculating the cost of each category, which are required to be separately disclosed. There is a pragmatic exception where costs need to be split between fundraising and other activities.		

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 27 – Impairment of assets	This Section provides accounting guidance where the carrying amount of an asset is higher than its recoverable amount. It requires that the carrying amount is reduced to the recoverable amount. The Section includes the new measurement base for inventories held for distribution at no or nominal cost included in Section 13 *Inventories*. An amendment has been made to replace the term 'cash-generating unit' with 'operating unit' to encompass assets that are held for missional purposes rather than cash-generation. This Section confirms that value in use as specified in Section 2 *Concepts and pervasive principles* includes service potential.	Updated – minor changes to reflect the valuation of inventory held for no or nominal consideration and use of terminology	Questions 8 a) – c)
Section 33 – Related party disclosures	This Section requires disclosure to draw attention to the possibility that an NPO's financial position and/or its surplus or deficit have been affected by the existence of related parties because of transactions between the NPO and a related party. The Section requires that members of an NPO's governing body are considered to be a related party, whether or not they are paid. New disclosures have been added about personnel compensation and out of pocket expenses for these members. An exception to the disclosure of transactions with governing body members has been added to cover grants or donations they make or services they receive when these are made as part of an arms'-length transaction, or received on the same terms as other eligible service recipients.	Updated – minor changes to reflect relationships with the members of an NPO's governing body	Question 2 g)
Section 34 – Specialised activities	This section provides guidance on three types of specialised activities: agriculture, extractive activities and service concessions. The Section sets out the recognition, measurement and disclosure requirements for each activity.	Editorial – Changes to align with other sections	Question 10 b)

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 36 – Fund accounting	Section 36 is a new section that sets out the characteristics of a fund for the purposes of INPAG and whether a fund should be presented in the financial statements as being with or without restrictions. A fund where the use of resources is limited to a specific purpose or activity as a consequence of externally imposed legal or equivalent arrangements is a restricted fund. A fund established as a consequence of a fundraising campaign with an externally communicated commitment on the specific purpose to which the funds will be put will also be a restricted fund. The guidance requires that the income, expenses, assets and liabilities associated with a fund are recorded. New disclosures are required for fund balances and movements in the year.	New Section specifically for NPOs	Questions 1 b) – g)
Section 37 – Supplementary information	Section 37 is a new section that requires additional information to be disclosed when an NPO produces one or more supplementary statements using INPAG Practice Guide 1 – Supplementary statements (the Practice Guide). Section 37 requires that all of the categories of information required by the Practice Guide be disclosed. The Section places reliance on the disclosures required by other sections of INPAG with additional disclosures only needed where this is not available. NPOs may choose to prepare a note that covers all of the requirements of the Guide, or disclose only the additional information.	New Section specifically for NPOs	Questions 3 a) – c)

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 38 – Transition to INPAG	This Section applies to any NPO adopting INPAG for the first time irrespective of whether it has previously produced accounts conforming to another accounting framework. It sets out the requirements for recognising and measuring assets and liabilities to create a Statement of Financial Position compliant with INPAG. Fair value can be used to create a deemed cost for specified assets and liabilities. This includes property, plant and equipment, heritage assets and inventory. The requirement to recognise grant arrangements only extends to those that will not be completed within 12 months of the adoption date. Accumulated funds that contain historic surpluses and deficits must be split between funds with restrictions and funds without restrictions. A transition period for adoption is permitted. Compliance with just the financial statements can be asserted ahead of full compliance including the narrative report. The narrative reporting requirements must be completed within a two-year period to be able to continue to express compliance with INPAG.	Updated – minor changes to reflect requirements of INPAG	Questions 6 a) and b)
Illustrative financial statements	Illustrative financial statements have been prepared as an Annex to the Implementation Guidance. The templates have been populated with data to cover the most common NPO transactions. The illustrative financial statements focus on new INPAG requirements.	New – illustrative financial statements specifically for NPOs	Question 4

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
INPAG Practice Guide 1 – Supplementary statements	This Practice Guide has been created to enable the presentation of key financial information about a specified activity, project or grant. The Practice Guide requires the disclosure of specific categories of income, expenses other costs, transfers and balances, in a prescribed statement format. It requires each statement to be supported by notes that explain the purpose and scope of each statement and the basis of its preparation. A reconciliation to the general purpose financial statements and an attestation is also required. The Practice Guide provides templates for different variants of reporting that includes comparison to budget, multiple grants, multiple time periods and different currencies. The Practice Guide is not part of INPAG but is linked to it through Section 37 *Supplementary information.* Where Supplementary statements prepared using the Practice Guide are presented with the general purpose financial statements, they must be shown as an Annex.	New Practice Guide	Questions 3 d) – f)

Sections included in previous Exposure Drafts, where there are revisions in ED3

Section	Summary of content	Changes from the *IFRS for SMEs* Accounting Standard	Comment Questions
Section 2 – Concepts and pervasive principles	This Section provides the concepts and principles on which INPAG is based. Since ED1, amendments are proposed to the paragraphs related to equity and net assets. Net assets is proposed to be a new element in the financial statements that reflects the residual amount of an NPO's assets and liabilities available to achieve its objectives. The term equity claim is introduced to describe equity type instruments. The definition of funds with restrictions is removed as it is now located in Section 36.	Modified – Major changes to reflect NPO-specific requirements	Questions 5 a) and b)
Section 5 – Statement of Income and Expenses	This Section sets out what information is required to be presented in the Statement of Income and Expenses. Since ED1, the requirement to separately disclose funds with and without restrictions on the face of the statement has been removed. Section 6 – *Statement of Changes in Net Assets* still requires the surplus or deficit for the period to be split between funds with restrictions and funds without restrictions. This information therefore remains accessible to users of the financial statements.	Modified – Major changes to reflect NPO-specific requirements	Question 1 a)
Section 7 – Statement of Cash Flows	This Section provides guidance on the preparation of the Statement of Cash Flows and related disclosures. ED3 includes additional text proposed in the Addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard issued by the International Accounting Standards Board on 28 March 2024.	Editorial – Changes to align with other sections	Question 11 a)
Section 28 – Employee benefits	This Section provides guidance on the recognition, measurement and disclosure of all employee related benefits. An additional disclosure on short-term employee benefits is proposed in ED3 as a consequence of the proposals on the classification of expenses.	Updated – minor changes to disclosure requirements	Question 2 c)
Section 30 – Foreign currency translation	This Section provides guidance on foreign currency translation. ED3 includes additional text proposed in the Addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard issued by the International Accounting Standards Board on 28 March 2024.	Editorial – Changes to align with other sections	Question 11 b)

Annex B – Main content of each Exposure Draft

ED1			ED2			ED3		
Section	**Title**	**Change made**	**Section**	**Title**	**Change made**	**Section**	**Title**	**Change expected**
	Preface	Modified (Major)	11	Financial instruments	Editorial	12	Fair value measurement	Editorial
1	NPOs	Modified (Major)	13	Inventories	Updated (Minor)	14	Investment in associates	Editorial
2	Concepts and pervasive principles	Modified (Major)	21	Provisions and contingencies	Editorial	15	Joint arrangements	Editorial
3	Financial statement presentation	Updated (Minor)	23 Part I	Revenue from grants and donations	New	16	Investment property	Editorial
4	Statement of Financial Position	Modified (Major)	23 Part II	Revenue from contracts with customers	Editorial	17	Property, plant and equipment	Editorial
5	Statement of Income and Expenses	Modified (Major)	24 Part I	Expenses on grants and donations	New	18	Intangible assets other than goodwill	Editorial
6	Statement of Changes in Net Assets	Modified (Major)	25	Borrowing costs	Editorial	19	Business combinations and goodwill	Editorial
7	Statement of Cashflows	Updated (Minor)	26	Share based payments	Removed	20	Leases	Editorial
8	Notes to the financial statements	Updated (Minor)	28	Employee benefits	Updated (Minor)	22	Liabilities and equity	Updated (Minor)
9	Consolidated and separate financial statements	Updated (Minor)	29	Income tax	Editorial	24 Part II	Classification of expenses	New
10	Accounting policies, estimates and errors	Updated (Minor)	30	Foreign currency translation	Updated (Minor)	24 Part III	Fundraising costs	New
35	Narrative reporting	New	31	Hyperinflation	Editorial	27	Impairment of assets	Updated (Minor)
			32	Events after the reporting period	Editorial	33	Related party disclosures	Updated (Minor)
						34	Specialised activities	Editorial
						36	Fund accounting	New
						37	Supplementary information	New
						38	Transition to the Guidance	Updated (Minor)
							INPAG Practice Guide 1 – Supplementary statements	New

Annex C – Acronyms

ED	Exposure Draft	A document published by the INPAG Secretariat to solicit public comment on proposed reporting guidance.
EGA	Enforceable grant arrangement	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.
EGO	Enforceable grant obligation	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.
GPFR	General purpose financial reports	A set of financial statements with narrative reports prepared under generally accepted accounting principles to provide information that is useful to users for accountability and decision-making purposes.
IASB	International Accounting Standards Board	An independent group of experts with responsibility for the development and publication of IFRS Accounting Standards, including the IFRS for SMEs Accounting Standard.
IFAC	International Federation of Accountants	A global organisation for the accountancy profession. It serves the public interest by enhancing the relevance, reputation and value of the global accountancy profession.
IFR4NPO	International Financial Reporting for Non-Profit Organisations	A project that aims to develop the first ever international financial reporting guidance for non-profit organisations (NPOs).
IFRS Accounting Standards	International Financial Reporting Standards	A set of accounting standards developed by the International Accounting Standards Board (IASB) for use by profit making private sector organisations internationally.
IFRS for SMEs Accounting Standard	International Financial Reporting Standards for Small and Medium-sized Entities	A standalone standard developed by the International Accounting Standards Board (IASB) based on the principles in full IFRS Standards but tailored for entities that do not trade on a public market (eg a stock exchange).
INPAG	International Non-Profit Accounting Guidance	High-quality, trusted, internationally recognised financial reporting guidance for NPOs being developed as part of IFR4NPO.
IPSAS	International Public Sector Accounting Standards	A set of accounting standards developed by the International Public Sector Accounting Standards Board (IPSASB) for use by government and public sector organisations internationally.
IPSASB	International Public Sector Accounting Standards Board	The International Public Sector Accounting Standards Board develops accounting standards and guidance for use by public sector entities.

NPOs	Non-profit organisations	For the purposes of INPAG, these are organisations that have the primary objective of providing a benefit to the public, direct surpluses for benefit of the public, and are not government or public sector entities.
OFA	Other funding arrangement	An arrangement with a grant recipient that is not an enforceable grant arrangement.
TAG	Technical Advisory group	A forum where the INPAG Secretariat can consult experienced individuals nominated by National Standard Setters (NSS), on the overall approach to the development of financial reporting guidance for non-profit organisations (NPOs).

INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

www.ifr4npo.org

ISBN: 978 1 84508 598 8