International Non-Profit
Accounting Standard

Basis for Conclusions

2025: First edition

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Preface

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Background and history

BP1 This Basis for Conclusions summarises the factors considered during the development of the International Non-Profit Accounting Standard (INPAS). It includes details of significant matters raised by respondents and the key changes made to the approaches that were set out in the IFR4NPO Consultation Paper (CP) Parts 1 and 2 and/or the three Exposure Drafts (EDs).[1]

BP2 The CP proposed that only prioritised topics would be developed for the first edition of INPAS. Ten (10) topics were prioritised for inclusion, with the remaining topics to be updated or edited only for Non-Profit Organisation (NPO) related terminology changes, alignment with other sections or consequential changes arising from modifications to the other sections. The Basis for Conclusions for each section identifies the extent to which it has been modified.

BP3 INPAS is an accrual-based standard. The additional information accrual accounting can provide improves the quality and transparency of financial reports and information. Accrual accounting is also best able to address issues specific to NPOs and improve comparability. Respondents to the CP were asked to highlight practical challenges that NPOs might face in implementing accrual-based guidance.

BP4 Respondents noted that some NPOs and their staff would potentially not have the capacity and capability to move to and maintain an accrual-based accounting system. Respondents deemed this a particular issue for those NPOs reliant on volunteer and/or non-specialist staff who might not have the skills and technical expertise required or understand accrual-based financial reports.

BP5 Respondents commented that access to, and the affordability of, the education and training needed to apply accrual accounting would be challenging in many jurisdictions. Respondents also commented that the resources needed to introduce computer software and hardware that would be required for accrual accounting would be scarce for many NPOs. The additional costs associated with compliance and audit of accrual-based financial reports was also noted as posing additional burdens.

BP6 In addition to practical challenges, some respondents to the CP also raised conceptual challenges to the use of accrual accounting. The most common was that NPOs with less complex financial reporting needs were unlikely to gain any significant benefit from accrual-based guidance. Respondents noted that this was because the stakeholders of these NPOs would have little understanding of accrual-based financial information and their transactions were simple and adequately accounted for on a cash basis.

BP7 Respondents also commented that for many NPOs, donors and regulators would continue to require cash or modified cash basis reports to understand the utilisation of funding or for tax or other purposes.

BP8 The key considerations when developing and finalising INPAS have been these practical and conceptual issues, together with the need to ensure that the guidance provides for proportionate financial reporting requirements that can be applied by a wide range of NPOs in many jurisdictions. For some NPOs, cash-based or modified cash-based accounting will continue to be appropriate given the level of the financial reporting needs of their users.

1 The IFR4NPO Consultation Paper and Exposure Drafts can be found at www.inprf.org.

BP9 While there are costs to producing accrual-based financial information, for many NPOs these will be significantly outweighed by the benefits to them and the users of this information for accountability and decision-making purposes.

Role of international frameworks in INPAS development

BP10 It has not been possible with the resources available to develop, from first principles, a conceptual framework and complete suite of NPO financial reporting standards. The use of existing international frameworks is a pragmatic approach given the time and resource constraints. There are several examples from across the globe of jurisdictions that have adapted existing international frameworks to develop NPO financial reporting frameworks that demonstrate that an adaptive approach can succeed.

BP11 There are significant advantages in being able to utilise the work that has been undertaken to develop and maintain these international frameworks, including the extensive consultation and best practice development processes associated with these frameworks, the potential for familiarity among preparers and users and the existence of extensive educational and support material.

BP12 International frameworks are considered the best start point. This is because they are not based on a single jurisdictional legal framework, which might not be applicable in other jurisdictions. They are developed with international application in mind and are subject to international due process.

BP13 Assessment of the existing international frameworks showed that the use of the *IFRS for SMEs* Accounting Standard[2] as the foundational framework for INPAS had the most benefits, as it provides a shorter, simplified stand-alone Standard with less onerous disclosure requirements.

BP14 Several respondents to the CP questioned whether International Public Sector Accounting Standards (IPSAS) would be more appropriate as the foundational framework. IPSAS is a key source of financial reporting guidance on public benefit related financial reporting issues. Had an "IPSAS for SMEs" standard been available, that could have potentially provided a more NPO-aligned foundational framework than the *IFRS for SMEs* Accounting Standard. Such a framework does not currently exist. While recognising that IPSAS addresses some NPO-specific accounting issues, it was considered that the benefits of utilising the shorter, simpler, stand-alone *IFRS for SMEs* Accounting Standard outweighed this potential benefit.

BP15 It is recognised that existing international frameworks have been developed to provide financial reporting standards for for-profit organisations and government entities based on their respective sector contexts and the needs of their primary users of financial statements. In developing INPAS, the primary users of NPO general purpose financial reports have been identified and their financial and non-financial information needs considered. The primary users of NPO general purpose financial reports are covered in A2 *Concepts and pervasive principles*.

BP16 The process for using the *IFRS for SMEs* Accounting Standard as a starting point, with terminology changes and modification made where necessary for the NPO context is similar to the IPSASB's well-established process for using relevant IASB documents as a start point for its standards. The process used in the development of INPAS can be found in Process for developing the International Non-Profit Accounting Standard through changes to the IFRS for SMEs Accounting Standard*.*

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

BP17 Other international and jurisdictional-level frameworks have been used to develop financial reporting guidance where NPO-specific financial reporting issues have not been comprehensively or appropriately dealt with in the existing *IFRS for SMEs* Accounting Standard, or where there is no related section in the *IFRS for SMEs* Accounting Standard.

BP18 Only those sections prioritised in response to the CP have been fully modified for the NPO context. Consequently, not all the sections that are in the *IFRS for SMEs* Accounting Standard have been reviewed to address NPO-specific issues. When INPAS has not yet addressed the NPO-specific issues for a topic, the relevant sections in the *IFRS for SMEs* Accounting Standard have been retained for now. These sections have been reviewed to ensure alignment with modified or new INPAS sections, with editorial changes or updates made. The changes are limited to those that are necessary to ensure that INPAS is internally consistent. One section of the *IFRS for SMEs* Accounting Standard, Section 26 *Share-based Payments*, has not been included in INPAS, as it was not considered relevant to the NPO sector.

Role of INPAS in preparing general purpose financial reports

BP19 INPAS is a single, stand-alone financial reporting standard that can be applied to prepare general purpose financial reports of NPOs without the need to access or to have knowledge of other financial reporting frameworks.

BP20 INPAS provides financial reporting guidance to prepare general purpose financial reports. General purpose financial reports present management commentary and other narrative reporting alongside the financial information contained in the general purpose financial statements.

BP21 General purpose financial reports provide users with information to allow a meaningful understanding of an NPO's nature, objectives, strategy, risks and performance. When used effectively, management commentary and other narrative reporting provides a range of performance measures and indicators consistent with underlying financial information. This can give users a clearer view of the impact of the NPO's projects, programmes and wider activities.

BP22 Respondents to the CP recognised that it was important to include non-financial information reporting within INPAS as its inclusion would be beneficial in enabling NPO financial reports to meet the broader needs and expectations of users. Guidance on the requirements for non-financial information reporting is included in A3 *Narrative reporting*.

BP23 Respondents noted that there is likely to continue to be a requirement for other forms of reporting by NPOs, including potentially reporting using a different accounting basis. INPAS can, however, support a reduction in the reporting burden on NPOs, as greater consistency in requirements at the level of general purpose financial reports will enable a range of stakeholders to make greater use of these financial reports. The introduction of a common financial reporting standard also has the potential to reduce diversity in different reporting requirements if utilised by donors for any continued special purpose financial reports requested from NPOs.

BP24 INPAS does not address the specific requirements of those that have the authority to request financial information to meet their specific needs. However, in recognition of the importance of special purpose financial reporting to NPOs, a separate guide has been developed. INPAS Practice Guide 1 – *Harmonised grant reporting* provides guidance on the presentation of information for specific grants, projects and programmes. The information in statements prepared using this Practice Guide is linked to the information in INPAS general purpose financial reports through the requirements in H4 *Supplementary information*.

BP25 INPAS Practice Guide 1 is intended to improve the consistency of information needed for special purpose financial reports and improve assurance through connectivity to audited general purpose financial reports. Adoption of INPAS by regulatory bodies and INPAS Practice Guide 1 by donors can lead to harmonisation of reporting requirements.

Authority of INPAS

BP26 The International Financial Reporting for Non-Profit Organisations (IFR4NPO) project was funded by donations and grants and delivered jointly by a Project Secretariat formed of two NPOs, the Chartered Institute of Public Finance and Accountancy (CIPFA) and Humentum.

BP27 A Governance Group comprising executive and non-executive members has governed the project. The Governance Group has provided oversight to the delivery of the project, ensuring that the project partners remain focused on the project objectives and that it is delivered through a robust due process.

BP28 CIPFA formed the INPAS Secretariat, which has developed INPAS. The INPAS Secretariat uses professional judgement in reaching its conclusions. As part of due process, it consults with the Technical Advisory Group (TAG) on technical financial reporting considerations. The aim of these consultations is to achieve consensus on the changes proposed. The INPAS Secretariat also consults with the Practitioner Advisory Group on practical financial and operational implications for NPOs. The Governance Group has reviewed and approved the due process used in developing INPAS.

BP29 Decisions on which entities are required or permitted to use INPAS rests with legislative and regulatory authorities and standard setters in individual jurisdictions. It will be for these authorities to determine whether the INPAS accrual-based guidance in whole, or part, should apply and to which entities. An NPO will, however, only be able to state that its general purpose financial reports are compliant with INPAS if it complies with all INPAS requirements.

BP30 Legislative and regulatory bodies including standard setters are expected to take account of local regulatory requirements including compliance with local laws when determining how to apply INPAS in their jurisdiction. INPAS specifications are not intended to replace or override local legislative or other regulatory requirements.

BP31 Donors are expected to benefit from INPAS through higher-quality, more consistent general purpose financial reports. Donors that require their grantees to use INPAS Practice Guide 1 will benefit from the link to audited financial information that is required by INPAS.

Group A

Principles

BA1 – Non-Profit Organisations

Background and history

BA1.1 INPAS has been developed to provide accounting guidance specifically for non-profit organisations (NPOs). A1 *Non-Profit Organisations* uses a broad characteristics approach to identify the entities who will benefit from applying INPAS. This approach focuses on how to best meet the needs of users of general purpose financial reports for these entities.

BA1.2 Respondents to the IFR4NPO Consultation Paper (CP) were overwhelmingly supportive of this approach. This was because a narrower focus on entities with, for example, a specific legal status as an NPO could exclude many entities that could benefit from INPAS, and not all jurisdictions have a relevant legal framework that would permit a narrow legal status-based approach. In addition, entities that are deemed to be NPOs in one jurisdiction's legislative framework might not be deemed to be an NPO in another jurisdiction, despite them being structured in the same way and carrying out the same activities.

BA1.3 INPAS can be beneficial for all non-profit organisations, regardless of their size or jurisdiction. For smaller organisations with straightforward stakeholder needs and no fiduciary obligations, the requirements of INPAS, particularly the use of accrual accounting, could exceed their accountability requirements. However, INPAS provides useful guidance that these NPOs might draw on and potentially adopt over time. Organisations that meet the public accountability definition under IFRS are required to follow full IFRS Accounting Standards, or equivalent national Generally Accepted Accounting Practice (GAAP). Nonetheless, INPAS could provide useful guidance for NPO-specific transactions. It is important to recognise that the decision about which entities apply INPAS rests with legislative and regulatory authorities and standard setters in individual jurisdictions.

Description of non-profit organisations

BA1.4 In Exposure Draft 1 (ED1), the broad characteristics of NPOs were revised to reflect the feedback on the CP. This revision included the removal of 'and/or' statements, with an entity required to display all the broad characteristics to be classified as an NPO for the purposes of INPAS. ED1 proposed that an entity is an NPO if:

(a) its primary objective is to provide a benefit to the public;
(b) it directs any surpluses for public benefit; and
(c) it is not a government or public sector entity that should prepare general purpose financial reports under public sector financial reporting standards.

BA1.5 Respondents to ED1 generally agreed with the focus of the first two characteristics (subject to the comments in paragraphs BA1.6–BA1.15). However, respondents were concerned about defining NPOs based on their public sector reporting obligations. Respondents thought that INPAS might be suitable for some public sector entities, particularly those that operate at arms' length from government (see paragraph BA1.23). The third characteristic in BA1.4 (c) was removed in response to this feedback, with clarification that public sector entities were expected to follow IPSAS.

Primary objective of providing a benefit to the public

BA1.6 Feedback on ED1 regarding the inclusion of the term 'public' in the broad characteristics was varied. Several respondents expressed concern about the ambiguity of the term and proposed alternative wording.

BA1.7 Respondents to ED1 also provided feedback about whether 'providing a benefit to the public' sufficiently includes smaller, specific target groups in addition to the wider public. A1 has been clarified so that the scope of the benefit to the public could be broad, involving the provision of services and/or goods to members of the general public, members of particular communities or for wider societal benefit. It follows that the focus of an NPO could be narrow, targeting a specific group or defined group. The Implementation Guidance has further elaborated that the sufficiency of the public benefit should be evaluated in relation to the NPO's specific purpose. Even if the NPO's focus is on a smaller, specialised group, the public impact must be meaningful and aligned with its overarching goals.

BA1.8 Having considered the scope of the 'public' and potential alternatives, the term 'public' remained the most appropriate. Amendments were made to address ambiguities. The authoritative guidance defines the 'public' as the individuals or groups who directly or indirectly benefit from the NPO's services and activities in pursuit of the NPO's primary objective. The key factor was that the 'public' who were the beneficiaries and benefit from the reinvestment by an NPO of its surpluses were not the same as the holders of its equity claims.

BA1.9 Some respondents sought clarification on the level of private benefits that an NPO could provide and an entity still be considered to be an NPO. INPAS acknowledges that, while an NPO might provide some private benefits, these benefits must remain secondary to the NPO's primary objective of providing a benefit to the public.

BA1.10 Based on the feedback it was decided not to set a specific quantitative threshold for what constitutes 'incidental' private benefit because the impact of private benefits could vary significantly depending on the context and nature of the NPO. A rigid, numerical threshold might not account for the diverse ways in which NPOs operate across different sectors, jurisdictions and community needs. Instead, INPAS requires a qualitative assessment that allows for more nuanced judgement, to ensure that private benefits do not overshadow the primary objective of providing a public benefit, while allowing flexibility in interpretation based on an NPO's unique circumstances. The existence of private benefits should not divert resources away from an NPO's purposes or undermine its ability to deliver its core mission of providing public benefit.

Direct surpluses for public benefit

BA1.11 Feedback on ED1 called for clearer guidance on how surpluses could be used. Respondents sought clarity on whether an NPO would be expected to operate at breakeven, or whether it could retain surpluses to build capacity, and on profit-making activities carried out to support mission-driven purposes. Respondents also sought clarity on the use of surpluses on individual grants, projects or programmes.

BA1.12 NPOs need to be financially viable to meet their objectives. This means that NPOs might undertake activities that generate a financial surplus (or profit) such as selling goods and services or holding and trading financial assets, where the surpluses from these activities are used to support the primary objective of providing a benefit to the public.

BA1.13 As a consequence, A1 has confirmed that surpluses can be directed towards reinvestment in programmes or service expansion, and that surpluses should be evaluated at the entity-wide level. It has also clarified that NPOs are able to retain surpluses to ensure financial sustainability or resilience (capability) to enhance future public benefits.

BA1.14 Some feedback on ED1 suggested that distributing surpluses to holders of equity claims should mean that an entity cannot be an NPO. However, research identified that in certain jurisdictions, entities primarily focused on providing public benefit might still be legally able to make distributions. INPAS has therefore clarified that such distributions do not automatically mean that an entity cannot be considered an NPO, provided they remain incidental to the NPO's primary objective of providing a benefit to the public. Entities that distribute a material amount of any surplus for private benefit are not expected to meet the characteristics of an NPO.

BA1.15 Respondents strongly supported that generating a financial surplus was not the primary objective of an NPO. They noted that this contrasts with for-profit entities, where generating profits was a primary objective and financial returns were generally distributed to providers of economic resources such as contributors of equity.

Membership organisations

BA1.16 Feedback on ED1 included concerns about applying INPAS to membership organisations, particularly those with closed membership, where all benefits were directed exclusively to members. Respondents questioned whether members could be considered a subset of the 'public' and noted a lack of clarity. Additionally, there was a concern about a potential conflict with the Preface to full IFRS Accounting Standards, which describes organisations distributing dividends or economic benefits directly and proportionately to owners, members or participants (such as mutual co-operatives) as profit-oriented entities. Respondents noted that the absence of the concept of 'direct and proportionate' benefits in INPAS's criteria for NPO status could lead to inappropriate conclusions in certain cases. Examples included private sports clubs that provide services proportional to membership fees or membership organisations established to access discounts on goods to members.

BA1.17 In response to this feedback, A1 was amended to distinguish between membership organisations acting for the greater good of society and those established to primarily benefit their members. The key factor was whether the organisation's primary objective was public benefit or member benefit, and whether any private benefits were incidental or directly proportionate to economic contributions. Membership organisations operating for the benefit of society, where private benefits were incidental, could be NPOs under INPAS.

BA1.18 Further clarification has been added where economic benefits are distributed directly and proportionately to members (such as private sports clubs or co-operatives offering member discounts), as such organisations would not meet the criteria for being an NPO. This distinction has provided consistency between INPAS and full IFRS Accounting Standards.

Indicators

BA1.19 While the broad characteristics have provided the primary basis for this determination, indicators have been added to offer complementary support, particularly in cases where the application of those characteristics would not provide an immediately clear outcome. They have provided further context to assist an entity in evaluating alignment with the broad characteristics, especially across diverse jurisdictional settings and organisational forms.

BA1.20 Two of the indicators – 'voluntary funding' and 'holding and using assets for the benefit of the public' – were originally included as broad characteristics in the CP. Feedback received during that consultation was that these features were better understood as supporting characteristics rather than defining ones. In ED1, they were therefore included as indicators. The description of 'voluntary funding' was broadened to include entities that provide funding to other NPOs, such as grant-making bodies, in addition to those that receive it. Similarly, the indicator on 'holding and using assets for the benefit of the public' was clarified to cover responsibilities related to the preservation and enhancement of assets such as artistic works, heritage items and natural resources.

BA1.21 ED1 introduced two additional indicators – 'the absence of individuals (or entities) with rights to financial returns from surpluses' and 'a requirement that the NPO transfer residual net assets upon dissolution to an entity with a similar purpose'. These were developed in response to CP feedback that highlighted their relevance in several jurisdictional-level frameworks used to assess whether an entity operates for public benefit. To help clarify whether an entity is structured to serve the public rather than generate private benefit, these indicators were added to focus on the existence, or absence of rights to financial benefit, both during an entity's lifetime and at the point of dissolution. While the absence of rights to financial returns has been included as an indicator of NPO status, paragraph A1.10 recognises that such rights might exist in some jurisdictions. In such cases, any distributions must be incidental and proportionate in the context of the NPO's overall operations and must not compromise its ability to fulfil its public benefit objective.

BA1.22 Respondents supported the inclusion of the indicators in paragraph A1.14 to assist entities and other stakeholders in assessing whether an entity meets the broad characteristics of an NPO, as described in paragraph A1.2. In response to a request for additional guidance, Implementation Guidance has been developed to assist in the practical application of the indicators, where one or more of the indicators might be relevant. This is accompanied by illustrative examples that demonstrate how the indicators could be used in different contexts to inform judgement. Together, these materials aim to promote consistent interpretation and application of the broad characteristics across jurisdictions and organisational types.

Government or public sector entities

BA1.23 Respondents to ED1 noted that it was unclear whether government entities were expected to be within scope of INPAS. In some jurisdictions, financial reporting guidance for NPOs is included as part of a broader framework of standards for all 'public benefit entities' which includes government and public sector entities as well as non-profit organisations. However, where this is the case, there was usually a clear distinction made between those standards that are applicable to entities that are controlled by government and other public benefit entities which are not. In response to this feedback, clarifications were made to emphasise that government and public sector entities, due to their specific public service responsibilities, funding mechanisms and accountability arrangements (see A1.15), would be distinct from NPOs as defined in INPAS. It has confirmed that such entities fall outside the scope of INPAS and would instead be within the remit of the International Public Sector Accounting Standards (IPSAS), which are designed to address their financial reporting needs.

Use of INPAS by entities that have public accountability

BA1.24 The CP proposed that an NPO could have a wider societal accountability. This was 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 could receive compared to other organisations and the need to ensure the effective operation of the wider sector.

BA1.25 While all NPOs could be said to have societal accountability, some might also meet the IFRS definition of public accountability. The *IFRS for SMEs* Accounting Standard notes that an entity has public accountability if:

(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 most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).

BA1.26 Although it uses the *IFRS for SMEs* Accounting Standard as its foundational framework, INPAS is not specifically designed for entities that have public accountability because:

(a) there are topics that might be relevant to entities that have public accountability that have been omitted;

(b) accounting policy options that might be useful to entities that have public accountability are unavailable; and

(c) there are simplified recognition and measurement principles and reduced disclosures that might not be appropriate for entities with public accountability to meet the needs of users.

BA1.27 Respondents to the CP supported this view but sought greater clarification. As a consequence, ED1 proposed that those NPOs that meet the IFRS definition of public accountability might still find INPAS useful for those transactions unique to NPOs and could use INPAS for these transactions. However, it is expected that NPOs that have public accountability use full IFRS Accounting Standards or follow an appropriate jurisdictional GAAP.

BA2 – Concepts and pervasive principles

History and background

BA2.1 INPAS uses *the IFRS for SMEs* Accounting Standard as its foundational framework. Where the existing *IFRS for SMEs* Accounting Standard has not comprehensively or appropriately addressed NPO-specific financial reporting issues, INPAS might differ from the *IFRS for SMEs* Accounting Standard. INPAS has been developed using the "Process for developing the International Non-Profit Accounting Standard through changes to the IFRS for SMEs Accounting Standard". This allows for the use of:

(a) IFRS Accounting Standards and their conceptual framework (the IASB's revised Conceptual Framework for Financial Reporting March 2018); and
(b) International Public Sector Accounting Standards (IPSAS) and their conceptual framework (the IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities December 2023)

where these could offer more appropriate financial reporting guidance in the NPO context.

BA2.2 A number of respondents to the IFR4NPO Consultation Paper (CP) indicated that the conceptual basis of the *IFRS for SMEs* Accounting Standard was inappropriate for NPOs as it is based on the needs of users of general purpose financial statements of for-profit entities and not NPOs. At the time that the CP was issued it was also the case that the section on concepts and pervasive principles contained in the *IFRS for SMEs* Accounting Standard published in 2015 did not reflect changes made to the conceptual framework as revised in 2018 that underpins full IFRS Accounting Standards. The third edition of the *IFRS for SMEs* Accounting Standard has now incorporated the changes made to the conceptual framework that underpins IFRS Accounting Standards.

BA2.3 The CP explained that there were insufficient resources available to the IFR4NPO project to develop an entirely new conceptual framework for NPO financial reporting. INPAS uses relevant aspects of the IASB's Conceptual Framework that were included in the *IFRS for SMEs* Accounting Standard where these are suitable for use in the NPO context. INPAS also draws upon the IPSASB's Conceptual Framework to establish the concepts and principles needed to develop financial reporting guidance for NPOs where these are not comprehensively or appropriately addressed in the existing *IFRS for SMEs* Accounting Standard.

BA2.4 As such, aspects of both the IASB's and IPSASB's conceptual frameworks have been used in developing A2 *Concepts and pervasive principles* for INPAS.

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

Users of general purpose financial reports

BA2.5 The CP focused on the external stakeholders to whom NPOs are accountable, and their information needs. Stakeholders were identified as service users, resource providers, regulators and broader society. Some respondents were also of the view that internal stakeholders are important in the NPO context. Examples of internal stakeholders provided by these respondents included those charged with governance, staff and members.

BA2.6 Stakeholders who might traditionally be seen as internal in nature are important for NPOs. However, the conceptual bases of international frameworks for general purpose financial reporting define primary users as those that do not possess the authority to require an entity to disclose the information they need. The internal stakeholders raised by respondents to the CP, including those charged with governance and staff, would be likely to possess the authority to require an entity to disclose information to meet their own specific information needs.

BA2.7 The Practitioner Advisory Group (PAG) and the Technical Advisory Group (TAG) discussed internal stakeholders as primary users. Group members acknowledged that internal stakeholders would be likely to possess the authority to require an NPO to disclose the information they need for accountability and decision-making purposes. In this regard, they are akin to some external stakeholders, regulatory bodies and major donors, who are also likely to possess this authority in certain circumstances.

BA2.8 International financial reporting frameworks indicate that those who possess the authority to require an entity to disclose the information they need are not the primary users of general purpose financial reports even if they might find the information contained within them useful. It was therefore concluded in Exposure Draft 1 (ED1) that the primary users of NPO general purpose financial reports were the public to whom the NPO provides services and goods or for whom it carries out activities and those resource providers who do not possess the authority to require an NPO to disclose the information they need for accountability and decision-making purposes.

BA2.9 ED1 described primary users as also including those that fulfil oversight functions on behalf of the public and resource providers. This was expected to include elected representatives and public officials who have a duty to represent the interests of members of the public who depend on goods and services provided by the NPO or the activities that they carry out, or who provide it with financial and other resources.

BA2.10 Respondents to ED1 agreed with the range of primary users and the description of their needs in A2. They agreed that the user categories covered the breadth of stakeholders that use general purpose financial reports, including the public that depend on the goods and services provided by NPOs.

BA2.11 Respondents commented on the diverse types of donors, providers of grants and other funders and the differing information needs of these users depending on the circumstances. The needs of donors (and other funders) were complex because in some circumstances they might only have access to generally available information and in other circumstances they might be able to require information to be tailored to meet their particular needs. Both the TAG and PAG underlined the importance of donors and other funders as primary users. They concluded that donors and other funders were likely to be acting as primary users when using the information for purposes such as due diligence but not when they have the rights to require special purpose financial reports.

BA2.12 In response to feedback on the initial CP, it was decided to develop separate guidance to meet the specific needs of individual donors. INPAS Practice Guide 1 – *Harmonised grant reporting* was subsequently developed to allow NPOs to present key financial information about a specific activity, project or grant (or projects/grants). This was intended to be useful for grantor accountability purposes and provide a harmonised approach to special purpose reports. The Practice Guide together with A2 and its Implementation Guidance address the differing needs of donors as users.

BA2.13 Respondents commented on the role of those "fulfilling oversight roles", which highlighted confusion with their roles as regulators and as a consequence, whether they were primary users. A2 has therefore been clarified such that governments when they represent the interests of members of the public who depend on goods and services provided by an NPO or the activities they carry out, or resource providers, were acting as primary users. Conversely, in their role as regulators they could have the authority to require NPOs to disclose information they need for accountability and decision-making purposes and were not primary users in this context.

BA2.14 Respondents requested explicit reference to lenders and other creditors in INPAS, which has been added. Respondents also requested additional guidance, and the A2 Implementation Guidance has therefore been amended to address the information requirements of resource providers and the public that benefit from an NPO's activities.

Qualitative characteristics of information in general purpose financial reports

BA2.15 The qualitative characteristics of financial information are set out in conceptual frameworks to identify the types of information that are likely to be most useful to users of financial reports for accountability and decision-making. The qualitative characteristics provide a coherent framework for determining the decision usefulness of financial reporting information, guidance on what to do when qualitative characteristics might be in conflict, and overall cost-benefit constraints on financial reporting.

BA2.16 The *IFRS for SMEs* Accounting Standard provides explanations of the qualitative characteristics of information in financial statements. These qualitative characteristics match those of the revised IASB Conceptual Framework which underpins the development of IFRS Accounting Standards. They were also consistent with the broader scope of general purpose financial reporting in the IPSASB's Conceptual Framework.

BA2.17 The qualitative characteristics in the *IFRS for SMEs* Accounting Standard were considered to determine whether they were appropriate in the NPO context. ED1 proposed that these qualitative characteristics were appropriate for use in the concepts and pervasive principles of INPAS. Respondents to ED1 supported their use in INPAS.

Materiality

BA2.18 The INPAS Exposure Drafts generated questions over the application of materiality to the various proposals and issues on which comments were sought. For example, respondents to Exposure Drafts 2 and 3 raised issues relating to low-value inventory items and to the fund accounting proposals, including whether thresholds should be set. As a pervasive principle, materiality guidance has not been repeated for each of the INPAS sections. Consequently, additional Implementation Guidance has been included in A2, drawing on the IASB's Practice Note 2 *Making Materiality Judgements*.

BA2.19 The Implementation Guidance was updated to cover the following issues:

(a) the assessment of primary users' information requirements, including the importance of the need to consider both existing and potential users;
(b) that materiality is pervasive to the application of INPAS across general purpose financial reports, that is, that it applies to recognition, measurement, presentation and disclosure;
(c) that materiality factors were both quantitative and qualitative, including a discussion of how those factors might apply;
(d) the impact of materiality on presentation and disclosure; and
(e) how materiality interacts with regulatory requirements.

BA2.20 As materiality is a pervasive issue for general purpose financial reports, an NPO is expected to consider users' needs when taking decisions about materiality.

Undue cost or effort

BA2.21 The *IFRS for SMEs* Accounting Standard includes the concept of an undue cost or effort exemption. This concept was included in ED1. Respondents to ED1 expressed agreement with the approach to the undue cost or effort exemption in A2. However, they also highlighted tensions related to its use. While the exemption was aimed at easing reporting burdens, concerns were expressed about the practical challenges that arise, including the need for subjective judgements and assessing costs versus benefits. Respondents also raised concerns about potential misuse. Acknowledging that technical skills were required to make such judgements there was no NPO-specific reason to remove the exemption from INPAS.

BA2.22 As a consequence, Implementation Guidance has been included in INPAS to promote the correct use of the exemption. This Implementation Guidance notes that the exemption relates to the cost or effort required to obtain or determine the information necessary to comply with a requirement that will depend on the NPO's specific circumstances, management's judgement on the costs and benefits from applying that requirement and the information available at the time of the assessment.

BA2.23 The Implementation Guidance has made clear that an NPO should not treat the undue cost or effort exemption as an accounting policy choice and that an NPO would need to disclose when they have used the exemption and the reasons why applying the requirement would in management's judgement involve undue cost or effort.

General purpose financial reports and the reporting NPO

The reporting NPO

BA2.24 The CP considered the definition of the reporting NPO and its links to both the definition of control and the sometimes-complex operational structures of NPOs. This included the use of local offices or administrative units that operate as branches of the NPO, that might be established by NPOs to reach local communities and the recipients of the goods and services provided by NPOs.

BA2.25 ED1 provided additional guidance to assist in the identification of the reporting NPO that reflected discussions with focus groups. The guidance was developed to assist in identifying an NPO as a reporting entity where there was no legal entity nor a group/parent structure.

BA2.26 Implementation Guidance was added with illustrative examples that examine different operating structures. These examples have provided suggestions for the questions and analysis needed to determine the boundary and transactions included in the reporting NPO's financial statements.

BA2.27 The Basis for Conclusions for G1 *Consolidated and separate financial statements* provides a commentary on control in an NPO context, which is relevant in determining the reporting NPO.

BA2.28 As noted in the Preface, the decision on which entities are required or permitted to use INPAS rests with legislative and regulatory authorities and standard setters in individual jurisdictions. As such, the reporting NPO for the purpose of applying INPAS could also be any entity that relevant authorities deem to be an NPO and require or permit to prepare general purpose financial reports.

The elements of financial statements

Net assets and equity claims in an NPO context

BA2.29 The *IFRS for SMEs* Accounting Standard follows the IASB Conceptual Framework in including equity as an element of financial statements. Equity is a term that is used in for-profit standards and is also included in the standards for public sector entities. Respondents to the CP suggested that the term equity implies a formal ownership structure with holders of equity entitled to financial returns and the residual of net assets based on that ownership. This was unlikely to reflect the reality of the majority of NPOs, where such considerations either would not exist or such ownership interests would be likely to be inconsequential. Significant consideration was therefore given to its use within INPAS.

BA2.30 The *IFRS for SMEs* Accounting Standard and the IASB Conceptual Framework define equity as the residual interest in the assets of the entity after deducting all its liabilities, and it effectively encompasses all net assets.

BA2.31 Although the term 'equity' and its association with ownership was unlikely to be relevant for most NPOs, ED1 took the position that there needs to be an element that reflects the possibility of a party external to the NPO having a financial interest in the net assets of the NPO.

BA2.32 The IPSASB faced a similar challenge in the development of its Conceptual Framework. The standards for the public sector recognise that some entities could have share capital. The IPSASB Conceptual Framework does not define equity as a financial statement element but does discuss the terms 'net assets/equity' and 'net financial position' as equivalent terms to the 'equity' section of the balance sheet of for-profit financial statements. It defined ownership contributions as an element that establishes or increases an interest in the net assets of an entity, and ownership distributions, as returning or reducing that interest.

BA2.33 The approach taken by the IPSASB was examined to determine the possibility of developing an element defined as contributed capital. This was to reflect the fact that parties external to the NPO might have a financial interest in the net assets of the NPO.

BA2.34 Following discussion with TAG members, the initial decision was to retain the element of equity rather than create a new element to reflect the same underlying concept. ED1 therefore included equity as a financial statement element, with the Application Guidance providing additional detail on its use in the NPO context.

BA2.35 Although the majority of the TAG members agreed with the overall approach to the inclusion of equity as an element and the use of restricted and unrestricted funds to present accumulated surpluses, one member disagreed. They were concerned that the elements might not adequately capture the transactions and economic events, and in particular equity as defined in the NPO context.

BA2.36 Most respondents were supportive of the proposals for equity included in ED1. However, there were several who disagreed for a number of different reasons. Some argued that equity as defined could not exist for an NPO at all as this would mean the entity was for-profit. Others argued that INPAS should use the same definition of equity as *IFRS for SMEs* Accounting Standard (ie the residual interest in the assets of the entity after deducting all its liabilities), with no need to introduce a separate concept for NPOs.

BA2.37 The issues with the proposals also became apparent following the initial work on modifying Section 22 *Liabilities and equity* of the *IFRS for SMEs* Accounting Standard to align with other

INPAS sections. At the heart of this issue was the need for clarity on the characteristics of equity instruments for NPOs, and the extent to which these provide ownership and/or entitlement to the net assets of an NPO. Questions then arose about what kinds of financial instrument might be classified as a liability or equity, and how equity as defined in Section 22 of the *IFRS for SMEs* Accounting Standard interacts with A2.

BA2.38 A survey was conducted to gain a better understanding of what kinds of equity instruments NPOs might have and what entitlements they give to holders of equity claims. This provided a range of responses. While some respondents indicated that there was the possibility of share capital or a similar form of equity, these did not appear to provide an entitlement to anything other than a return of funds. As such they appeared more similar conceptually to liabilities.

BA2.39 The interplay between ownership and equity and the position of net assets was examined further. This included focusing on the extent to which external parties obtained control over the NPO when they provided funding to the NPO and whether this established a financial interest in the net assets of the NPO.

BA2.40 TAG members agreed that the guidance related to equity included in ED1 needed to be revisited. They subsequently agreed that net assets should be defined as a financial statement element and that the definition of equity should be reviewed. Net assets as a financial statement element was subsequently defined as 'the residual available to the NPO to achieve its objectives after deducting all its liabilities from its assets'.

BA2.41 TAG members concluded that rather than redefine equity it would be preferable to refer to 'equity claims' in the NPO context. Equity claims would be part of net assets when a financial interest in the net assets of the NPO has been established because of equity arrangements. Equity claims have been defined as the financial interest in the net assets of an NPO that is due to holders of those claims. Application Guidance was added to reflect these changes. Respondents to ED3 supported these revised definitions.

BA2.42 TAG members discussed the amount of guidance needed on non-controlling interests. They noted that exceptionally, an NPO might need to recognise and present non-controlling interests. As this was expected to be rare, A2 did not include a detailed description of such interests. Where an NPO would be required to recognise and separately present any non-controlling interest, this would form part of net assets. The Preface and B7 *Accounting policies, estimates and errors* set out the additional sources of guidance to be used should an NPO have a non-controlling interest.

Fund accounting

BA2.43 NPOs are often provided with financial resources where the provider of those resources restricts the use to specific purposes or activities. B8 *Fund accounting* addresses the presentation of such resources and provides the definition of restricted and unrestricted funds. ED1 proposed that funds would be presented as a component of net assets, but that they would not be a separate financial statement element. This was supported by respondents to ED1.

BA2.44 TAG members deliberated how net assets would be impacted by donations that cannot be used to directly fund activities. While these donations would initially be recognised through revenue, their subsequent presentation in net assets was discussed but not agreed. These types of donations, often described as endowment funds, have not been addressed in the first edition of INPAS.

Service potential

BA2.45 Although not a priority area, following feedback from respondents to the CP, INPAS includes service potential as a part of the recognition criteria in the relevant sections of INPAS. Service potential is not a concept explicitly recognised in the IASB Conceptual Framework. However, the IPSASB Public Sector Conceptual Framework makes direct reference to it. In ED1 service potential was included in the definitions of the elements, where appropriate. This was because service potential could be relevant for assets that an NPO holds not to generate cash flows, but rather for the services the asset could provide. The measurement basis of value in use was also amended to include the concept of service potential.

BA2.46 Respondents to ED1 raised concerns about the subjectivity of service potential. However, service potential was a better expression of the resources embodied in assets used to provide services which do not generate economic returns. This is consistent with IPSAS 46 *Measurement* which includes the measurement of the operational capacity of an asset.

BA2.47 Respondents also raised concerns that the description of service potential may not clearly convey that it includes the provision of goods, and they provided suggestions for alternative terms. However, the description of service potential in A2 explicitly refers to the provision of both services and goods. Consequently, no changes were made.

BA2.48 It is often the case that an NPO holds assets not to generate financial returns but to provide or support services and this needs to be considered in their recognition and measurement. Where an NPO holds an asset for its service potential rather than its ability to generate cash flows, its recognition and measurement should provide information on the value of the asset's service potential to the NPO. Where an NPO holds an asset for its ability to generate cash flows then its recognition and measurement should provide information on its economic capacity.

BA2.49 ED1 proposed separating 'service potential' as a distinct concept from 'economic benefit' with 'economic benefit' only relating to cash inflows and outflows. ED1 respondents did not universally support this proposal on the basis that 'economic benefit' encompasses more than just cash flows and would include service potential. TAG members discussed this issue and different views were provided. However, on balance TAG members were of the view that INPAS should describe service potential as a separate concept such that it could be taken forward in the future development of INPAS and to make clear the relationship with the same or similar terms in other GAAPs.

Recognition and derecognition

BA2.50 Feedback from the CP was that users of general purpose financial reports do not associate the financial performance of NPOs with profit and loss, but there was a general acceptance of the concept of a surplus or deficit. There was also feedback to request simplicity in the presentation of information. On this basis, ED1 proposed that the INPAS Statement of Income and Expenses would be focused on surplus and deficit and not comprehensive income as permitted in the *IFRS for SMEs* Accounting Standard. For B1 *Presentation and compliance, B3 Statement of Income and Expenses and B4 Statement of Changes in Net Assets*, their Basis for Conclusions provide further explanation.

BA2.51 Consequently, amendments were made to address in which primary financial statements an NPO would recognise transactions. These amendments were made to ensure recognition of the income and expenses that contribute to surplus and deficit in the Statement of Income and Expenses, and income and expenses that do not contribute to surplus and deficit would instead be recognised in the Statement of Changes in Net Assets.

Presentation and disclosure

BA2.52 Presentation concepts and principles in both the *IFRS for SMEs* Accounting Standard and the IASB's Conceptual Framework focus primarily on the primary financial statements, whereas presentation in the IPSASB Conceptual Framework has a wider scope encompassing financial reports outside the core financial statements. The IPSASB Conceptual Framework has been used in developing additional presentation concepts and principles for INPAS.

BA3 – Narrative reporting

Background and history

BA3.1 The IFR4NPO Consultation Paper (CP) proposed in Part 1 that one of the core premises of INPAS, in order to meet its objectives, would be the inclusion of non-financial reporting information, termed in INPAS as narrative reporting. This would lead to NPOs producing general purpose financial reports rather than just general purpose financial statements.

BA3.2 A detailed description of the issue was included as Issue 10: Narrative Reporting in Part 2 of the CP. This highlighted the importance of non-financial information for NPOs to demonstrate accountability and stewardship to stakeholders, and the difficulty caused by varying disclosure requirements globally.

BA3.3 Respondents to Part 1 of the CP provided feedback on the expected challenges from the inclusion of non-financial information reporting requirements for NPOs. At a conceptual level, respondents highlighted issues such as scope, timing of introduction, prescription and flexibility, the reliability and integrity of data and integration with existing performance reporting. A number of practical challenges were also raised, including NPO capacity and capability, costs and expertise and subjectivity in reporting.

BA3.4 For Part 2 of the CP, respondents were asked to provide feedback on the description of the issue, the alternative treatments proposed and whether the guidance should be set at the level of an overarching framework and high-level principles or include more specific reporting requirements. Respondents to Part 2 were supportive of the description of the issue and were mainly in agreement with the list of alternatives identified. Substantive comments received from respondents included a need for a fuller understanding of users' needs to determine how they could be met, which could require a solution not presented as an alternative. There was also support for narrative reporting to focus on an NPO's objectives, its impact, the effectiveness of the organisation's governance structures and processes and broader sustainability issues, rather than being restricted to financial statement analysis.

BA3.5 There was little support for the do-nothing alternative, which was widely seen as a missed opportunity. There was relatively even support among those providing a preference for the other alternatives. The approach based on the Integrated Reporting Framework was slightly more favoured than an approach based in the IASB and IPSASB financial reporting guidance.

BA3.6 Those favouring an approach using the IASB and IPSASB guidance were of the view that it would complement the information in the financial statements and would be less complicated for NPOs to apply. Those favouring the Integrated Reporting Framework approach thought that, although more ambitious, it offered an opportunity for NPOs to apply emerging best practice and to deliver standardised narrative reporting based on stakeholder needs.

BA3.7 The majority of respondents noted that the diversity of NPOs and jurisdictions pointed to the need for a framework and principles-based solution. Some of these respondents noted, however, that this would need to be backed by detailed guidance on how to apply the framework and principles. There was also support for mandatory core narrative reporting requirements that could be applied by all NPOs.

BA3.8 Concerns were raised by Technical Advisory Group (TAG) members, Practitioner Advisory Group (PAG) members and by attendees at additional outreach events that requiring all NPOs to comply with narrative reporting requirements could act as a barrier to adoption of INPAS. These groups noted that while narrative reporting could bring significant benefit to both the users of NPOs' general purpose financial reports and the NPOs themselves, international guidance in this area is not mandatory. There were few jurisdictions that mandate NPOs to undertake this type of reporting.

Transition period

BA3.9 It was recognised that for some NPOs, the narrative reporting required by INPAS might represent a challenge, particularly if the NPO was also transitioning to accrual accounting at the same time. Extensive guidance was developed to assist in implementing these requirements through the Implementation Guidance and implementation examples. The option for an extended transition period of two years was supported by a focus group on narrative reporting and was considered alongside other feedback as evidence of support for an extended transition period.

BA3.10 Respondents to ED1 supported a transition period though there was some limited debate about its length. This was also subject to consultation as a part of Exposure Draft 3 (ED3), where it was proposed in Z1 *Transition to INPAS* that for the first two years following the date of first adoption of INPAS, an NPO could make an explicit and unreserved statement in its financial report of compliance with the INPAS requirements for the financial statements only, rather than a statement of compliance with the full requirements of INPAS. Further comments about transition to INPAS are provided in the Basis for Conclusions for Z1.

Scope

BA3.11 In developing this Section, the requirements of the international and national guidance were considered and tailored to meet the needs of users of NPO general purpose financial reports and to reflect the capacity and capability of the NPOs at which INPAS is initially aimed. The international and national financial reporting guidance were used instead of the Integrated Reporting Framework as it was expected to be less complicated for NPOs to apply and would be expected to complement the information in the financial statements compared with requiring NPOs to apply broader integrated reporting principles.

BA3.12 The narrative reporting requirements have been developed as a mandatory framework, using a principles-based approach, drawing on existing international and national guidance. The narrative report focuses on the information needs of the primary users of an NPO's general purpose financial report as described in A2 *Concepts and pervasive principles*. Other users, for example, the NPO's employees or members of the public funding the activities of the NPO, might also find information in the narrative report useful. However, meeting these information requirements was not an objective of an NPO's narrative report.

BA3.13 Exposure Draft 1 (ED1) proposed a mandatory core of narrative reporting to ensure a base level of consistency and comparability among all NPOs applying INPAS. It was also intended to provide the freedom for NPOs to move beyond this to meet the needs of the users of their general purpose financial reports.

BA3.14 A small number of respondents to ED1 suggested differential reporting either for smaller NPOs or to make use of efficiencies within groups. Other respondents discussed the resource implications for the introduction of INPAS, with one suggesting that narrative reporting should be separated from general purpose financial statements. However, it was decided that the benefits in terms of increased transparency and accountability of having a consistent minimum mandatory core of reporting that could be applied by all, outweighed any form of differential reporting. Noting that INPAS was not intended for very small NPOs, any form of differential reporting might also make A3 *Narrative reporting* more complex.

Principles

BA3.15 ED1 proposed that the information in the narrative report would be presented in accordance with certain principles including:

(a) the performance information and financial statement commentary should be for the same reporting NPO and reporting period as the financial statements;
(b) in selecting and presenting the performance information and financial statement commentary, the NPO should apply the qualitative characteristics and pervasive constraints on information in A2;
(c) the NPO should also ensure that the performance information and financial statement commentary presented is balanced; and
(d) non-disclosure of aspects of narrative information where this would otherwise result in information that is sensitive.

BA3.16 ED1 respondents broadly agreed with these principles (though see below commentary on sensitive information) but were concerned to ensure that there was separation of the information presented in the narrative report and the financial statements. Clarifications were therefore made so that the information to be presented in the narrative report must be separate from the financial statements and the explanatory notes.

BA3.17 A respondent also suggested that the description of the narrative report should be changed to NPO annual report. However, it was decided that the term narrative report probably best encapsulates the reporting requirements. It was also noted that an NPO was permitted to use alternative terms if this would be better understood by users of its financial statements.

Sensitive information

BA3.18 The non-disclosure of sensitive information is a complex issue, with a need to balance the need for transparency and accountability and the risks of the reporting of sensitive activities and issues which might prejudice the mission of the NPO and bring about, for example, physical harm.

BA3.19 Permission to not disclose sensitive information was explicitly proposed in ED1. This followed recommendations from the PAG and a specific focus group that was created to provide additional advice on narrative reporting. Both expressed concern that NPOs would be required to disclose information that could jeopardise the safety and security of staff, volunteers or the public that benefit from the services and goods provided by the NPO. They also noted that requiring NPOs to disclose that they had made use of the exemption could be problematic. This was because it would serve to highlight that sensitive information was not being disclosed.

BA3.20 In making the proposals in ED1, TAG members had expressed concern that a sensitive information exemption could be misused, in particular to hide poor performance or financial problems. This concern was higher if there was not a requirement to disclose that the exemption was being used. Consequently, it was proposed that an NPO would be required to disclose that the narrative report has been prepared in accordance with the requirements of the sensitive information exception paragraph. Under this proposal, NPOs would not be required to provide any information that would have the effect of highlighting the nature or substance of the sensitive information.

BA3.21 Overall, respondents to ED1 agreed that sensitive information could be excluded from the narrative report, and there was a wide range of views on how to achieve this. Some respondents raised concerns about transparency and whether the exemption adversely impacted the information needed by users to take decisions. Other respondents were concerned that the inclusion of a statement that the information had been prepared in accordance with the exception paragraph for sensitive information could place the NPO, its beneficiaries and/or staff in danger. Further outreach supported both of these concerns with requests to add guidance on the issue to ensure that adverse practices were avoided.

BA3.22 TAG members were of the view that more guidance could be provided, although this risked the guidance becoming rules based. More prescriptive, rules-based guidance could be more problematic for NPOs that had sensitive information than providing information based on principles. This additional guidance might not then meet its original intention.

BA3.23 Following further discussion with both PAG members and TAG members, it was concluded that removing the exception for sensitive information from the A3 authoritative guidance would on balance be preferable. In removing the exemption, additional requirements were added about the aggregation of information, which might assist in avoiding the disclosure of sensitive information. In adding this guidance, sensitive information has been reframed to include commercial, operational and personal confidentiality matters. These changes were intended to provide NPOs with a clearer basis for not disclosing sensitive information and to support compliance with INPAS.

BA3.24 In reaching this position, the intention was that an NPO should not be forced to disclose information where there would be a genuine risk to the safety and physical and mental wellbeing of an NPO's staff, volunteers and the communities they serve, as financial reporting requirements must not be prioritised over such considerations. For these reasons, the final guidance relating to the non-disclosure of sensitive information was not intended to cause a non-compliance with INPAS.

BA3.25 Implementation Guidance was added to assist NPOs in determining what constitutes sensitive information and how to address this reporting issue, including:

(a) that information should be excluded where there is risk to the safety or wellbeing of the NPO, its staff and volunteers;
(b) that the NPO should consider reporting on certain information that has been excluded;
(c) examples of circumstances where information might be sensitive;
(d) that excluding information is not to be used as a way of hiding poor performance or financial problems that might have arisen with aspects of its operations; and
(e) that an NPO could remain in compliance with the requirements of INPAS in circumstances where sensitive information has been excluded.

Information to be included in the narrative report

BA3.26 ED1 proposed that NPOs would be required to provide information as a minimum on the following defined categories:

(a) **Overview of the NPO** – contextual information that enables users to understand the NPO such as legal form, structure, governance, purpose, mission, vision, main activities and significant relationships;
(b) **Performance information** – information on performance objectives and plans and what has been achieved with measures and descriptions to demonstrate performance being a mix of quantitative measures, qualitative measures and qualitative descriptions;
(c) **Financial objectives and strategies** – information on an NPO's financial objectives and strategies in relation to its financial position, income and expenditure, net assets and cash flows and how these support the achievement of its performance objectives;

(d) **Analysis of the financial statements** – information on significant changes and trends and how these impact on the achievement of its performance objectives; and

(e) **Description of principal risks and uncertainties** – information on principal risks and uncertainties and how these relate to the NPO's performance objectives and financial objectives and strategies. Any significant changes and how the NPO manages risks and uncertainties should be explained. This information would help users to evaluate the impact of those risks and uncertainties on the achievement of the NPO's performance objectives and its financial position, income and expenses, net assets and cash flows in the current period, as well as expected longer-term outcomes.

BA3.27 Respondents to ED1 agreed with the scope of these reporting requirements. It was noted that there was a risk that mandatory reporting requirements could create unintended consequences, for example, if the requirements duplicate or conflict with existing regulatory requirements. This risk has been mitigated in INPAS by the use of a principles-based approach and by basing the reporting requirements on existing international and national guidance. Guidance to address potential conflicts has been added to encourage the avoidance of duplicated information, while ensuring that material information would not be obscured.

BA3.28 It was noted that ED1 gave the appearance of a focus on performance information and financial statement commentary rather than narrative information. This meant there could be confusion about the scope of the requirements. Consequently, the terminology was changed to narrative reporting information which includes both performance information and financial statement commentary.

Presentation

BA3.29 ED1 feedback suggested more guidance on the balance of information to be included in the narrative report be provided and respondents emphasised the need for effective cross-referencing from the financial statements to the narrative report. A3 has been made clear that information would be expected to be clear and concise and presented in accordance with the principles in the Section.

BA3.30 Additional illustrations and examples of effective practice for the various requirements for narrative reporting in INPAS were requested. During its debates on narrative reporting TAG members cautioned against the risk that too many illustrative examples in the Standard might lead to boilerplate disclosures or mean that the Standard could lean more towards rules-based prescriptions rather than being principles-based. It was agreed that illustrative examples of current and effective practices in the production of narrative reports be separately provided.

Reporting of other information

BA3.31 Climate reporting and broader sustainability reporting were highlighted in the response to the CP as specific topics for inclusion in narrative reporting. Inclusion of these areas as mandatory requirements was also supported by a narrative reporting focus group.

BA3.32 The International Sustainability Standards Board (ISSB) issued two standards (IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*) and the IPSASB issued its first Sustainability Reporting Standard (IPSASB SRS) Exposure Draft (ED) 1 *Climate-related Disclosures* in Quarter 3 of 2024.

BA3.33 However, ED1 did not include a mandatory requirement to include sustainability or climate-related disclosures because of concerns about the potential burden, particularly for NPOs transitioning to accrual accounting (see BA3.3).

BA3.34 Overall, respondents to ED1 agreed with the exclusion of sustainability reporting from the mandatory reporting requirements. However, a small but significant number of respondents indicated that, due to the impact and increased prevalence of climate change and the environment, sustainability or ESG reporting, this should be included.

BA3.35 Respondents to ED1 also raised concerns about how non-mandatory information should be disclosed in INPAS. They raised issues including comparability of information and how to report over time. As a consequence, additional guidance has been added that:

(a) the preparation of other information should if possible be based on standards prescribed elsewhere or sector practices or norms; and that where these were used, they should be disclosed;
(b) the basis of preparation must be described and consistently applied; and
(c) where information is no longer useful it should be discontinued and the reason why it is no longer reported included in the narrative report.

BA3.36 At the time that this Standard was finalised there were no internationally developed standards for either the public benefit sector or the public sector. Given the broader challenges involved with introducing narrative reporting for NPOs, the TAG and the PAG remained of the view that it was premature to require sustainability reporting as a mandatory component of narrative reporting at the current time.

BA3.37 Instead, NPOs were permitted to apply existing climate reporting and sustainability reporting frameworks should they wish to do so. These frameworks could be implemented either through a specific climate and/or sustainability report or by reporting on the impacts of climate-related issues and sustainability in the narrative report with information presented in areas such as governance, strategy, risk and performance measures.

BA4 – Fair value measurement

Background and history

BA4.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first issue of INPAS. Fair value measurement was not included as a prioritised topic.

BA4.2 Respondents to ED3, however, questioned whether fair value measurement principles would be relevant to NPO operating models that rely on volunteers and gifts, and also the challenges of measuring heritage assets or assets held for preservation. The feedback provided will be considered for subsequent editions of INPAS.

BA4.3 At this time, other than as set out in BA4.4, no significant editorial changes have been made from the *IFRS for SMEs* Accounting Standard. Changes have been made to align with other sections including the removal of references to share-based payments. Minor changes to terminology have also been made to align with other INPAS sections.

Highest and best use of non-financial assets

BA4.4 Economic benefit is important to determining the highest and best use of an asset. Consistent with A2 *Concepts and pervasive principles* the definition of 'value in use' provided in this section has informed the guidance. As a consequence, when assessing benefits generated by an asset, the term economic benefit has been widened to include service potential, as this would be a factor in determining highest and best use, particularly where there was a limitation on the use of an asset.

Application Guidance

Scope

BA4.5 To assist NPOs, a small amount of application guidance was added that sets out how the fair value hierarchy would be likely to apply to NPO assets and liabilities, and in particular donated assets. This included the use of the fair value hierarchy when generating the 'deemed cost' of donated inventory (which mirrors the application guidance to E1 *Inventories*) as well as other donations in-kind covered in C1 Part I *Revenue from grants and donations*.

Applying fair value to NPOs

BA4.6 The Application Guidance was updated following feedback from respondents to Exposure Draft 3 (ED3). Guidance has been added on what is necessary to identify the most advantageous market, given concerns about access to such markets. Technical Advisory Group (TAG) members were keen to ensure that in identifying the most appropriate market, financial feasibility and legal permissibility were taken into account, so that an NPO considers all relevant factors. The market that an NPO could most realistically access has been reflected in the updates made in finalising INPAS.

BA4.7 The need for further application guidance was considered, particularly in applying the concept of highest and best use to NPO assets. However, there was a concern that providing more detailed application guidance might infer a greater level of review of this Section than was actually carried out. In the first edition of INPAS fuller application guidance has therefore not been provided.

Fair value of donated assets

BA4.8 The *IFRS for SMEs* Accounting Standard does not specifically consider when fair value can be used on initial recognition to measure the deemed cost of a donated asset. TAG members discussed the importance of the concept of service potential for NPOs and the need for additional guidance. It was acknowledged given the scope of the topics included in this edition of INPAS that there would be limitations on the guidance available to assist in applying this concept. The NPO-specific issues related to measurement will be considered for subsequent editions of INPAS.

BA4.9 Following the responses to ED3, clarifications were made to confirm that donated assets could be assets measured using any level of the fair value hierarchy. This reflects that the fair value measurement of a donated asset could be made with reference to both observable and unobservable inputs.

BA4.10 Recognising potential challenges in applying fair value measurement to donated items, the Application Guidance permitted the use of 'replacement cost' where determining a fair value was impracticable. Replacement cost has been defined as the lowest economic cost that would be incurred in achieving the equivalent service potential created for use in delivering services to beneficiaries. This approach was taken to arrive at the value of an equivalent item in local use, consistent with the principle of 'value in use' set out in A2.

BA4.11 The Application Guidance also permitted the cost to the donor to be used as the fair value of a donated item where this was known or relevant. This was included to reduce burdens on NPOs in determining a reasonable estimate of fair value. Respondents to ED3 suggested that cost to the donor might be expanded to include the carrying amount of the asset provided by the donor where the historical cost to the donor was not appropriate or known. This measurement was not considered necessary. This was because an NPO would be expected to consider the condition of a donated asset when it was initially recognised and this would likely reflect any deterioration that would affect its carrying value. TAG members proposed that this should be kept under review to ensure that it does not result in unintended burdens.

Fair value of restricted use assets

BA4.12 TAG members discussed the distinction between the fair value measurement of donated assets that could only be used by the NPO for a specific purpose and those donated assets that have no restrictions and could be sold. TAG members were of the view that if a donated asset could be sold, its fair value should be its open market value, but that if it could not be sold its fair value should be determined with reference to its service potential and these distinctions have been made in the Application Guidance.

BA4.13 The Application Guidance to A4 *Fair value measurement* proposed adaptations for NPOs to address the different challenges that could arise with measuring donated assets. For example, donated assets might have a specification that was greater than an NPO would otherwise have purchased and that was greater than the NPO's operating requirement. It was proposed to allow such assets to be valued with reference to their service potential rather than with reference to observable inputs.

BA4.14 Respondents to ED3 raised questions about the interplay between market valuations (particularly with reference to restrictions outlined in paragraph A4.11), the fair value of assets held for their service potential and the measurement of assets that have a restriction where the nature of the restriction does not prevent the sale of the asset. In order to separate the fair value measurement of assets that could be sold, clarifications have been made to the related paragraphs.

Implementation Guidance

BA4.15 The implementation guidance included as part of the Exposure Draft of the third edition of the *IFRS for SMEs* Accounting Standard has been included in the INPAS Implementation Guidance. All the examples were considered to be relevant to NPOs. Additional examples were added in ED3 to cover volunteer time and a donation that exceeds the operating requirements of an NPO. Following feedback from respondents to ED3 a further example relating to an intangible asset was added. The terminology in the examples was amended where necessary to reflect that used in INPAS.

BA5 – Foreign currency translation

History and background

BA5.1 A number of respondents to the IFR4NPO Consultation Paper (CP) provided feedback that foreign currency translation should be treated as a priority topic for inclusion in INPAS. The Practitioner Advisory Group (PAG) strongly supported the inclusion of this topic, given the significant practical difficulties experienced by NPOs.

BA5.2 The Technical Advisory Group (TAG) in its consideration of this feedback sought to understand the nature of the concerns raised. Through these discussions it concluded that the issues being raised were about the application of the accounting principles for foreign currency translation in the NPO context, rather than the principles themselves. This was particularly focused on the presentation and disclosure of foreign currency gains and losses associated with grant funding.

BA5.3 As a consequence, it was decided to prioritise this topic for inclusion in INPAS, but to focus on presentation and disclosure. It was agreed not to review the principles for accounting for foreign currency translation that are in the *IFRS for SMEs* Accounting Standard but instead develop additional guidance.

BA5.4 Reflecting this decision, modifications have been made to Section 30 of the *IFRS for SMEs* Accounting Standard to reflect NPO-related terminology and the scope of the financial statements proposed for INPAS. It has also been modified to reflect the likely sources of NPO income and expense such as grants and donations. It has not been the subject of a full review and update.

BA5.5 The main amendments to this Section were to allow for the impact of fund accounting, which is addressed in B8 *Fund accounting*. In this Section, exchange gains or losses arising on monetary items relating to grant agreements both with and without delivery obligations and fulfilment rights are to be presented consistent with the presentation of the transaction.

Reporting foreign currency transactions in the functional currency

Monetary and non-monetary items and grant agreements

BA5.6 In developing the proposals for the disclosure of exchange gains and losses on grant agreements, consideration was given to showing an exchange gain or loss related to a grant in a restricted fund as a change to unrestricted funds. This was to show that an NPO might have to make good an exchange loss from its unrestricted resources. While this approach had some benefits, it had the potential to create complexity and ultimately not provide the transparency over such gains and losses that was being sought. Consequently, it was proposed that the presentation of any exchange gains or losses follow the presentation of the grant agreement to which it relates.

BA5.7 Exposure Draft 2 (ED2) included proposals for a new requirement to disclose separately the impact of changes in exchange rates where there was a deficit or surplus for each grant agreement that was presented as a restricted fund. The requirement was intended to provide transparency of exchange rate exposures relating to grant agreements. This transparency would improve the understanding of the source and use of an NPO's funds, which reflected the concerns raised by respondents to the CP.

BA5.8 One respondent to ED2 suggested that a more proportionate approach might be included. They suggested that the relevant disclosures should be either in the reports on the carrying amounts on net assets, including reconciliation and cumulative amounts, or alternatively the disclosure requirements could be included in B8 (which was being developed concurrently). The need for proportionality to the effort required was acknowledged, particularly for smaller NPOs.

BA5.9 The proposals originally included a requirement to report cumulative exchange gains and losses. This was superseded by the information required on foreign exchange gains or losses in B8, which was expected to provide sufficient transparency. In addition, the new standardised format in INPAS Practice Guide 1 – *Harmonised grant reporting* would allow for the effects of foreign exchange gains and losses to be reported for individual grant agreements. This offers another mechanism to provide transparency about the impact of foreign exchange gains and losses on the individual grant agreements.

BA5.10 ED2 proposed that delivery obligation liabilities were non-monetary items. This was because they reflected the revenue received or receivable for delivery obligations that need to be met by the grant recipient. Whether delivery obligation liabilities might be monetary items was debated, with some respondents providing the view that they would not be. This is a complex area. The INPAS Glossary defines monetary items as units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. Largely to meet the liability, no further cash flows were expected to be able to settle these liabilities. However, where these transactions might be subject to refund (see BA5.16–BA5.17) and the amount of the settlement was dependent on foreign exchange differences then these would be monetary items.

BA5.11 Consequently, the guidance has been amended with delivery obligations not subject to refund or further settlement events measured in a foreign currency recognised at historical cost using the exchange rate at the date of the transaction as set out in A5.11(b). INPAS has been updated to clarify that these would not be monetary items. This means that they would not need to be retranslated at each balance sheet date.

BA5.12 The accounting treatment of increased expenses required to meet the requirements of grant revenue transactions with delivery obligations when exchange rates change was examined. Initially consideration was given to whether the obligation to incur the increased expenses should be classified as a delivery obligation liability. However, as the additional liability would not change the initial revenue recognised for the delivery obligations, this was not considered appropriate.

BA5.13 Instead, consideration was given to whether the additional expenses created an onerous grant agreement and whether the recognition criteria for a provision, as set out in D5.5, would be met. For some transactions, where there would be unavoidable costs of meeting the grant agreement that exceed the benefits expected to be received, the criteria relating to the existence of the obligation and its probable occurrence would be met. Also, the amount of additional expense would be expected to be capable of being reliably measured at the balance sheet date. Where these circumstances exist, the appropriate treatment would be to establish a provision for an onerous grant agreement in accordance with D5 *Provisions and contingencies*. The corresponding expense would be presented consistent with the presentation of the original grant arrangement.

BA5.14 Consideration was also given to situations where a change in exchange rate means that a grant agreement would require the grant recipient to incur a lower level of spend in the local currency to meet its obligations. Where a grant agreement requires that the grant recipient must spend all the grant received in the local currency, the NPO would need to incur additional expenses in that local currency to satisfy the grant agreement, even though the original obligations had been met. The additional expenses should follow the presentation of the original grant agreement to show the complete impact of the grant agreement.

BA5.15 ED2 considered a scenario where there was an exchange gain and the grant arrangement would not require additional expenses. Where there were no other transactions, for example other exchange gains or losses, an individual grant agreement would show a surplus. In this scenario when the grant agreement came to an end, if the grant agreement had been presented as a restricted fund any surplus on the individual grant arrangement would be transferred to unrestricted funds (if this was permitted under the grant agreement). In this way the surplus would become available for any activity undertaken by the NPO.

BA5.16 A scenario of repaying an exchange gain to a grantor was also considered in ED2. A refund is a monetary item and for transparency needs to be distinct from other liabilities under a grant agreement. A repayment would therefore be considered a separate transaction with a liability and an expense recognised for the refund. Where the amount of revenue to be recognised had not yet been settled, this would require a remeasurement of the delivery obligation liability.

BA5.17 It was possible that an exchange gain would be greater than the original revenue or greater than the revenue recognised to date (for example, where there were unfulfilled delivery obligations). It was proposed in ED2 that such a gain be recognised as a change to the delivery obligation liability where there were delivery obligations yet to be satisfied. Where a grant agreement did not have delivery obligations, a repayment arising from an exchange gain would be unlikely. If, however, a return of funds would be required, this would be considered as a liability and expense. Any impact on revenue or expenses arising from such transaction, consistent with the proposals in A5 *Foreign currency translation* would be presented in line with the presentation of the original grant agreement. This would provide transparency about the adequacy of funding.

BA5.18 Respondents to ED2 supported these proposals. To illustrate the conclusions reached about the presentation and disclosure of foreign exchange gains and losses, examples were also created.

Lack of exchangeability

BA5.19 Subsequent to the publication of ED2, the International Accounting Standards Board published an Addendum to the Exposure Draft for the third edition of the *IFRS for SMEs* Accounting Standard. This Addendum included new content on lack of exchangeability.

BA5.20 Views were sought on the new content from the PAG and the TAG. The PAG were of the view that NPOs frequently encounter situations where there was lack of exchangeability between currencies. Equally, they were of the view that this was not a significant issue for NPOs. Respondents to Exposure Draft 3 (ED3) supported its inclusion in INPAS without amendment and therefore no changes were made.

Group B

Financial statements

BB1 – Presentation and compliance

Background and history

BB1.1 The format and content of financial statements is fundamental to how the stakeholders understand and interpret financial information. Presentation of the financial statements is particularly important when an NPO can only use revenue for particular purposes. Part 2 of the IFR4NPO Consultation Paper (CP) included a detailed description of the issue as Issue 7: Financial statement presentation.

BB1.2 The CP sought feedback on how an NPO should present its financial statements to help the user's understanding of the NPO's activities and whether there should be disclosure of material categories of income and expenses and/or transactions. The CP also sought views on how an NPO should present unrestricted and restricted funds in the main financial statements and notes (including reserves), the role of fund accounting and how any requirements might align with donor reporting requirements.

BB1.3 The CP proposed three alternatives for developing guidance for the presentation of NPO financial statements. The first was to retain the requirements in the international standards (IFRS Accounting Standards, the *IFRS for SMEs* Accounting Standard and IPSAS) unchanged and provide supplementary guidance. The second was to build on the *IFRS for SMEs* Accounting Standard and to add the use of fund accounting which would require, as a minimum, that income was split between restricted and unrestricted income on the face of the Statement of Income and Expenses. The third alternative included a new requirement to provide supplementary donor or project statements for material funds or projects in addition to proposals for fund accounting in the second alternative.

BB1.4 There was no consensus among CP respondents as to the preferred alternative, with roughly a third supporting each alternative. Respondents highlighted accountability and meeting users' needs as important issues. Approximately two thirds of respondents supported alternatives that included the use of fund accounting. Some respondents viewed fund accounting as essential to ensure the stewardship of funds with restrictions and provide clarity regarding the NPO's unrestricted funds at year-end. Other respondents suggested that fund accounting could result in more complex financial statements that readers find difficult to understand, and that it might not be suitable for all NPOs. While acknowledging that adopting fund accounting could result in more complex financial statements, on balance it was considered that this risk was justified by the need to provide information that supports the proper stewardship of funds with restrictions and to enable a full understanding of NPOs' financial statements.

BB1.5 As discussed in BB1.3, the third alternative proposed for the presentation of financial statements was the inclusion of supplementary donor or project information on major funds. Some respondents acknowledged that if a donor statement could be developed that would meet the reporting and auditing requirements of major donors, this could lead to an overall reduction in the reporting burden.

BB1.6 It was agreed that supplementary donor or project statements would be helpful. Consequently, non-mandatory, additional guidance has been developed, which is contained in INPAS Practice Guide 1 – *Harmonised grant reporting* (INPAS Practice Guide 1). INPAS Practice Guide 1 enables an NPO to present key financial information about a specific activity, project or grant (or projects/grants) that could be useful to the grantor for accountability purposes, as well as meaningful to primary users through being reconcilable to general purpose financial reports produced under INPAS.

Scope of this Section

BB1.7 ED1 included most of the provisions from Section 3 *Financial Statements* of the *IFRS for SMEs* Accounting Standard. These provisions were focused on the presentation and compliance reporting requirements for the financial statements. However, as INPAS is a single Standard covering both the financial statements and the narrative report, this Section needed to address general purpose financial reports too. The Section has therefore been restructured to separate those paragraphs which only relate to the financial statements and those which also relate to general purpose financial reports and to clarify that compliance with INPAS requires compliance with the guidance for both the financial statements and the narrative report. Consequently, the title of the Section has been changed to reflect this.

Complete set of financial statements

BB1.8 Along with the formal responses to the CP, input was received from various stakeholders and through academic reports. Collectively, the input pointed to concerns about the understandability of financial statements. The number and scope of the financial statements was therefore reviewed.

BB1.9 Following this review, it was proposed that the Statement of Income and Expenses should total to surplus or deficit and that some of the items that were shown under the *IFRS for SMEs* Accounting Standard in the Statement of comprehensive income (other comprehensive income), should instead be recognised in a Statement of Changes in Net Assets. The Statement of Changes in Net Assets provides information, such as other comprehensive income, that is equivalent to that found in statements prepared under the *IFRS for SMEs* Accounting Standard. It also presents any movements between components of net assets including restricted and unrestricted funds.

BB1.10 It was expected that presenting these items outside the Statement of Income and Expenses would deliver some simplification. As not all sections of the *IFRS for SMEs* Accounting Standard were fully reviewed in the first edition of INPAS, it was decided that some changes arising from fair value adjustments were to be shown in the Statement of Income and Expenses if they arise.

BB1.11 Not all members of the Technical Advisory Group (TAG) supported the proposal to depart from the presentation used in the *IFRS for SMEs* Accounting Standard. There were concerns over the presentation of some items in the Statement of Changes in Net Assets. Instead, these members supported the retention of the Statement of comprehensive income. However, respondents to ED1 supported the proposed statements.

BB1.12 Respondents to the CP has raised concerns about the potential complexity and increased length of financial statements that could occur with the introduction of fund accounting. Consequently, ED1 proposed to only require separate presentation of income and expenses and net assets (and changes in net assets) for the aggregates of restricted funds and unrestricted funds. The separate presentation of restricted and unrestricted funds was expected to provide useful information to users of the financial statements without imposing the costs associated with full fund accounting on NPOs.

BB1.13 ED1 included proposals for the presentation of 'funds with and without restrictions'. This use of language was because 'restricted' has various meanings in accounting (for example, restricted cash) and potentially could have a different meaning to 'restricted' in the context of NPOs, where the focus was on restrictions placed by fund providers, particularly grantors. However, respondents to ED1 thought that this made the terminology too cumbersome. It was therefore decided to revert to the use of restricted and unrestricted funds for ease of use.

BB1.14 Some respondents to ED1 supported the ED1 proposal and commented that requiring the presentation of restricted and unrestricted funds beyond the Statement of Income and Expenses and net assets could be challenging for some NPOs and would add little value for readers of the financial statements.

BB1.15 It was acknowledged that some NPOs might have the capacity to implement full fund accounting and might consider that this would improve the usefulness of their financial statements. Such NPOs are required by B1 *Presentation and compliance* to ensure that the financial statements provide a fair presentation when providing these additional disclosures. They are also required to follow B6 *Notes to the financial statements.* An NPO should ensure that additional disclosures do not obscure important information and have been driven by the usefulness of the information to the understanding of the users of general purpose financial reports.

Identification of the financial statements

BB1.16 The CP proposed the use of the term 'Statement of Financial Performance' for the statement that contains the NPO's income and expenses and sought feedback on this proposal. Around two thirds of those that responded to this question supported the use of this term.

BB1.17 The main reason given by those that did not support the use of the term was that users do not assess an NPOs' performance on whether they make surpluses or deficits, but whether they meet their aims and objectives. Using the term 'financial performance' could imply that this was the main measure of NPOs' performance, which would not be the case. It was therefore proposed that the term Statement of Income and Expenses should be used instead as it would be better understood.

BB1.18 Based on the feedback received to the CP, ED1 proposed the term surplus or deficit rather than profit or loss to show the difference between income and expenses. This was seen as more relevant for users of NPO financial statements.

BB1.19 Respondents to ED1 strongly supported the new terminology, though comments were made about the use of the term equity (see BA2.29-BA2.42). Some respondents indicated the terminology should not be mandatory. B1 therefore specifically permits the use of different names for the statements provided they are not misleading. However, TAG members thought that an alternate name should not be used for the Statement of Cash Flows.

Comparative information

BB1.20 Some respondents to the CP proposed limiting the comparative information provided in respect of fund accounting (for example, the provision of comparative information for movements in fund balances). TAG members questioned the removal of comparatives given the beneficial information they provide. Consequently, INPAS has the requirement for comparatives.

Compliance with INPAS

BB1.21 B1 requires that the financial statements and narrative report in general purpose financial reports do not state compliance with INPAS unless they comply with all the requirements of this Standard. ED1 sought views on the approach to compliance, which was proposed to be consistent with the *IFRS for SMEs* Accounting Standard, albeit for the general purpose financial reports covered by INPAS. Respondents provided suggestions regarding the approach to transition for the narrative reporting requirements, including suggesting separate assurance arrangements. The approach to compliance for both the financial statements and the narrative report was subsequently addressed in the transitional requirements in Z1 *Transition to INPAS*.

BB1.22 While NPOs in a jurisdiction might not be able or permitted to fully adopt INPAS they might adopt some of its specifications to ensure that a transaction was fairly presented. Where this is the case an NPO would not be able to state that it was compliant with INPAS. However, NPOs are encouraged to identify in its material accounting policies which transactions have followed INPAS requirements and the impact that this has had on the transactions and the individual line items.

BB1.23 Jurisdictions could permit NPOs to adopt INPAS over a period of time, or an NPO could adopt a transition path for full adoption such that not all requirements of INPAS were met immediately. This timeline might differ to that permitted in INPAS. In such circumstances, the disclosure requirements in Z1 might not be appropriate, and an NPO would need to consider what disclosures would be necessary to enable users to understand the financial statements, in addition to any disclosures that would be required by the relevant regulator.

BB2 – Statement of Financial Position

Information to be presented in the Statement of Financial Position

Equity/net assets

BB2.1 Equity in for-profit entities includes items that do not meet the definition of a liability such as share capital and will also include retained earnings and reserves, for example, the revaluation reserve (sometimes called revaluation surplus).

BB2.2 As discussed in BA2.29–BA2.42 equity as defined in the context of for-profit entities is not appropriate for NPOs given their nature. While NPOs could have a variety of different legal structures, including incorporated entities, trusts or various forms of unincorporated entity, it is possible that some entities that meet the definition of an NPO have some form of equity claims on the organisation, either from historical set-up or because of jurisdiction specific legislation/regulation.

BB2.3 Exposure Draft 3 (ED3) proposed that equity claims were a component of net assets that refer to distributions of future economic benefits or service potential by the NPO during its life, such distributions being at the discretion of the NPO, and distributions of any excess assets over liabilities in the event of the NPO's dissolution where this excess has not otherwise been distributed to another NPO or entity with a similar purpose. This approach was supported by respondents to ED3.

BB2.4 To reflect the NPO context and to recognise the various arrangements that might exist, the net assets in an NPO's financial statements comprise equity claims, restricted and unrestricted funds, other reserves (for example revaluation reserves) and, exceptionally, non-controlling interests. Net assets include all forms of equity claims.

BB2.5 It was considered much less likely, although not impossible, for an NPO to have share capital. Consequently, the information required to be presented in the financial statements placed less emphasis on share capital, and it was not proposed as a mandatory line description in the Statement of Financial Position. However, disclosures must be made where it is relevant.

BB2.6 Similarly, non-controlling interests were expected to be unlikely, but not impossible for NPOs. Given the nature of such interests, the requirement to disclose on the face of the financial statement has been maintained but would be expected to be used rarely by NPOs in practice.

BB2.7 Further information on the definition of net assets is available in A2 *Concepts and pervasive principles*.

Endowments

BB2.8 Endowments are typically donations of cash or other financial assets to an NPO to be used as an investment, with the investment income being made available for the NPO to use, either for a specific purpose or more generally. Because of the complexity associated with endowments and potentially differing treatments under different legal frameworks, detailed requirements for endowments have not been included in the first edition of INPAS.

Restricted and unrestricted funds

BB2.9 The IFR4NPO Consultation Paper (CP) asked whether restricted funds (that could only be used for specific NPO purposes) and unrestricted funds should be presented in the main financial statements and notes (including reserves). It asked for feedback on how this would align with donor reporting requirements and the role of fund accounting.

BB2.10 Respondents to the CP supported the split between restricted and unrestricted funds. In addition, consultation respondents supported the provision of information about the purposes for which reserves (funds) were being held as this would be useful to users of the financial statements.

BB2.11 ED1 included these requirements. Stakeholders agreed that not all categories of asset and liability balances should be split between those with and those without restrictions.

BB2.12 The level of additional disclosure in the Statement of Financial Position has therefore been limited to a split between restricted funds and unrestricted funds within net assets on the face of the statement. Taking this approach would provide users with important information about the level of funds available to the NPO, which was key to financial resilience.

BB2.13 However, some users' needs might only be fully met by providing an analysis of restricted funds, where these exist. B8 *Fund accounting* details the disclosure requirements for individual funds. This includes, for material funds, the purpose of the fund and movements of the fund in the financial reporting period.

BB2.14 Technical Advisory Group (TAG) members agreed that NPOs should not be prevented from presenting an analysis of funds on the face of the statements where they considered this would be useful to the users of their financial statements.

BB3 – Statement of Income and Expenses

Background and history

BB3.1 The IFR4NPO Consultation Paper (CP) covered a number of aspects of financial statement presentation including the term that should be used for the primary statement that covers the income and expenses of an NPO. The CP proposed the use of the term 'Statement of Financial Performance'.

BB3.2 Around two thirds of respondents supported the use of the term 'Statement of Financial Performance' although many of these respondents did not provide a rationale for supporting the term. However, there were a number of disagreements with the proposal. The main reason given by those that did not support the use of the term was that NPOs' performance was not judged on whether they make surpluses or deficits, but whether they meet their aims and objectives.

BB3.3 Respondents were concerned that using the term 'financial performance' could imply that this was the main measure of an NPOs' performance. Alternative terms proposed by respondents were considered. The most suggested alternative terms were 'income and expenses statement' and 'statement of financial activities' on the basis that these terms were better understood by NPO stakeholders.

BB3.4 Alternatives were discussed with the Technical Advisory Group (TAG) and the Practitioner Advisory Group (PAG), and it was agreed that Statement of Income and Expenses was best understood by stakeholders and had the benefit of simplicity.

BB3.5 Nevertheless, INPAS has provided the flexibility for an NPO to use a different term for the Statement of Income and Expenses in its financial statements if an alternative would better explain the financial statement or where this would be required to comply with local regulations.

Presentation of income and expenses

Surplus and deficit

BB3.6 A substantial amount of feedback was received that profit or loss was not an appropriate term for non-profit organisations. In discussion with stakeholders and the TAG and the PAG, the term surplus or deficit was considered to be more appropriate. Consequently, this term has been adopted in the financial statements. This has removed the implication that there was any profit or loss with the focus on the arithmetic difference between income and expenses.

Income and expenses with restrictions

BB3.7 The CP sought views on how financial statements should be presented to help the user's understanding of an NPO's activities. Most of the feedback received related to the proposed use of fund accounting, which has implications for the presentation of income with, and without, restrictions and its related expenses rather than on the disclosure of material categories of income and expenses.

BB3.8 The majority of respondents to the CP supported the separate presentation or disclosure of restricted and unrestricted funds. Respondents felt that this was an important aspect of accountability and meeting users' needs. Consequently, Exposure Draft 1 (ED1) proposed that the Statement of Income and Expenses showed separately, through two columns, an aggregation of those incomes and expenses with restrictions and, separately, an aggregation of those incomes and expenses without restrictions.

BB3.9 Exposure Draft 3 (ED3) subsequently proposed to remove this requirement as the disclosures required by B8 *Fund accounting* superseded the original proposals. It also reflected feedback from the ED1 and associated outreach about the ease of understanding of what could potentially be a complex statement. Removing this requirement was expected to simplify the information presented in the Statement of Income and Expenses.

BB3.10 The significant majority of respondents to ED3 supported the removal of the mandatory requirement for funds with and without restrictions on the face of the Statement of Income and Expenses. Respondents that disagreed cited the fundamental importance of restricted and unrestricted funds, concerns about the ability to explain the surplus or deficit in a period, the ability to understand the resources available to an NPO, having the information 'at a glance', and compliance with donor and regulatory requirements.

BB3.11 The Statement of Income and Expenses when taken together with the Movement of Funds note and disclosures related to individual funds provides transparency of restricted and unrestricted funds. However, given this feedback, the benefit to having a summary of restricted and unrestricted funds on the face of the Statement of Income and Expenses was explored with the PAG.

BB3.12 PAG members provided feedback that this would add clutter to the presentation of the Statement of Income and Expenses. Together with other feedback, it was therefore decided that fund information would not be required on the Statement of Income and Expenses. Further Implementation Guidance illustrates how an NPO could present additional financial information about restricted and unrestricted funds if an NPO is of the view that this would be useful to the primary users of its financial statements.

BB3.13 There was some discussion in response to the CP about the need for comparatives, and concerns about the complexity of the financial statements if comparatives were mandated alongside fund accounting requirements. The TAG and the PAG considered these concerns. While acknowledging the potential for complexity, the advice was that comparative information was important for users to understand the financial statements. However, the removal of the requirement for a columnar analysis of restricted and unrestricted funds significantly addressed this concern.

Single statement

BB3.14 In response to issues raised about the understandability of financial statements, the Statement of Income and Expenses gives prominence to the income and expenses in the reporting period and focuses less on the impact of revaluations of items held in the Statement of Financial Position. Income and expenses and the effects of realised gains and losses (such as from the sale of an asset) were the focus of the Statement of Income and Expenses.

BB3.15 The Statement of Income and Expenses presents components of surplus or deficit by separately showing 'surplus or deficit from operating activities', share of surplus or loss from associates, gains or losses on the disposal of assets, unrealised gains from foreign exchange differences, unrealised gains or loss through fair value adjustments (if any) and then a total surplus or deficit. Although these aggregations are presented differently from the *IFRS for SMEs* Accounting Standard their location was consistent with the income statement and the accounting treatment for items in profit or loss.

BB3.16 Items that under the *IFRS for* SMEs Accounting Standard would be presented in other comprehensive income and expenses items are presented in a Statement of Changes in Net Assets. This statement provides a subtotal of transactions that form other comprehensive income in IFRS-based standards. With this approach the equivalent information to the Statement of comprehensive income could be found.

BB3.17 Not all TAG members agreed with this approach, preferring to retain the single income statement from the *IFRS for SMEs* Accounting Standard. However, the majority of TAG members supported the approach adopted in ED1 because of the input provided about the understandability of the financial statements. Respondents to ED1 supported the proposals for this statement.

Classification of expenses

BB3.18 The presentation of expense information is included in Section 5 of the *IFRS for SMEs* Standard. This topic was identified as a priority issue for NPOs and was included as topic 8 in the CP. It has been addressed in D1 *Classification of expenses*.

BB4 – Statement of Changes in Net Assets

Presentation

BB4.1 The IFR4NPO Consultation Paper (CP) did not directly seek feedback on the Statement of Changes in Net Assets. Amendments to this statement arose as a result of feedback on other financial statements and from stakeholder feedback about the understandability of financial statements.

BB4.2 The Statement of Income and Expenses has been simplified by excluding items referred to in the *IFRS for SMEs* Accounting Standard as 'Other comprehensive income'. As a consequence, other INPAS sections now require some items of income and expenses to be presented in a Statement of Changes in Net Assets rather than in an 'Other Comprehensive Income' section of the Statement of Income and Expenses.

BB4.3 This approach might mean that information that was previously available in the *IFRS for SMEs* Accounting Standard based statement formats would be harder to find. INPAS has addressed this by requiring that the Statement of Changes in Net Assets:

(a) commences with the surplus or deficit from the Statement of Income and Expenses;
(b) adds or subtracts the items that would be unrealised gains and losses (other than those prescribed in this Standard to be taken through the Statement of Income and Expenses). This would include items found in 'Other Comprehensive Income' in the statements prescribed by the *IFRS for SMEs* Accounting Standard; and
(c) produces a sub total of (a) and (b).

BB4.4 Generally, unrealised gains and losses would arise where a gain or loss might change in a future financial reporting period, because of the subsequent remeasurement of an asset or liability. It was noted that in some jurisdictions legal requirements mean that other matters might need to be considered in defining what is realised or unrealised. These legal requirements would need to be met. This approach would generate a subtotal with equivalent information to the Statement of Comprehensive Income.

BB4.5 To support understandability of this statement it was proposed that the Statement of Changes in Net Assets was subdivided into the following sections:

(a) movements arising from unrealised gains and losses (other than those prescribed in this Standard to be taken through the Statement of Income and Expenses);
(b) movements between funds and reserves (including movements between restricted funds and unrestricted funds);
(c) movements arising from contributions by or distributions to holders of equity claims; and
(d) other changes in net assets.

These subsections would provide a reconciliation of the opening and closing carrying amount of components of net assets.

BB4.6 The approach to the Statement of Changes in Net Assets was supported by respondents to Exposure Draft 1 (ED1).

BB4.7 ED1 described the Statement of Changes in Net Assets as presenting an NPO's surplus or deficit for a reporting period and gains or losses that were not taken through the Statement of Income and Expenses. However, during the review process for B4 *Statement of Changes* *in Net Assets* a change was made to provide consistency with the requirements of Part II of F1 *Financial instruments.* This related to some changes in fair values of hedging instruments, where items would be subsequently reclassified into surplus or deficit (profit or loss). The *IFRS for SMEs* Accounting Standard requires a separate grouping of these transactions from transactions which aren't reclassified. This amendment has been reflected in B4 because of the approach to the treatment of other comprehensive income discussed in paragraphs BB4.2–BB4.4.

BB5 – Statement of Cash Flows

Background and history

BB5.1 No major revisions have been made to the principles established in the *IFRS for SMEs* Accounting Standard for the Statement of Cash Flows. As this Section has not been fully reviewed, any updates have been limited to terminology, use of language specific to NPOs or alignment with updates to other INPAS sections.

BB5.2 Part 2 of the IFR4NPO Consultation Paper (CP) included the Statement of Cash Flows in the scope of topic 7 – *Presentation of financial statements*, primarily to consider whether the Statement of Cash Flows could be used directly or as the basis for an additional statement to meet the needs of donors and funders. This was based on feedback that donors and funders frequently require cash-based information to meet their reporting requirements.

BB5.3 It was concluded that the Statement of Cash Flows was not the appropriate basis for reporting to donors and funders and instead separate statements should be developed. This is discussed further in the Basis for Conclusion for H4 *Supplementary information.*

Information to be presented in the Statement of Cash Flows

BB5.4 Exposure Draft 1 (ED1) included proposals to include cash receipts from grants and donations where their use was restricted to the acquisition or construction of property, plant and equipment, intangible assets and other long-term assets as investing activities. Overall, the majority of respondents were supportive; however, some did raise some issues with this proposal. Based on this feedback, Technical Advisory Group (TAG) members advised that the requirement to include the cash received for capital grants should be removed from investing activities, and replaced with guidance that such grants, where material, be disclosed separately. This is consistent with international standards approaches to investing activities.

Supplier finance arrangements

BB5.5 The International Accounting Standards Board issued an Addendum to the Exposure Draft for the third edition of the *IFRS for SMEs* Accounting Standard on 28 March 2024. This provided new guidance on supplier finance arrangements. This was subsequently included in the *IFRS for SMEs* Accounting Standard.

BB5.6 The majority of respondents agreed with the approach in B5 *Statement of Cash Flows*, but one respondent raised a concern about the proportionality of the disclosures. Removing the disclosure of amounts settled by finance providers with suppliers was considered in response to this feedback, particularly given that the IASB received a comment that obtaining the required information and having it audited would be onerous and costly. However, TAG members were of the view that NPOs that enter into supplier finance arrangements require a certain level of sophistication and that NPOs entering into such arrangements should have the knowledge and expertise to be able to comply with the disclosure requirements. TAG members also noted that there was no NPO-specific reason to not include it in INPAS.

BB6 – Notes to the financial statements

Background and history

BB6.1 B6 *Notes to the financial statements* does not specify the notes to the financial statements required in respect of specific assets, liabilities, revenue or expenses. Such requirements were set out in the INPAS sections dealing with those items, and the rationale for any revisions to those requirements is set out in the Basis for Conclusions to those sections.

BB6.2 The IFR4NPO Consultation Paper (CP) did not include specific proposals relating to the general requirements for the notes to the financial statements, and where respondents commented on the notes, these comments related to specific disclosures rather than the general principles set out in B6.

BB6.3 The approach to the notes to the financial statements set out in Section 8 of the *IFRS for SMEs* Accounting Standard is consistent with the approach to the notes in full IFRS Accounting Standards and in IPSAS. These requirements have been reviewed, and it was concluded that there were no NPO-specific issues that require addressing. The requirements in the *IFRS for SMEs* Accounting Standard have therefore been retained in INPAS.

BB6.4 No major revisions have therefore been made to B6, with any updates limited to terminology or use of language specific to NPOs, or to align with other INPAS sections.

BB7 – Accounting policies, estimates and errors

Background and history

BB7.1 The IFR4NPO Consultation Paper (CP) did not include specific proposals relating to accounting policies, estimates and errors, and respondents did not raise any issues.

BB7.2 The approach to the accounting policies, estimates and errors set out in Section 10 of the *IFRS for SMEs* Accounting Standard is consistent with the approach to the issues in full IFRS Accounting Standards and in IPSAS. These requirements have been reviewed, and it was concluded that there were no NPO-specific issues that need addressing. The requirements in the *IFRS for SMEs* Accounting Standard have therefore been retained in INPAS, except for text relating to the use of accounting standards (see paragraphs BB7.3–BB7.6). Any other updates have been limited to changes in terminology or use of language specific to NPOs and alignment with other INPAS sections.

Selection and application of accounting policies

BB7.3 The *IFRS for SMEs* Accounting Standard permits an entity to refer to full IFRS Accounting Standards in developing accounting policies for transactions, other events or conditions not addressed in the *IFRS for SMEs* Accounting Standard. This approach has been retained in INPAS, but it was noted that NPOs might encounter transactions, other events or conditions that have not been addressed in full IFRS Accounting Standards.

BB7.4 Transactions, other events or conditions not addressed in full IFRS Accounting Standards might involve transactions that are not commercial in nature (non-exchange transactions), and which might be addressed in IPSAS.

BB7.5 NPOs could refer to IPSAS in developing an appropriate accounting policy where there were no specific requirements or guidance in either the *IFRS for SMEs* Accounting Standard or full IFRS Accounting Standards. Permitting NPOs to refer to a relevant IPSAS, where there were no requirements or guidance in either the *IFRS for SMEs* Accounting Standard or full IFRS Accounting Standards, was intended to maximise consistency with A2 *Concepts and pervasive principles.*

BB7.6 There might be transactions, other events or conditions that were not addressed in any international standard. In such cases, it was considered appropriate for NPOs to refer to national standards that have addressed such transactions, other events or conditions where the accounting treatment in those national standards were consistent with the concepts and principles set out in A2.

BB8 – Fund accounting

History and background

BB8.1 The presentation of information in the financial statements is particularly important when resources can only be used for specific purposes. This was included as Issue 7: Financial Statement Presentation in Part 2 of the IFR4NPO Consultation Paper (CP). Views were sought on how unrestricted and restricted funds should be presented in the main financial statements and notes, the role of fund accounting and how any requirements might align with donor reporting requirements.

BB8.2 The CP proposed three alternatives as set out in the Basis for Conclusions to B1 *Presentation and compliance*. Although there was no consensus as to the preferred alternative, accountability and meeting users' needs were highlighted as important issues. Responses suggested that fund accounting was essential to ensure the stewardship of restricted funds and provide clarity regarding funds that could be used at an NPO's discretion. However, some respondents suggested that fund accounting often results in more complex financial statements that readers find difficult to understand, and that it might not be suitable for all NPOs. In developing the material for ED1, specifically A2 *Concepts and pervasive principles* and B1, fund accounting and the need to separate restricted funds and unrestricted funds was included as a topic with a supporting rationale. Following the responses received, the thinking in this area was taken forward and revised proposals developed.

BB8.3 Fund accounting is particularly focused on the presentation of transactions that were expected to be recorded in the Statement of Income and Expenses (unless they were required to be recorded directly in the Statement of Changes in Net Assets) between restricted funds and unrestricted funds. Transactions are generally expected to be presented as part of the General Fund, unless other funds are identified.

Characteristics of a fund

BB8.4 The key focus of B8 *Fund accounting* is to enable an NPO to identify whether it has one or more funds separate to the General Fund and whether any such funds are available for it to use at its discretion or whether there are externally imposed limitations. The proposals in Exposure Draft 3 (ED3) acknowledged that not all NPOs would have more than one fund and NPOs might not have any restricted funds.

BB8.5 The principles-based approach proposed in ED3 INPAS considered both what constitutes a fund, and subsequently whether the funds identified should be presented as part of restricted funds or unrestricted funds.

BB8.6 Criteria were developed for a fund to exist. The first drafts of these criteria were focused on the ability of an NPO to separately track resources and be able to separately record transactions for a specific set of an NPO's activities, whether for an internal or external purpose. Technical Advisory Group (TAG) members were concerned about whether this approach might effectively allow NPOs to opt out of fund accounting, particularly where an NPO encountered difficulties in maintaining separate records. Consequently, the principles were reframed so that it was a requirement through legal or equivalent means or the reasonable expectations of stakeholders that were the key determinants of whether a separate fund exists or not.

BB8.7 For all funds identified, there was a requirement that assets and liabilities must be capable of being shown separately as well as income and expenses. It was acknowledged that an

NPO might be unable to track assets and liabilities for each separate fund and that there was a balance to be struck between the transparency that arises from separately reporting resources and any additional cost that this might create. The INPAS requirement, which was developed to mitigate against the need for less material transactions to be separately tracked and to avoid creating too large a burden for NPOs, was tested in ED3.

BB8.8 Respondents to ED3 supported the tracking of assets and liabilities for each fund but raised concerns about the practical ability of an NPO to do this, particularly for some current assets and current liabilities. Respondents cited examples such as payroll control accounts, pooled bank accounts, vendor accounts, cash advances (where the recipient might be working on multiple activities) and prepayments, for example, of fuel for pool cars. Consequently, some respondents suggested that the requirement for tracking assets and liabilities should be limited to non-financial assets and non-current liabilities. Respondents also noted that donors, who were expected to be key users of NPO financial statements, were more interested in income and expenses.

BB8.9 Taking account of this feedback, a more nuanced approach has been adopted. The requirement to track assets and liabilities has been repositioned to require non-financial assets, non-current liabilities and assets and liabilities associated with delivery obligations to be tracked. The requirement to track other current assets and current liabilities has been retained but is only expected to be disclosed where the information is material and available without undue cost or effort.

BB8.10 The criteria for a separate fund to exist hinge on a requirement arising from legal or equivalent means to separately track resources and their use, or the reasonable expectations of stakeholders that resources used for a specific set of activities would be tracked. Respondents to ED3 sought clarification on what requirements were intended to be captured through 'equivalent means' and what would give rise to a reasonable expectation.

BB8.11 The Implementation Guidance was updated to clarify that a requirement arising through equivalent means would exist when there was a mechanism through alternative processes that have the same effect as a legal mechanism. These could also arise from a formal agreement that creates binding restrictions, regulatory expectations or quasi-legal arrangements with enforceability linked to reputational damage and religious law where this has the same effect as a legal requirement.

BB8.12 The guidance on reasonable expectations was also augmented to provide additional factors to consider. The updates have reinforced the principle that the existence of reasonable expectations needs to be assessed on a case-by-case basis reflecting the stakeholders involved and the specific context.

BB8.13 There were also comments specifically about property, plant and equipment, with views that disclosure should be made of the aggregate amounts of property, plant and equipment in restricted funds. There was also a request for disclosure of donated assets by location to allow greater collaboration among donors, value for money and transparency. An additional disclosure of property, plant and equipment in restricted funds has been included in E2 *Property, plant and equipment*.

BB8.14 Respondents to ED3 raised concerns about the application of materiality to fund accounting requirements. In particular there were requests for the inclusion of a threshold below which a separate fund would not be required. As noted in BB8.7, the intention in setting the INPAS requirements was that trivial funds need not be separately identified and disclosed in the financial statements. However, where there was a legal requirement, records would need to be kept.

BB8.15 The introduction of a threshold that is suitable for all NPOs was determined by the TAG to be problematic. Implementation Guidance has therefore been added that points to the materiality guidance in A2, which could be used by NPOs to set their own threshold for what would be clearly trivial and to assess smaller funds for materiality.

BB8.16 A TAG member was concerned about the potential for confusion about the relationship between fund accounting and reserves. Fund accounting is the requirement in INPAS to identify those funds that should be presented as part of restricted funds or unrestricted funds. Each fund might have a brought forward and/or carried forward balance(s). The aggregated balances on these funds should be presented as restricted funds or unrestricted funds in the accumulated funds (sometimes called reserves) of an NPO.

BB8.17 INPAS uses the term reserve only in connection with the specific sections of INPAS that require a reserve to be created. For example, a revaluation reserve would exist where an NPO uses the revaluation model for measuring its assets and it has revaluation gains and losses. Similarly, a pension reserve would exist where an NPO has a defined benefit pension scheme to recognise changes in its values. These reserves are not able to be used for other purposes and are separate to the other funds held by an NPO. INPAS was amended to reflect these differences.

Restricted funds

BB8.18 In developing this Section, consideration was first given to whether presentation could be determined from the type of arrangements defined in C1 *Revenue* for the purposes of recognition, measurement and disclosure. C1 distinguishes between grant agreements with delivery obligations, where the grant recipient has a present obligation to perform, and grant agreements without delivery obligations, where the grant recipient does not have a present obligation to perform.

BB8.19 Initial proposals also looked at whether regulatory requirements should be a factor in determining whether transactions should be presented as restricted funds or unrestricted funds. This was discussed by a focus group established for this purpose and by the Practitioner Advisory Group. Both groups had concerns about such an approach. This was because requirements differ significantly globally and could lead to different treatments of similar activities across jurisdictions.

BB8.20 Both groups were concerned about whether the initial proposals would meet stakeholder expectations about which transactions appeared as part of restricted funds. Their feedback was that for stakeholders the substance of a transaction was more important than its form.

BB8.21 TAG members also had concerns about whether the types of arrangements in C1 were a suitable basis to determine presentation. TAG members' concerns centred on arrangements that don't create a present obligation but nevertheless limit how an NPO could use the resources provided.

BB8.22 There were also questions about whether grant agreements with delivery obligations should be part of restricted funds, as the rights and obligations were dealt with as part of assets and liabilities, and in the majority of instances were not expected to create a fund balance. Given the substance of these obligations, it was however, expected that grant agreements with delivery obligations would be part of the restricted funds in the balance sheet, and that disclosure could be used to provide transparency over income and expense recognition. In addition, it was recognised that from time to time there might be an accounting balance related to a delivery obligation because there have been insufficient resources to fund the required activities or excess resources, which could then be applied to other purposes (where permitted to do so in accordance with the terms of the grant). Transparency of the impact of these types of arrangements would be useful to users of the financial statements.

BB8.23 TAG members discussed the moral and/or ethical requirements to use resources in a particular way. Some TAG members were concerned about the presentation of restricted or unrestricted funds only being based on moral and/or ethical requirements. This was because NPOs have a moral and ethical requirement to use all of their resources for the NPO's missional objectives and it might be difficult in practice to distinguish between different types of moral and/or ethical requirements. TAG members subsequently agreed that the reasonable expectations of stakeholders would be a better way of distinguishing when resources should be separately identified and presented.

BB8.24 TAG members agreed that where there was a requirement arising from legal or equivalent means over the use of resources in a fund that limited the purposes or activities for which these could be used, they should be presented as part of restricted funds. This could include grants and donations where there was either a formal agreement or a private arrangement. TAG members also noted that some restrictions might be capable of being removed and would therefore not necessarily always be in place. As a consequence, the Implementation Guidance was amended to make reference to temporary and permanent restrictions.

BB8.25 There was significant discussion about the treatment of resources received from public fundraising campaigns for a specific purpose, particularly online campaigns and the nature of the obligation that arises. TAG members all agreed that there would be an expectation of separate treatment where a public commitment had been made that resources should be used for the purpose for which the campaign was launched. Consequently, these should be included as part of restricted funds. The definition of eligible campaigns has been articulated so that it only applies where an externally communicated public commitment has been made and that commitment was made at or before the launch of the fundraising campaign.

BB8.26 In the feedback from ED3, a respondent noted potential ambiguity around revenue from contracts with customers. The respondent noted that trading income from an externally imposed legal or equivalent requirement meant that the NPO was required to provide specified goods and services, and so it could be argued as being (part of) a restricted fund. The intention in framing B8 was to focus the requirements on those transactions or arrangements where the resource provider does not receive resources, goods or services of approximately equal value in return for the resources provided. Fund accounting is intended to provide transparency to the provider of these resources about how those resources were used. This would not be necessary for a contract with a customer.

BB8.27 In considering this feedback it was noted that an NPO would be expected to have discretion about how it provided a good or service under a contract with a customer and how to apply the income earned. Even though the contract was legally enforceable, this discretion means that the revenue from this source should not be considered as restricted.

BB8.28 Showing all the expenses required to be incurred for the purposes of an individual fund was expected to provide important information to the users of an NPO's financial reports. Most respondents to ED3 agreed and were of the view that charging all legitimate expenses:

(a) provides a clear, complete and transparent view of the costs associated with the fund's specific purpose for stakeholders and grantors;
(b) provides for proper accountability and allocation of expenses;
(c) provides clarity on cross subsidisation and direct financial support by the NPO; and
(d) means stakeholders were aware of the total cost of the activities carried out to meet the purposes of a fund.

BB8.29 Some respondents to ED3 raised concerns that including all such expenses might not be consistent with eligibility requirements for a grant agreement, and that including these would have implications for reporting to donors. Some donor respondents were, however, of the view that including all legitimate expenses, including those not eligible under the terms of a grant agreement would provide important information that was relevant for the ongoing dialogue between donors and grant recipients. While retaining the principle that the full costs of an activity should be presented in a fund, clarification has been added that the expenses, including a reasonable allocation of support costs, should only be made where allowed by the fund.

BB8.30 INPAS has been amended to state that such expenses should not be included in a fund where this was not permitted for legal, regulatory or other reasons. This change reflected the expectation that where an NPO relies on 'other reasons' for not presenting expenses as part of a fund, it had considered the needs of its key stakeholders.

BB8.31 These concerns also highlighted the potential for confusion between funds, grants and projects. This terminology has been directly addressed in the Implementation Guidance. It makes clear that funds, grants and projects are different and that on occasion these could overlap in part or in full. TAG members recognised that this might provide practical challenges for NPOs if software limitations prevent the tagging of information for multiple purposes. Nevertheless, TAG members were of the view that being able to report against funds was necessary.

Unrestricted funds

BB8.32 Funds that have been set aside by the governing body through internal designation can typically be changed, subject to the approval of the governing body. As such they do not create a permanent limitation on the use of resources by the NPO. INPAS allows for internally designated reserves to be identified as a fund but requires that such funds be presented as part of unrestricted funds.

BB8.33 Following feedback from respondents to ED3, the drafting relating to the internal designation of funds was revised to make clear that the internal designation could be made for any purpose. This means that the governing body could internally designate funds for a purpose internal to the NPO, or for an external purpose.

Disclosures

BB8.34 The information needs of users is a critical consideration. The feedback received showed that it was important to understand the extent to which an NPO could use its funds for any of its missional purposes (unrestricted funds) and the extent to which resources could only be used for a specified purpose.

BB8.35 As a consequence, disclosure requirements have been designed to show the income and expenses in the year for each fund as well as any brought forward and/or carried forward balances. These disclosures were intended to provide transparency about resources received and how they have been used.

BB8.36 The disclosures also show any shortfalls or excesses on a fund and how such balances have been addressed together with an appropriate explanation. This includes transparency over the transfer of resources between funds. NPOs have consistently provided feedback on the importance of such information, particularly when shortfalls need to be funded from unrestricted funds.

BB8.37 These disclosures would be important for NPOs that receive resources in one financial reporting period and use them in another financial reporting period or periods. With these disclosures, NPOs would be able to demonstrate the impact of such transactions on their surplus or deficit for the financial reporting period.

BB8.38 The intent of INPAS is to provide a minimum, consistent level of disclosure that is necessary for the primary users of an NPO's financial statements, that reflects the costs and benefits of providing the information. Respondents to ED3 made various comments about additional disclosures that could be mandated. However, it was concluded that there was a risk that adding further disclosure requirements would create an unnecessary burden. Instead, it was decided that the narrative report, combined with the option to make voluntary addition disclosures that respond to an NPO's assessment of the needs of the users of its general purpose financial report, would address the needs identified by respondents.

BB8.39 Respondents to ED3 also commented on the disclosure of immaterial funds, including whether aggregation would obscure important information. Guidance about immaterial funds, particularly focusing on the needs of the users of an NPO's general purpose financial report, was therefore added to the Implementation Guidance.

BB8.40 TAG members had mixed views about whether internally designated funds should be required to be separately identified on the face of the financial statements or in the notes. Given the potential usefulness of this information, internally designated funds were included within the scope of the proposed disclosure requirements. This was because it was decided that it would be useful for an NPO to show that it had set aside funds for a particular purpose and to show how it subsequently use those funds.

Group C

Revenue

BC1 – Revenue

Background and history

BC1.1 The recognition and measurement of revenue, and in particular non-exchange revenue, was identified as a specific issue for non-profit organisations in the IFR4NPO Consultation Paper (CP) with a number of financial reporting challenges highlighted. These included:

(a) the need to identify overarching principles for the recognition and measurement of incoming resources from 'non-exchange' transactions;
(b) the recognition and measurement process associated with the receipt of donations that were used to fulfil requirements in subsequent periods;
(c) when donations to purchase or construct a capital asset should be recognised; and
(d) the circumstances when services and gifts in kind should be recognised and how they should be measured.

BC1.2 The CP also noted that accounting for bequests and endowments would not be covered in the first edition of INPAS and would be considered for subsequent editions of INPAS.

BC1.3 CP respondents were supportive of the description of the issues and provided additional points for consideration in developing the guidance. These included:

(a) the need to place greater emphasis on how to distinguish between exchange and non-exchange revenue;
(b) the inclusion of greater detail for services and goods provided by an NPO at subsidised prices;
(c) the importance of capital grants; and
(d) grants that an NPO receives only once the activities funded by the grant have been carried out.

BC1.4 The CP proposed four alternative financial reporting treatments for developing guidance. The first was to require NPOs to recognise all non-exchange revenue in accordance with the *IFRS for SMEs* Accounting Standard with additional NPO-specific guidance. The second was to use the principles in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to extend the treatment of government grants to all non-exchange revenue. The third was to require NPOs to account for non-exchange revenue using the principles in IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. The final alternative would require non-exchange revenue to be accounted for using the principles in IPSAS, with exceptions drawn from various national standards to be considered for inclusion as part of NPO-specific guidance. These exceptions would be used to simplify the accounting for gifts in kind and services in kind.

BC1.5 A significant majority of respondents favoured alternatives that used a performance approach where an NPO recognises revenue as performance conditions are satisfied rather than deferring revenue to match expenditure. A performance approach is used in the *IFRS for SMEs* Accounting Standard for government grants and commercial revenue and is the approach used by the IPSASB in its updated revenue standard.

BC1.6 Respondents also raised the need for additional guidance, noting this guidance should cover:

(a) non-performance conditions (that is, terms that relate to other factors such as time);
(b) the distinction between 'conditions' and 'restrictions' (that is, the distinction between terms of the agreement that require an NPO to undertake something specific and terms

of the agreement that do not require a specific activity to be carried out, but limit the use of the funds); and

(c) the need to ensure consistency of treatment between a grantor of resources and the recipient of those resources.

BC1.7 Respondents also supported the inclusion of exceptions where NPOs would face practical difficulties in applying the alternatives. This was particularly relevant for gifts in kind and services in kind, due to the difficulties some NPOs would experience in measurement.

BC1.8 Technical Advisory Group (TAG) members proposed distinguishing between revenue with performance conditions and other revenue, rather than between exchange and non-exchange revenue. TAG members argued this would be useful for those transactions that had both an exchange and non-exchange element.

Changes to international Standards and proposal for a two-section approach

BC1.9 In the period after the publication of the CP, there were significant developments to both the *IFRS for SMEs* Accounting Standard and to the IPSAS approach to revenue.

BC1.10 The IASB issued the Exposure Draft for the third edition of the *IFRS for SMEs* Accounting Standard in September 2022, which proposed basing its Section 23 *Revenue from contracts with customers* on the principles in IFRS 15 *Revenue from Contracts with Customers*. There were also minor changes to Section 24 *Government grants,* which addresses the accounting for some non-exchange transactions.

BC1.11 The IPSASB also continued to develop its approach to revenue, and in May 2023 issued IPSAS 47 *Revenue* (IPSAS 47), which replaced its two previous revenue standards. The Guidance in IPSAS 47 for contractual arrangements is based on IFRS 15. It covers all revenue transactions including non-exchange revenue.

BC1.12 The proposed amendments to the *IFRS for SMEs* Accounting Standard and the issuing of IPSAS 47 result in a similar underlying set of principles in accounting for revenue. As a result, INPAS has been developed to also adopt these principles in accounting for revenue.

BC1.13 The *IFRS for SMEs* Accounting Standard provides accounting guidance on revenue across two sections (Section 23 and Section 24), whereas IPSAS 47 includes all revenue guidance in one IPSAS Standard, removing the need to distinguish between exchange revenue and non-exchange revenue.

BC1.14 TAG and Practitioner Advisory Group (PAG) members discussed whether a single INPAS section for revenue was most beneficial or whether having separate INPAS sections for revenue from contracts with customers and revenue from grants and donations would be more appropriate in the NPO context. Separate INPAS sections would require the development of a new section for non-exchange revenue while retaining the content from Section 23 of the *IFRS for SMEs* Accounting Standard, with minor changes for terminology for exchange transactions. IPSAS 47, adjusted and simplified as necessary to suit the NPO context would be the model for a single section.

BC1.15 A single section covering all revenue was expected to provide a shorter, simpler set of guidance with the avoidance of duplication and without the requirement for NPOs to first determine whether a transaction is from a contract with a customer or a grant or donation. By contrast, separate sections for revenue from customers and revenue from grants and donations was expected to be easier to apply for those NPOs that only receive grants and donations. It would potentially mean shorter individual sections that would be easier to use and maintain the link with the *IFRS for SMEs* Accounting Standard as the basis of INPAS.

BC1.16 TAG and PAG members held a range of views, with some members stressing that covering all types of revenue in one section would be preferable while others felt a distinction between 'self-generated' revenue and 'grants and donations' would align better to how the sector thinks and talks about revenue.

BC1.17 In the light of these views, a third approach was developed, with all revenue covered in a single section with two parts; one covering grants and donations and one covering revenue from contracts with customers. INPAS C1 *Revenue* therefore covers all revenue transactions, including those covered by Section 24 of the *IFRS for SMEs* Accounting Standard. TAG and PAG members agreed with this approach, which was adopted in developing the revenue proposals in INPAS Exposure Draft 2 (ED2).

BC1.18 Respondents to ED2 also held a range of views. However, the vast majority of respondents agreed with a single section comprising two parts. As respondents who disagreed with the approach identified no fundamental flaws, and the proposal had strong support, the first edition of INPAS has adopted this approach.

BC1.19 Some respondents commented on the proposal to have separate Application Guidance. They thought that having requirements split between the core section text and Application Guidance made the requirements more difficult to follow. This was a pervasive comment across the whole of INPAS. Consequently, generally, Application Guidance has been merged with the authoritative text.

BC1.20 However, the third Edition of the *IFRS for SMEs* Accounting Standard includes specific Application Guidance for revenue. This is because the IASB agreed to relocate guidance for situations that are expected to be less prevalent in SMEs to Application Guidance. This Application Guidance is retained in INPAS.

C1 Revenue – Preface

BC1.21 As revenue from grants and donations and revenue from contracts with customers are covered in separate Parts, C1 begins with a preface to help determine whether a transaction should be accounted for as revenue from grants and donations or revenue from contracts with customers.

BC1.22 The preface also includes content common to both Parts of the Section to reduce duplication. The preface covers the scope and structure of C1, the principles of revenue recognition and measurement (including the 5-step revenue recognition model), revenue in foreign currencies and principal and agent considerations.

BC1.23 The preface has been written to explain that the accounting treatment of a revenue transaction depends on its substance. If the transaction involves the direct provision of a service, good or other asset to a customer in exchange for consideration then an NPO would apply the model for accounting for revenue from contracts with customers (Part II). If the transaction involves the receipt of cash, a service, good or other asset from an entity without the NPO directly providing cash, a service, good or other asset in return then it would apply the model for accounting for revenue from grants, donations and similar income (Part I). Guidance has also been provided for transactions where the amount of the grant received and the value of services or goods provided were not of approximately equivalent value.

Principal versus agent considerations

BC1.24 The CP included the topic of NPOs acting on behalf of other entities. Respondents supported its inclusion in INPAS. Distinguishing between transactions where an NPO acts as an agent for other entities or acts in its own right (as a principal) is important to understand the accountability of an NPO and to provide transparency over its operating income and its expenses. An NPO that is an agent would account for a revenue transaction differently than an NPO that is a principal.

BC1.25 The third edition of the *IFRS for SMEs* Accounting Standard introduced a control-based approach to the principal-agent distinction, rather than a risks and rewards approach. IPSAS 47 adopts a similar approach. TAG members supported a control-based approach to principal-agent issues for inclusion in INPAS.

BC1.26 INPAS, therefore, includes a requirement that an NPO, in assessing its control over an economic resource, must consider the control of the use of the service potential that might flow from it.

BC1.27 In finalising the third Edition of the *IFRS for SMEs* Accounting Standard, the IASB moved the guidance on principal versus agent considerations into its Application Guidance for Section 23. For INPAS, this guidance applies equally to revenue from grants and donations and revenue from contracts with customers. Guidance on principal and agent has been retained in the preface to C1 rather than Application Guidance.

Part I – Revenue from grants and donations

BC1.28 As noted in BC1.14, the development of C1 Part I has been informed by IPSAS 47. Adapting Section 24 of the *IFRS for SMEs* Accounting Standard was considered, but it was concluded that while the principles were appropriate for INPAS, there was insufficient detail to provide the required level of guidance for NPOs. IPSAS 47 has principles consistent with those in Section 24 of the *IFRS for SMEs* Accounting Standard and includes sufficient detail to assist NPOs.

BC1.29 The accounting model for revenue adopted in IPSAS 47 considers whether revenue arises from a transaction with a binding arrangement or without a binding arrangement. For revenue from transactions with a binding arrangement, the 5-step revenue recognition model in IFRS 15 was adapted to apply to a wider range of obligations than the performance obligations in IFRS 15. IPSAS 47 addresses grants and donations and contracts with customers together.

BC1.30 INPAS uses terminology to focus only on grants and donations rather than both grants and donations and contracts with customers as in IPSAS 47. Initially, the term binding arrangement in IPSAS 47 was adapted to the new term of enforceable grant arrangement (EGA) for the purposes of INPAS. This was because binding grant arrangements in IPSAS include contracts with customers, whereas as an EGA would not. ED2 included EGA as a proposed term (see paragraphs BC1.32–BC1.43).

BC1.31 With the same 5-step revenue recognition underpinning IFRS accounting standards and IPSAS, it was decided that INPAS should also use the 5-step model. INPAS therefore sets out how the principles in C1 Part II could be applied to grants and donations. This approach was adopted to reduce duplication, making it more usable for the majority.

Types of grant revenue

Identifying whether a delivery obligation exists

BC1.32 An essential element of the revenue recognition model for grants and donations proposed in ED2 was the use of EGAs. An EGA was defined as 'a grant arrangement where both a donor and grant recipient have both rights and obligations, enforceable through legal or equivalent means'. An EGA had to have at least one enforceable grant obligation (EGO). The use of the term EGA was intended to allow rights and obligations to be used as the basis of recognition for both revenue from grants and donations and for expenses on grants and donations (for those NPOs that provide grants to other entities or individuals).

BC1.33 In some jurisdictions, oral agreements have the same force in law as written agreements (subject to certain factors being in place). The potential for an EGA to exist as a result of oral agreements and customary practices was therefore included similar to the definition of a binding arrangement in IPSAS.

BC1.34 ED2 used the word 'undertaking' to describe the actions or promises that an NPO takes in meeting such obligations. Outreach participants and some PAG members thought this would best describe how an NPO practically operates, sometimes using best endeavours to meet its obligations. The use of the word 'undertaking' was discussed with TAG members. TAG members and respondents were concerned that 'undertaking' would not align with the requirement to satisfy specific deliverables in an EGA. TAG members also noted that 'undertaking' could have specific and different meanings in some jurisdictions. It was agreed that an undertaking without a deliverable was not likely to be enforceable by a grantor.

BC1.35 In discussing the proposals for C1, some PAG members and attendees at focus groups raised concerns about whether in practice legally constructed grant agreements were legally enforceable. This was because of an imbalance of power between grantors and grant recipients and particularly the likelihood of the grant recipient or potentially the grantor taking legal action. The intention was that the important aspect of an EGA was that the parties have the ability to legally enforce, even if it would be unlikely that the parties would exercise those enforcement rights. It was also noted that in some jurisdictions, agreements might be enforceable because of possible intervention by the regulator in the event of non-compliance.

BC1.36 ED2 proposed that a grant agreement that gives an NPO the right to receive a grant without having any obligations would not meet the definition of an EGA. ED2 referred to such agreements as 'other funding arrangements' (OFAs), where OFAs would not give rise to liabilities or assets that could affect the timing of revenue recognition. Consequently, Part I in ED2 provided guidance separately for grants and donations without EGOs (that is, OFAs) and those with EGOs.

BC1.37 Respondents to ED2, while generally supporting the distinction between EGAs and OFAs, raised a number of concerns, in particular that the proposals emphasised the arrangement rather than the obligation. Respondents noted that some grant agreements could include some requirements that met the definition of an EGA, and some requirements that met the definition of an OFA. They considered that placing the emphasis on the arrangement could cause confusion in such circumstances.

BC1.38 There were also concerns with the terminology used, as EGA and EGO did not resonate with stakeholders. Respondents also thought the term 'other funding arrangement' might be confusing for those NPOs that did not have any EGAs.

BC1.39 These concerns were accepted and instead the emphasis has been placed on the NPO's obligation arising from the requirements in a grant agreement. This focus on the obligation is consistent with the concepts and pervasive principles in A2 *Concepts and pervasive principles*.

BC1.40 In changing the emphasis to the obligation, alternative terminology was considered, particularly to demonstrate the change from the focus on the grant arrangement in ED2. Consequently, it was agreed to adopt the term 'delivery obligation' as the unit of account. This term was chosen as NPOs often refer to their deliverables under a grant agreement. The terms EGA and OFA were not pursued further. Instead, INPAS refers to grant agreements (or revenue transactions) with or without delivery obligations. The remainder of this Basis for Conclusions uses this revised terminology unless there was a specific need to refer to the wording used in ED2.

BC1.41 The definition of a delivery obligation has largely been carried forward from the definition of an EGO in ED2. However, the definition has been expanded to include further explanation of the features of a delivery obligation. This further explanation either replaces guidance proposed to be elsewhere in INPAS or addresses gaps in the definition identified in the responses to ED2.

BC1.42 Paragraph C1.70 defines a delivery obligation as a grant recipient's separately identifiable undertaking in a grant agreement to achieve a specified outcome, to carry out a specified activity or to use or transfer distinct services, goods or other assets. TAG members discussed whether 'outcome' would be at too high a level to be sufficiently specific to be a delivery obligation. Some TAG members expressed concern that the use of 'outcome' would inappropriately delay revenue recognition.

BC1.43 In this definition, the term distinct is used in respect of obligations to transfer goods or services. This use of 'distinct' mirrors the definition of a promise in Part II. Because the obligations were the same, use of the same word with respect to goods and services was considered appropriate. Where the obligation related to outcomes or activities, which were not part of the definition of a promise in Part II, a different word has been used. As the outcomes and activities would usually be set out in the grant agreement, the word 'specified' has been adopted.

Accounting for grant agreements

Grant revenue from transactions without delivery obligations

BC1.44 ED2 proposed, consistent with international accounting standards, that where there were no delivery obligations, revenue would usually be recognised immediately. ED2 also proposed that the announcement by a potential grantor of an intention to transfer resources to an NPO would not in itself be sufficient to give the NPO control of those resources. Respondents supported this approach.

BC1.45 The inclusion of fund accounting in INPAS affects the presentation of grants and donations. Consideration was given to additional guidance in C1, but it was concluded that B8 *Fund accounting* would better meet NPOs' needs.

Donations in kind

BC1.46 The general recognition principles applicable to revenue from grants and donations were considered to be applicable to gifts in kind and services in kind, with initial measurement at fair value. However, given the practical difficulties identified by respondents to the CP, ED2 proposed permitted exceptions to certain categories of gifts in kind. This was because the costs of reliably measuring the value of the items on receipt might exceed the value of the information to users of the financial statements. The exceptions relate to:

(a) low-value items for resale – NPOs are permitted to recognise an asset and revenue when the item is sold, measured at the amount of consideration received instead of on receipt.
(b) low-value items for distribution to beneficiaries or for an NPO's own use – NPOs are permitted to recognise revenue when the items are distributed or used instead of on receipt.

BC1.47 Respondents to ED2 considered that NPOs needed further guidance on what constitutes a low-value item. A number of options were considered, including the use of an absolute value or range of absolute values, similar to the approach taken to low-value items in IFRS 16 *Leases*. In discussing these options, it was concluded that the use of an absolute value or values would not be practicable, given the wide range of NPOs and jurisdictions in which INPAS might be applied. Instead, guidance on low-value items has been based on materiality. INPAS includes guidance on making materiality judgements.

BC1.48 Most respondents supported the permitted exception for low-value items for distribution to beneficiaries or for the NPO's own use, but some respondents considered that it did not assist preparers. This was because the exception only allows NPOs to defer recognition of these items, and some respondents were of the view that the permitted exception should allow NPOs to not recognise such donations in kind at any point. However, uncertainties affecting measurement would be reduced by delaying recognition and the exception could therefore be helpful. For example, where donated items had a short shelf life, delaying recognition would mean the NPO would know whether all the items had been used or distributed. Given the overall strong level of support for the proposals in ED2, the permitted exceptions were retained unchanged.

BC1.49 For services in kind, the practical difficulties with measurement were the primary reason for providing an exception. Given these practical difficulties, some TAG and PAG members thought it would be appropriate to allow an exception to apply to all services in-kind. However, other TAG and PAG members were of the view that for transparency, an NPO should recognise services in kind, particularly where an NPO was dependent on these services as part of its operating model. Having considered these views, ED2 proposed that an NPO recognises services in kind critical to an NPO's mission when they could be reliably measured. ED2 also proposed additional disclosures for mission-critical services in kind that cannot be reliably measured.

BC1.50 Respondents to ED2 thought that NPOs needed additional guidance to determine which services were critical to an NPO's mission. This also included whether services in kind that were for support services should be excluded from being considered mission critical. Excluding all support services could run contrary to other sector guidance[3] that promotes the value of support services and argues for grant funding that provides full cost recovery. TAG members also noted that some services could be easily measured but were not mission critical.

BC1.51 In light of the comments received, the sectoral guidance and developing practice, whether support services are mission critical has been redefined to depend on an NPO's circumstances. INPAS is therefore not prescriptive about which services are mission critical. The first edition of INPAS is accompanied by Implementation Guidance to support NPOs in making judgements about whether services in kind mission are critical.

[3] See, for example, Operationalizing locally-led development: Cultivating a Healthy Global Development Ecosystem (Humentum, 2024).

Revenue from transactions with delivery obligations

BC1.52 As noted in paragraph BC1.31, Part I adopts a slightly simplified version of the 5-step revenue recognition model that is expected to cover most grant agreements with delivery obligations. Guidance for more complex agreements (which were expected to be less common) has been provided by explaining how to apply the requirements in Part II. This was appropriate because the revenue recognition model for these types of transactions and revenue from contracts with customers is essentially the same. The additional guidance describes how an NPO should interpret Part II for more complex grant agreements. Examples of where additional guidance might be required include modification of agreements and the treatment of variable grant amounts.

BC1.53 ED2 permitted an NPO to measure its performance in fulfilling a delivery obligation over time using either an input method or an output method. Some respondents considered this overly complex and suggested a single method be mandated or treated as a rebuttable presumption. The favoured method was expenditure against budget. However, there might be cases where an output method, such as the number of vaccines delivered, would provide a more faithful representation of the NPO's performance. Consequently, no changes were made.

BC1.54 ED2 proposed simplifications for cases where there was a single EGO, which was intended to allow NPOs to apply the requirements without the need to reference the whole of the guidance. Some respondents commented that this intended simplification made the text more difficult to follow. In response to its own consultation, the IASB made changes to the *IFRS for SMEs* Accounting Standard for a similar purpose. Part I follows this updated approach.

Multi-year grants

BC1.55 In response to the CP, NPOs raised the question of the recognition of revenue when grants were intended to be used over a number of reporting periods. TAG members were of the view that time on its own is not a performance condition that would create a delivery obligation. The recognition point would depend on a number of factors. These include:

(a) the terms of the agreement and the nature of the delivery obligations; and
(b) whether the agreement is capable of being separated into parts, with some parts executory and therefore not recognised until one party performs.

BC1.56 INPAS is accompanied by additional guidance and an example covering these issues to support NPOs in determining the appropriate accounting treatment for their circumstances.

Capital grants

BC1.57 Capital grants arise where an NPO is given a grant to purchase or construct a non-current asset. The general recognition and measurement principles for grants and donations apply to capital grants. However, it was acknowledged that NPOs would need to carefully identify the delivery obligations in the grant agreement, as these would affect the timing of revenue recognition. INPAS is accompanied by additional guidance and an example to assist NPOs in determining the recognition and measurement of these grants.

Grants with match funding requirements

BC1.58 Respondents to ED2 also requested guidance about matched funding, where NPOs enter into grant agreements that require them to raise a specified level of funding (matched funding) before they are eligible for the grant. The requirement to raise matched funding was not considered to be a delivery obligation. This was because an NPO would not have the present ability to direct the use of grant funds until the matched funding has been obtained.

Consequently, INPAS did not require additional guidance. An example on matched funding was added in the Implementation Guidance that accompanies INPAS.

Delivery obligation assets and delivery obligation liabilities

BC1.59 ED2 proposed that where resources were received from a grantor prior to the NPO fulfilling the related delivery obligations, a liability would be recognised by the NPO. The term 'delivery obligation liability' was proposed to distinguish these liabilities from other liabilities. Similarly, if the delivery obligations were fulfilled prior to the transfer of resources by the grantor, an asset would be recognised. The term 'delivery obligation asset' was used to distinguish these assets from other assets. Respondents to ED2 supported these proposals.

Disclosures

BC1.60 IPSAS 47 (on which Part I is based) has extensive disclosure requirements (consistent with IFRS 15). TAG members agreed that not all of these disclosures would be appropriate for the types of NPO that INPAS is aimed at. Instead, the disclosure requirements included in C1 Part I have been adapted for this NPO context from those in Section 23 of the *IFRS for SMEs* Accounting Standard. Additional disclosures have been included where there is no equivalent requirement in the *IFRS for SMEs* Accounting Standard – for example, grant agreements without delivery obligations.

BC1.61 Respondents to ED2 generally supported the proposed disclosure requirements, but some respondents were of the view that additional disclosures were needed. In particular, ED2 required disclosure of donations in kind not recognised on receipt in limited circumstances only. Respondents thought that an NPO should disclose information whenever the NPO did not recognise items on receipt. Consequently, INPAS requires the disclosure of information about any donations in kind not recognised on receipt.

Part II – Revenue from contracts with customers

BC1.62 No NPO-specific issues have been identified in respect of exchange revenue and the CP did not discuss exchange revenue in detail. Amendments from the *IFRS for SMEs* Accounting Standard are therefore related primarily to changes to terminology for the NPO context and the inclusion of a small amount of material in the preface to C1 to help reduce duplication.

BC1.63 ED2 included additional guidance for simpler transactions that were more likely for NPOs. However, the need for such guidance was negated by the amendments made by the IASB in finalising the third edition of the *IFRS for SMEs* Accounting Standard. Material that related to less common transactions or events has been relocated into the Application Guidance, achieving the same result as the additional guidance originally included in ED2. This additional guidance has therefore been removed.

Group D

Expenses

BD1 – Classification of expenses

Background and history

BD1.1 The IFR4NPO Consultation Paper (CP) identified that information about an NPO's expenses was important to support stewardship, transparency and accountability. It was recognised, however, that while not all stakeholders would be interested in the same information, providing multiple analyses of expenses would create a burden for NPOs and might not support comparability.

BD1.2 A number of financial reporting challenges were highlighted, including:

(a) determining the most appropriate disclosures for inclusion in a single set of guidance for NPOs;
(b) analysis of expenses by function might not aid comparability due to differing business models, programmes and activities;
(c) allocating costs to functions might involve considerable judgement;
(d) analysis of expenses by nature might be more useful to support reporting for regulatory purposes; and
(e) analysis by both nature and function might not be readily produced from an NPO's accounting system and result in additional costs.

BD1.3 The CP noted that international frameworks are consistent in requiring that an NPO presents, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant. At a jurisdiction level, it was noted that while many have standards or guidance that are consistent with international accounting standards, others have taken alternative approaches. These include differing requirements depending on the type of NPO to reflect their specific reporting needs, requirements to provide functional expenses grouped by programme or support as well as a nature of expense categorisation, and hybrid approaches that mix the nature of expenses and the function of expenses analyses.

BD1.4 This diversity of approaches saw four alternatives put forward for consideration in the CP. These were:

(a) use of existing international standards;
(b) removing choice and requiring one method of presentation;
(c) requiring both a by-nature and a by-function expense analysis; or
(d) combining a by-nature and a by-function analysis in a mixed approach.

BD1.5 Respondents supported the description of the issue, and the advantages and disadvantages noted for the alternatives but were split as to which alternative provided the best solution for NPOs. Some respondents highlighted the need for choice and flexibility, while others focused on the benefits of consistency and comparability that limiting choice would provide. There was no clear view on the most suitable alternative.

Classification methods

BD1.6 Following the publication of the CP, there were also two significant developments. The first was the advancement of proposals for optional Supplementary statements covering both by-nature and by-function expense analyses in INPAS Practice Guide 1 *Harmonised grant* *reporting*. The second was the continued evolution of the IASB's Primary Financial Statement project, which at that time was expected to allow an analysis by nature of expense, by function or a mix of the two. It was also expected to mandate the by-nature expenses that had to be presented when a by-function analysis was chosen.

BD1.7 Taking account of these developments, the initial proposals for discussion with the Technical Advisory Group (TAG) and the Practitioner Advisory Group (PAG) permitted an NPO to provide an analysis of expenses using a classification based on the nature of expenses, the function of expenses within the NPO or a mixed presentation (that is partly by nature and partly by function), whichever provided information that was reliable and more relevant to the users of the financial statements. Where an NPO presented functional line items, it was proposed that they would also have to disclose a narrative description of the material expense types based on their nature that were included in each by-function line item.

BD1.8 While supportive of the overall approach, advisory group members and a focus group that was held to discuss the proposals expressed concern that the freedom 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 would not support comparability. It was felt that a single method of expense classification should be promoted, even if the presentation under that method was not prescribed.

BD1.9 It was noted that most NPOs would use accounting software that would permit the production of general purpose financial statements using a by-nature classification of expenses. As a result, there could be significantly less diversity between by-nature classification categories as compared to functional categories.

BD1.10 While allowing a classification of expenses based on by nature, by function or a mixed presentation, Exposure Draft 3 (ED3) included a rebuttable presumption that the more relevant and reliable information to users would be provided in a by-nature analysis of expenses classification. If the presumption was rebutted and a classification based on the function of expenses or a mixed presentation was used, it was agreed that an explanation by way of a note would be required as to why an alternative analysis provided information that was more relevant and reliable to users.

BD1.11 Respondents to ED3 who supported the rebuttable presumption agreed that a by-nature expense classification was a reliable and more relevant presentation of expenses. They commented that it would:

(a) provide a more straightforward and accessible view of NPO financial statements, which reduces complexity and improves accountability;
(b) present the information in a consistent and comparable way;
(c) reduce the risk of arbitrary allocations used in by-function classifications; and
(d) be easier for smaller NPOs to implement.

BD1.12 Respondents who disagreed, favouring a classification by-function or a mixed presentation commented:

(a) classification by function would be more relevant for NPOs, as most NPO operations are activity based;
(b) presentation of expenses 'by nature' would not align well with the proposals for fund accounting (note that a counter was given to this by a respondent who commented that classification by nature would make more sense when combined with the fund accounting methodology);

(c) most NPO programmes and/or projects are largely designed using an approach that allows for objectives, activities, inputs, outputs and outcomes.

BD1.13 ED3 feedback also noted that neither IAS 1 *Presentation of Financial Statements* nor IFRS 18 *Presentation and Disclosure in Financial Statements* contain a rebuttable presumption, with a linked concern that the promotion of comparability (via the rebuttable presumption) might appear to override the notion of faithful representation.

BD1.14 Having considered these points, it was decided that the arguments for including the rebuttable presumption set out in ED3 remained valid. As set out in ED3, the view remained that the rebuttable presumption of a by-nature classification of expenses would be:

(a) reliable and more relevant;
(b) would promote comparability and consistency;
(c) would avoid the risk of arbitrary allocations that could occur in a by-function classification of expenses.

Although the rebuttable presumption would encourage the use of a by-nature analysis, this would not be a prescribed form of expenses classification. An NPO would also require an understanding of users' needs to make decisions about whether the presumption should be rebutted.

BD1.15 ED3 permitted the analysis of expenses to be presented in the Statement of Income and Expenses or in the notes to the financial statements in accordance with paragraph B3.11, which was consistent with the approach in the Exposure Draft for the third edition of the *IFRS for SMEs* Accounting Standard. However, the IASB decided to revert to the pre-Exposure Draft version that removed the choice to present the analysis either on the face of the primary statement or in the notes. INPAS has used the position decided by the IASB and requires the presentation of expenses on the face of the Statement of Income and Expenses.

Allocation and aggregation of expenses

BD1.16 An analysis by either function of expense or a mixed presentation method involves allocating, apportioning and aggregating some or all expenses. Principles for allocating and apportioning of costs to functions and/or activities were included in INPAS for this purpose.

BD1.17 In responding to ED3, two respondents commented on the accounting policy choice where support costs could be apportioned between the activities being supported or disclosed separately. They were of the view that this might be overlooked by preparers or users and considered that this choice would reduce comparability.

BD1.18 The accounting policy choice was discussed with a focus group where there was no clear view on which approach should be taken forward. The accounting policy choice has therefore been retained to allow an NPO to make a decision in accordance with users' needs. This accounting policy choice was supported by an illustration to demonstrate where support costs were apportioned to functions that deliver activities and that also include a function for administration costs.

BD1.19 A respondent noted inconsistency in the use the terms 'allocation', 'attribution' and 'apportionment'. D1 *Classification of expenses* and D3 *Fundraising costs* were therefore reviewed for consistency with full IFRS Accounting Standards (and particularly IFRS 18 *Presentation and Disclosure in Financial Statements)*. D1 has used the term attribution where direct costs were attributed to functions. Allocation has been used where costs were assigned to functions. Apportionment has been used in INPAS when costs cannot be directly allocated or attributed.

BD1.20 TAG members considered these terms. Some TAG members were of the view that the terms could be rationalised without the need for apportionment on the basis that ultimately such costs were allocated to functions. Other TAG members were of the view that retaining apportionment was important because the process or processes applied to these costs were different to direct costs and shared cost. On the basis that there were likely to be additional processes for support costs and that understanding this was important for stakeholders, TAG members supported the inclusion of apportionment as long as the need for additional processes to support its use was made clear.

BD1.21 Some comments were received about the need for a clearer definition of what should be included in support costs. This was discussed with TAG and PAG members. There was general agreement that INPAS should remain a principles-based document that provides sufficient flexibility to apply judgement to an NPO's specific circumstances. The possibility of developing a practice guide for support costs will be considered in the future.

Disclosures

BD1.22 In recognition that allowing a choice of method might lead to significant inconsistencies in the information provided by NPOs, even where the NPOs were similar in nature, a number of expense disclosures were considered for inclusion in the financial statements.

BD1.23 Additional disclosures were proposed that would have required all NPOs to provide information on programme and support expenses, key management personnel, employee remuneration, expenses on grants and donations, expenses related to fundraising, ex-gratia payments and volunteer benefits.

BD1.24 The TAG and the PAG expressed concern that some of these disclosures could create a significant additional burden if applied to all NPOs. In response to this feedback, the proposals were amended to reduce the requirement and to provide better targeting of where additional information would be needed.

BD1.25 Upon further reflection, it was clear that some proposed disclosures repeated existing disclosure requirements from other INPAS sections or made incremental changes to them. Where this was the case, amendments were just proposed (where needed) to the relevant INPAS section. This was agreed as a general approach to the expenses disclosures.

BD1.26 However, TAG members agreed that the disclosure related to ex-gratia payments was to be retained and broadened to include losses (including fraud), write-offs and unusual payments. These types of expenses result in information that is material by nature and outside of the day-to-day activities of an NPO. While it was not possible to provide an exhaustive list of expenses that could be included in this disclosure, examples have been provided to assist NPOs in applying judgement. TAG members also supported the proposed disclosure for volunteer benefits for inclusion in ED3.

BD1.27 When considering the disclosure of support costs, it was noted that not all NPOs receive grants that require additional reports or require the production of additional information such as support costs. To avoid unintentionally increasing the burden for all NPOs, it was decided to remove the disclosure of support costs as a general requirement. INPAS only requires support costs to be disclosed where an NPO produces one or more Supplementary statements using INPAS Practice Guide 1 *Harmonised grant reporting*. This requirement is set out in H4 *Supplementary information*.

BD1.28 The responses to ED3 included several comments on benefits received by volunteers. These included a request for a definition of volunteer benefits, whether this includes forms of compensation, suggestions that there should be more illustrations and a query about whether the costs should be reported in aggregate. The respondent noted that D1 requires volunteer benefits to be disclosed even if they were provided on equivalent/same terms as employees or other eligible service recipients, which was different to the approach to governing body members in H1 *Related party disclosures*.

BD1.29 This was further considered by TAG members. The intention of these disclosures was to capture benefits being provided in lieu of personnel compensation (for example, through generous allowances for expenses) and to bring transparency to any abuse. The intention was not to capture day-to-day expenses for carrying out volunteering activities, particularly if these expenses were provided on the same terms as remunerated employees. The final version of INPAS sets out the principles to be followed.

BD1.30 A small number of respondents to ED3 proposed that where a by-function classification of expenses was included, the approach to the disclosure of certain by-nature expenses (included in both IFRS 18 and IAS 1) should be included in INPAS. While it was agreed that this information might be useful, it was decided that:

(a) disclosure of the information suggested was already required by other INPAS sections;
(b) it was not required by the *IFRS for SMEs* Accounting Standard; and
(c) it could increase the preparation burden for NPOs.

The proposed additional disclosures have not therefore been taken forward.

BD2 – Expenses on grants and donations

Background and history

BD2.1 The IFR4NPO Consultation Paper (CP) identified the recognition and measurement of grant expenses (as defined in D2.3) as a specific issue for non-profit organisations, with several financial reporting challenges highlighted. These included:

(a) international accounting standards did not explicitly cover grant expenses;
(b) a grantor (the NPO providing a grant) might need to make significant judgements to determine what it has promised to a grant recipient, what commitments have been created, the identification of obligating events and when a grant expense should be recognised; and
(c) how and when to recognise a grant expense, assets and/or provisions.

BD2.2 Respondents were supportive of the description of the issue and provided additional considerations, including the need to ensure that any guidance covered in kind transfers and that it properly distinguishes grant agreements from procurement transactions.

BD2.3 The CP proposed two alternative financial reporting treatments for developing guidance. The first was to base the guidance on the *IFRS for SMEs* Accounting Standard but to provide additional guidance on NPO-specific issues, and the second was to build on the first alternative but to also include additional guidance based on the principles proposed in IPSAS ED 72 *Transfer Expenses*.

BD2.4 Respondents' feedback was that they did not believe the alternatives adequately covered all of the issues. They raised points that included issues related to:

(a) constraints not based on performance, such as time where grants cross multiple reporting periods; and
(b) detail on when a donor would have an obligation to make a payment to a recipient and recognise an expense in jurisdictions where grant agreements included 'termination for convenience' clauses that allowed the donor to terminate an agreement at any time without there being a breach of the agreement.

BD2.5 The majority of respondents supported the alternative that incorporated the principles contained in IPSAS ED 72. While more complex, they noted that the draft Standard would provide better and clearer guidance on key issues such as performance obligations and grants that cross multiple reporting periods and might also bring broader financial management improvements.

BD2.6 After the publication of the CP and analysis of responses, IPSASB published IPSAS 48 *Transfer Expenses*. Following discussion with the Technical Advisory Group (TAG), the INPAS guidance has been drawn from the concepts in IPSAS 48. This approach was taken mindful of the cost/benefit of the proposals for NPOs, especially with respect to any additional monitoring or reporting requirements that the proposals might require. TAG members also noted that it would be necessary to ensure that there was a common approach taken to terms used in guidance for both expenses and revenues.

Types of grant expenses

Definition of grant expenses

BD2.7 The first essential concept requiring adaptation of the IPSAS Standard related to the definition of grant expenses. The IPSAS Standard establishes principles for transfer expenses. INPAS D2 *Expenses on grants and donations* takes a similar conceptual approach to IPSAS 48, but transfer expenses are redefined as grant expenses.

BD2.8 Under the definition of grant expense, it was agreed with TAG and Practitioner Advisory Group (PAG) members that the term 'grant' encompasses any cash, service, good or other asset that is transferred by the grantor to a grant recipient without the grantor directly receiving any cash, service, good or other asset in return. This therefore incorporates items otherwise described as donations, gifts and similar transfers of resources as well as grants. The Implementation Guidance includes the common terminology by which such types of transaction might be known – non-exchange, non-reciprocal or non-requited transfers and expenses.

BD2.9 By making explicit reference to the fact that the grantor will not directly receive any cash, service, good or other asset in return for the transfer, this also makes a clear distinction between an NPO's grant providing activities and those that relate to procurement. The possibility of a transaction of not equal value was discussed with TAG members to address non-zero consideration. Guidance has been included in IC1 *Revenue Implementation Guidance*.

BD2.10 In response to feedback from PAG members, Exposure Draft 2 (ED2) clarified the definition of a grant expense such that a grant expense could arise from an obligation to transfer resources and not just when a grantor transfers resources.

Grant agreements that create a present obligation on the grant recipient

BD2.11 The second essential concept was the use of binding arrangements from IPSAS 47 *Revenue* and IPSAS 48 *Transfer Expenses*, redefined in D2 as grant agreements with fulfilment rights (described as enforceable grant arrangements in ED2). Grant agreements with fulfilment rights were important conceptually because the enforceable rights and obligations they contain enable the grantor to assess whether it has the right to require a grant recipient to meet an obligation in exchange for an agreed transfer of resources.

BD2.12 A further adaptation of these IPSAS Standards was initially considered to make a distinction between general and specific grant fulfilment rights and general obligations and specific compliance obligations.

BD2.13 These initial considerations were based on a general grant fulfilment right and general obligation that would relate to the overall purpose of the grant recipient. In terms of overall purpose, the grant recipient's activities would comprise a collective set of services, goods or other assets for internal use or external transfer, which might not individually be distinct. Collectively, these services, goods or other assets could be incrementally grown through the transfer of resources provided by grants that related to the overall purpose of the grant recipient. However, the incremental growth to a collective set of services, goods or other assets for internal use or external transfer was considered insufficient for a delivery obligation to exist.

BD2.14 Conversely, specific fulfilment rights and specific delivery obligations would go beyond the overall purpose of the grant recipient and focus more on individual programmes, projects and activities. They would involve an undertaking by the grant recipient to use resources internally for distinct services, goods or other assets or to transfer distinct services, goods, cash or other assets to a purchaser or third-party beneficiary.

BD2.15 Following extensive debate, and being mindful of the need to ensure consistency with the proposals for C1 *Revenue* that also draw on the concept of enforceable obligations and rights, the distinction between general obligations and specific enforceable grant obligations was not taken forward.

BD2.16 General obligations fell under the recognition and measurement principles for grant expenses arising from grant expense transactions without fulfilment rights (described in ED2 as an 'other funding arrangement'). This was because while these obligations did place constraints on the use of transferred resources by the grant recipient, they did not give rise to a present obligation for the grant recipient when a grantor transferred the resources.

BD2.17 As a consequence, ED2 proposed a grant model that included an 'enforceable grant arrangement', where the grant arrangement contained both rights and obligations for both parties to the agreement, with distinct and separable requirements and an 'other funding arrangement' for all other grant arrangements. ED2 proposed different accounting outcomes for each type of arrangement.

BD2.18 Respondents to ED2 supported the two separate classifications of grant and accounting outcomes in the grant model. The primary issue identified was that a single grant agreement might contain requirements where there were enforceable rights and obligations and requirements where there were no enforceable rights and obligations. These different requirements of a grant agreement would lead to different accounting treatments.

BD2.19 Members of the TAG and the PAG discussed this issue. Members considered that referring to 'enforceable grant arrangements' and 'other funding arrangements' could be misleading. This was because the terminology implied that the grantor would account for all the components of a grant agreement using a single approach. However, the grantor would need to consider the substance of the grant agreement. It would need to identify whether in substance there would be more than one component to the agreement and determine the correct accounting treatment for each component.

BD2.20 Members noted that the terms 'grant arrangement' and 'grant agreement' were being used interchangeably. This also led to confusion relating to the unit of account.

BD2.21 The accounting treatment of the different elements of a grant agreement were concluded to be appropriate. The distinguishing factor from a grant expense perspective was whether requirements or enforceable obligations and rights in a grant agreement created a present obligation on the grant recipient.

BD2.22 The need for the grantor to classify each requirement in a grant agreement to determine whether there were fulfilment rights (representing transactions where there were both enforceable rights and obligations) or not was clarified. When a grant agreement contains a fulfilment right, a grantor classifies this requirement as a grant expense transaction with fulfilment rights. Where fulfilment rights do not exist, the grantor classifies them as grant expense transactions without fulfilment rights. This parallels with the treatment of grant revenue transactions in C1 Part I.

Identifying whether a grant expense transaction with fulfilment rights exists

BD2.23 An essential element of the model for recognising expenses on grants and donations is the treatment of grant expense transactions with fulfilment rights. INPAS describes fulfilment rights as arising from grant agreements that confer both rights and obligations, enforceable through legal or equivalent means, on both the parties to the agreement. A fulfilment right includes at least one delivery obligation.

BD2.24 The description of fulfilment rights and delivery obligations permits using rights and obligations as the basis of recognition for both grant expenses and for revenue from grants (for those NPOs that receive grants from other entities or individuals).

BD2.25 Grant requirements that give a recipient the right to receive a grant without having any obligations are not grant expense transactions with fulfilment rights. INPAS refers to these as grant expenses transactions without fulfilment rights.

Terminology and definitions

BD2.26 Following decisions on the grant model for both grant expenses and grant revenue, D2 has been updated for terminology relevant to grant expenses, including grant expense transactions with and without fulfilment rights (to distinguish between the two different accounting outcomes) and the use of the term grantor to represent the grant-providing NPO (the term used in ED2) and the reporting NPO. The term 'extinguish' was also used to describe when (or as) the grantor no longer has enforceable rights in a grant transaction or agreement. This would occur when the grant recipient had satisfied its delivery obligation or because grant agreements were discontinued due to other events or circumstances.

BD2.27 Glossary definitions have also been added to cover grant expenses, grantor and grant expense transactions with or without fulfilment rights, and fulfilment rights.

Enforceability

BD2.28 INPAS explains the potential for a fulfilment right to exist because of oral agreements and customary practices from the IPSAS definition of a binding arrangement. In some jurisdictions, oral agreements have the same force in law as written agreements (subject to certain factors being in place), and these have been deemed as having the same standing in INPAS as written agreements. The inclusion of customary practices as being sufficient for a fulfilment right to exist was more open to debate, as this was primarily based on the law of legitimate expectations that is applicable in some jurisdictions but which is usually more associated with public bodies. However, a legal or equivalent mechanism would be needed to uphold such legitimate expectations.

BD2.29 Respondents to ED2 agreed that regulatory oversight and customary practices could be sufficient to create a grant expense transaction with fulfilment rights. However, respondents considered that:

(a) it was important that INPAS was clear about what these equivalent means might be;
(b) these practices might be subsets of legal and contractual rights;
(c) they should have equal weighting to legal enforcement; and
(d) there needed to be a clear legal basis to the use of these means.

BD2.30 B8 *Fund accounting* and C1 are clear that the alternative means would have an equivalent effect (based on the assessment of enforceability). Clarifications have been made to C1 and D2 to reinforce these messages.

BD2.31 Respondents made the point that enforceability might be different in different jurisdictions. For example, regulatory oversight in certain jurisdictions does not include mechanisms to enforce rights and obligations. The form of enforceability would depend on whether oversight frameworks and arrangements include requirements to act in accordance with defined rules and directives. C1 confirms that a grantor would need to assess all the relevant factors to decide whether a grant component was enforceable, and this is explicitly required in core guidance.

Accounting for grant expense transactions

Grant expenses from transactions without fulfilment rights

Recognition and measurement

BD2.32 Recognition and measurement principles for a grant expense transaction without fulfilment rights follow the same conceptual basis as IPSAS 48 *Transfer Expenses*. As well as written and oral agreements, grant transactions without fulfilment rights also encompass those implied by customary practices and those situations where a grantor transfers resources to a grant recipient without there being any agreed or implied agreement in place. The TAG and the PAG were both supportive of the requirement that a constructive obligation to transfer resources that results in the recognition of a provision would require the recognition of a grant expense by the grantor but that additional guidance was necessary around general statements of intent to provide resources and how this interacted with grant transactions with fulfilment rights. The Authoritative Guidance and the illustrative examples in the Implementation Guidance include such detail.

BD2.33 TAG members discussed whether it would be more appropriate for a grantor to measure a grant expense at the fair value of the previously controlled resources rather than at their carrying amount. The TAG concluded that it was appropriate to follow the same measurement principle as the IPSAS Standard and to measure the grant expenses at their carrying amount. Fair value measurement would not be expected to impact on surplus or deficit for the period and any benefits of fair value measurement would likely be outweighed by additional costs.

Grant expenses from grant transactions with fulfilment rights

Recognition and measurement

BD2.34 It was recognised in ED2 that grant expense transactions with fulfilment rights might vary significantly in complexity, but there would be common principles applicable to all. A grant expense transaction with fulfilment rights would be wholly unsatisfied if the grantor had not yet transferred, and nor was it obligated to transfer, an amount of resources to the grant recipient and the grant recipient had not yet met any of its stated delivery obligations in the grant agreement. Where this was the case, the grantor would not recognise any transactions associated with the fulfilment rights, although some of the disclosure requirements would still apply.

BD2.35 A key requirement at the inception of the grant agreement was that the grantor determines its distinct fulfilment right(s) to have the grant recipient meet a delivery obligation and the amount of resources that it was required to transfer (in cash, services, goods or another asset) to the grant recipient for extinguishing each right. It was the nature of these fulfilment rights that would dictate subsequent recognition and measurement.

BD2.36 It was recognised that NPOs might face difficulties in:

(a) determining if a grant agreement includes one or more fulfilment rights and delivery obligations;
(b) deciding on suitable methods for estimating stand-alone amounts; and

(c) understanding when the grant recipient has met its obligations, meaning that fulfilment rights have been extinguished.

While these vary depending on the substance of each transaction, additional guidance has been provided in the Implementation Guidance and illustrative examples.

BD2.37 D2 includes specifications for the following circumstances:

(a) payments of grant over multiple reporting periods;
(b) variable consideration;
(c) capital grants; and
(d) rights and obligations that are outside of the control of the grantor.

Payments of grant over multiple reporting periods

BD2.38 The impact on the timing of the recognition of grant expenses was a significant issue raised through the CP, particularly where the donor makes a grant payment in advance that covers multiple reporting periods.

BD2.39 ED2 proposed that a grantor was required to recognise a grant expense for the total amount of the resources that were required to be transferred under the grant agreement for the delivery obligations the grant recipient had met, regardless of when the transfer of the resources from the grantor took place. It also proposed that where neither party had met any obligations under a grant expense transaction with fulfilment rights, the grantor would not recognise any transactions in the general purpose financial statements.

BD2.40 This approach reflected the view that an NPO would not recognise a grant expense where grant payments for later years were subject to the grant recipient satisfying obligations that it had not yet met. This was because under the terms of the grant agreement, the grantor could be able to avoid the transfer of resources.

BD2.41 Respondents to ED2 agreed with the proposals. However, several respondents thought that the grantor would still control the resources in the transaction where it had not fully transferred them to the grant recipient and would therefore not recognise the expense. However, not recognising the expense and liability would not accord with the substance of the transaction.

BD2.42 Respondents to ED2 also thought that the grantor should recognise grant expenses on a progressive basis or to coincide with the timing of the delivery of programmatic activities. Suggestions of matching recognition on a progressive basis would potentially not accord with the substance of the transaction. However, in the absence of specific milestones for the extinguishment of fulfilment rights, recognising the expense based on progress made could be appropriate, subject to this being a reliable measurement of performance and a demonstration that the fulfilment right has been extinguished. The overall approach to grant recognition over multiple reporting periods was retained.

Capital grants

BD2.43 Respondents to the CP also raised concerns related to capital grants. A capital grant has been defined as a situation where a grant recipient acquires or constructs a non-current asset that the grant recipient then controls.

BD2.44 ED2 recognised that complications could arise when the grant recipient extinguished grant fulfilment rights as the asset was constructed. ED2 proposed that a grant expense was recognised based on an agreed methodology for the measurement of progress made by the grant recipient. Following a discussion with PAG members, an illustrative example was also included.

BD2.45 While ED2 provided this guidance, it was recognised that capital grants was a complex area, particularly if the grant recipient was prevented from disposing of an acquired or constructed asset or using it for purposes other than those specified by the grantor. In such scenarios, the grantor could control the non-current asset and would need to recognise it appropriately. Respondents to ED2 overwhelmingly supported the proposals within it.

Other obligations in grant agreements

BD2.46 Respondents to the CP also raised the issue of where a grant recipient was required to find matched funding, which could impact when a grant expense was recognised. ED2 proposed that the grantor should follow the requirements of D5 *Provisions and contingencies*.

BD2.47 It was noted that the existence of an obligation where it was probable that there was an outflow of resources, embodying economic benefits might depart from existing practice in some jurisdictions where, for example, in a grant agreement that requires matched funding, a grantor would not recognise a liability until it was certain that the match funding had been secured. ED2 respondents did not raise any concerns with this approach.

Prepayment assets and liabilities

BD2.48 ED2 proposed that a grantor recognises a grant expense when the grant recipient has met its delivery obligations rather than on the transfer of resources. Respondents to ED2 and participants in outreach raised concerns about aspects of this approach.

BD2.49 The concept of a grantor recognising a grant expense and a liability before the transfer of resources occurs was uncontroversial. However, the requirement for a grantor to recognise a prepayment asset rather than a grant expense when the grantor transfers resources to the grant recipient for a grant expense transaction with fulfilment rights attracted some concerns.

BD2.50 One respondent considered that a grantor's right to require the grant recipient to use the resources provided to deliver the requirements set out in the grant agreement would not give rise to an asset (although the obligation to perform would be a liability for the grant recipient). Some PAG members expressed support for this view.

BD2.51 TAG members considered these concerns but were of the view that there was an asset consistent with the definition of an asset in A2 *Concepts and pervasive principles.* They were of the view that:

(a) the fulfilment right represents a resource (the right to direct how the grant recipient uses the resources);
(b) the grant agreement provides the grantor with the control of the fulfilment right; and
(c) this control emanates from a past event (the transfer of resources in the grant expense transaction).

Principal versus agent considerations

BD2.52 TAG members were of the view that guidance on principal and agent considerations should be integrated into those sections where guidance on principal-agent relationships was required. As a result, paragraphs BC1.24–BC1.27 discuss the importance of principal versus agent considerations and the approach taken in INPAS for grant expenses.

Disclosures

BD2.53 Users' needs and their ability to understand the nature, amount, timing and any uncertainty arising from grant expenses drive the disclosure requirements. D2 includes quantitative disclosures for grant expenses and associated assets and liabilities, as well as narrative-based disclosures. The focus of the disclosures was to describe the purpose and features of grant expenses that result in material information for users for accountability and decision-making purposes. These included variable consideration, payment terms and resources transferred or to be transferred. D2 includes additional disclosures where there are grant transactions arising from principal or agent arrangements.

BD2.54 Following review of the first draft of D2, a TAG member noted that the proposals in A3 *Narrative reporting* for 'sensitive information' might be necessary in relation to aspects of grant expenses disclosures. Noting this possibility, a sensitive information disclosure exception was included in ED2 for D2. This proposed that an NPO was permitted not to make disclosures when to do so would compromise the safety or wellbeing of individuals working/volunteering for and with the grantor or those to whom it provides cash, goods, services and other assets, because the information was sensitive and/or could prejudice the ability of the grantor to deliver its mission.

BD2.55 Respondents to ED2 agreed with the proposals for the exemption from disclosing sensitive information but were concerned that the exemption might be used inappropriately or be misused. Following Exposure Draft 1 (ED1), guidance was developed for narrative reporting requirements, which could have been used for both A3 and D2; however, it risked being overly prescriptive and rules based. The ability to aggregate information was also considered to be mitigation against the disclosure of sensitive information. Consequently, the exemption from disclosing sensitive information was removed from the Authoritative Guidance. Instead the reporting of sensitive information was addressed in the Implementation Guidance for the sections on both narrative reporting and grant expenses.

BD2.56 The new Implementation Guidance provides flexibility for NPOs to take their own decisions on reporting in accordance with their circumstances, the risks they face with regards to sensitive information and the need for transparency and accountability for the users of an NPO's general purpose financial statements. This approach avoids being overly prescriptive and no longer requires an NPO to identify that it has used an exception in preparing its information, though it recommends that this is considered.

BD2.57 The Implementation Guidance describes what sensitive information is and that information should be excluded where there is risk to safety or wellbeing of the NPO, its staff or volunteers. It clarifies that the guidance on information that might be excluded was not to be used as a way of hiding poor performance or financial problems that might have arisen with aspects of its operations. Consistent with A3, the intention was that an NPO would remain in compliance with the requirements of INPAS in circumstances where sensitive information has been excluded, provided the exclusion of information only arises from risks to safety or wellbeing or prejudice to the NPO's mission.

BD2.58 PAG members raised the issue (also raised by respondents to ED2) of the risk of NPOs not meeting legal requirements of their jurisdictions or the professional standards and requirements of their officers (for example, the chief financial officer). A3 confirms that the requirements relating to sensitive information were not expected to prevent an NPO from meeting jurisdictional legislation or meeting their professional standards and duties.

BD2.59 The draft of D2 included several cross-references to other INPAS sections for disclosures, including those relating to F1 *Financial instruments* and D5. These cross-references risked overcomplicating D2 and the omission of other potential disclosures. These cross-references were therefore removed and included in the Implementation Guidance.

BD3 – Fundraising costs

Background and history

BD3.1 Information about fundraising costs was identified as a key issue in the IFR4NPO Consultation Paper (CP). It was highlighted that users often seek to compare fundraising costs to income generated and/or programme delivery costs to assess the efficiency of an NPO. It was also explained that this can sometimes be misleading. For example, fundraising costs are generally incurred before the corresponding income is raised. It was noted that fundraising activities and costs are also not always easy to define, with activities serving multiple purposes and expense allocation subjective.

BD3.2 From a financial reporting perspective, it was noted that there might be benefits to standardising the definition of fundraising costs, addressing general recognition and measurement principles and introducing common presentation and disclosure requirements.

BD3.3 The CP noted that existing international frameworks did not specifically address fundraising costs and that jurisdictional-level requirements did not provide a single view of the costs of fundraising or recognition and measurement principles. Three main alternatives for inclusion in financial reporting guidance were presented. The first would allow NPOs to use any international framework, with NPOs developing their own treatments of fundraising costs. The second would require just one international framework to be followed with disclosure of the accounting policy. The third would see new NPO-specific guidance developed requiring fundraising costs to be disclosed based on a standard definition and a list of activities, along with the NPO's accounting policy and cost allocation methodologies.

BD3.4 Respondents were supportive of the description of the issue, although some noted difficulties in assessing fundraising costs and the potential for their misuse as an efficiency metric. Respondents were also supportive of the list of alternatives, with a significant majority in favour of the development of new NPO-specific guidance. It was noted, however, that an NPO might not be able to report the costs of fundraising in a way that was most relevant to the entity if there was a standard definition of fundraising costs, including a narrow list of the type of expenditure to be classified as fundraising costs. NPOs could have different strategies for raising funds, with the types of fundraising expenditure varying significantly. As such, respondents were of the view that the definition of fundraising costs and activities would have to be sufficiently flexible to accommodate different circumstances.

Fundraising activities

BD3.5 The approach to developing the guidance for fundraising costs took into consideration the broader approach to the classification of expenses, as well as the alternatives in the CP and the feedback received from respondents.

BD3.6 Fundraising costs were initially proposed to be a specified activity that needs to be presented for all NPOs. Principles for identifying and allocating costs to fundraising activities, including where such costs were shared between fundraising and other activities of the NPO, were also proposed.

BD3.7 The core category of fundraising costs was widely accepted as event and grant activities. This included such costs as grant application expenses for both successful and unsuccessful bids, marketing and other direct activities to seek donations and those associated with the staging of fundraising events.

BD3.8 In addition to these core activities, other potential categories of fundraising activities were considered. Trading and commercial activities undertaken with the single purpose of raising funds for use by an NPO in meeting its objectives was also considered. While commercial or trading activity might not in itself be a missional activity, it could be used to raise funds. Fundraising costs would include the NPO's trading and commercial operations, including costs to sell.

BD3.9 This raised a question surrounding charges that were made for services or goods being provided to service recipients as part of an NPO's mission. Charges made as part of the NPO's operating model to deliver its mission are not a commercial activity. It was decided that the costs associated with providing such relevant services or goods would therefore not be included as fundraising costs.

BD3.10 The final area considered for inclusion was investment management fees, such as the costs of investment administration and portfolio management for financial assets. These could be relevant where an NPO has large funds such as endowments that need to be effectively managed to generate income for an NPO to apply to its missional purposes. Such costs were different in nature to other fundraising costs. However, this was viewed as complex, as such costs could be seen to relate to the good financial management of existing resources rather than seeking to generate additional resources.

BD3.11 Technical Advisory Group (TAG) members had mixed views on these fundraising categories. There was support for a minimum disclosure of information and for fundraising costs to be more tightly defined. Using this narrow definition, fundraising activities would be limited to activities involving the requests for 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.

BD3.12 Other TAG members, however, noted that information on costs related to commercial and trading activities such as the selling of merchandise that had the purpose of raising funds for the NPO's mission could be useful for users of general purpose financial reports, particularly if this was the single or main source of funds. Likewise, it was noted that the disclosure of investment management costs as a category of fundraising costs could in some circumstances also provide useful information. A focus group held to discuss the scope of fundraising costs supported this broader scope and the inclusion of trading and commercial and investment management activities.

BD3.13 TAG members discussed the difference between fundraising and income generation and recognised that there was a fine line in distinguishing between the two.

BD3.14 To reflect the range of views, and in order to elicit stakeholder views, Exposure Draft 3 (ED3) included three distinct categories of fundraising activities that NPOs would be required to calculate and disclose:

(a) donations, gifts, grants and similar transfers;
(b) commercial and trading; and
(c) investment management.

It was agreed that this approach be tested with a specific matter for comment in ED3.

Commercial and trading and investment management

BD3.15 There was substantial support from respondents for the proposal that commercial and trading activities that were for the purposes of fundraising and investment management costs associated with a fund whose purpose was to generate future returns were included as fundraising activities. However, a small number of respondents were of the view that only fundraising activities in the traditional sense should be included with other activities being reported relating to the revenues generated.

BD3.16 Several respondents raised concerns about the inclusion of commercial activities and investment management as categories of fundraising activities, citing:

(a) they were not activities to generate voluntary contributions through non-exchange transactions. The risks and nature of those activities were not similar and should not be combined for reporting.
(b) the net proceeds (profit, income less costs) from these activities transferred or used for NPO purposes would be contributions to the NPO's funds.
(c) the revenues were earned by the NPO as dividend or profit. NPOs must follow the [various] regulatory authorities' specifications.

BD3.17 Commercial and trading activities were cited as being exchange activities with a different nature and associated risks and that could be subject to different regulatory requirements. However, they are activities that could support the generation of funds in pursuit of an NPO's missional objectives and therefore could be reported as fundraising costs, particularly noting the level of support for the proposals in ED3.

BD3.18 A concern was raised that investment management costs might arise in circumstances where an NPO was investing in funds for treasury management purposes and whether these costs were included in the scope of investment management costs.

BD3.19 Treasury management costs that arise from donated financial assets, where the financial assets have been donated to provide a revenue stream that an NPO could use for its purposes, were expected to form part of fundraising costs. This would include such costs as portfolio management or administration costs.

BD3.20 Treasury management activities to maintain an NPO's "own" cash flows and possibly other forms of treasury management activities were not generally expected to be fundraising costs. Investment management costs should be separated from the treasury management costs of an NPO's own operations. Where treasury management costs cannot be separated from fundraising costs without undue cost or effort as a multi-purpose activity, they could be reported in accordance with the provisions in D3 *Fundraising costs*, which includes an exemption for undue cost or effort.

BD3.21 TAG members accepted that there was support for all three categories. They therefore supported the inclusion of these categories as long as each of the fundraising categories was separately reported. This provides transparency and that each category could be clearly identified by users, particularly those users that only consider some forms to be fundraising costs.

Calculating fundraising costs

BD3.22 A respondent to ED3 suggested a practical exemption be introduced on a cost/benefit basis that an NPO was not expected to pro-rate investment management fees charged to a collective investment scheme (to identify the notional cost attributable to its own holding in the scheme). A focus group discussed this potential exemption, but there was currently insufficient evidence to add this as a pragmatic exemption.

Activities that have more than one purpose

BD3.23 Principles for calculating fundraising costs were developed using the principles in D1 *Classification of expenses*, with specific guidance for each category. Expenses that were incurred for more than one purpose, such as raising funds while also raising awareness of the activities of the NPO, were to be split between those related to fundraising and other activities using INPAS's cost allocation methods where material.

BD3.24 As some amounts were not likely to be material, consideration was given to a pragmatic exemption. This was initially framed in terms of materiality of the transactions but was amended to an undue cost or effort exemption. The undue cost or effort exemption specifically considered the resource burden on NPOs of the cost allocation process.

BD3.25 Respondents agreed 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. A small number of respondents were of the view that a threshold for materiality should be used instead on the basis that NPOs would be able to make materiality judgements using the guidance in INPAS. However, for the reasons outlined in BD3.24, this option was not pursued.

Disclosures

BD3.26 The costs for each category of fundraising activities were proposed to be disclosed separately unless an individual category was immaterial. This was to ensure transparency and comparability of fundraising costs. This had strong support.

BD3.27 To reflect TAG member comments on what information could be useful to users, guidance was also developed that noted that an NPO could present an analysis of revenue raised alongside the costs associated with the specific activity, provided that the costs were presented gross.

BD3.28 As multi-purpose activities are expected to be relatively common, there is a requirement to provide a narrative description where activities have more than one purpose and costs have been allocated between these purposes.

BD4 – Employee benefits

BD4.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first issue of INPAS. Employee benefits was not included as a prioritised topic.

BD4.2 While a full review of the *IFRS for SMEs* Accounting Standard section on this topic was not carried out, a high-level review identified that there were additional considerations in relation to employment benefits. These considerations mostly stemmed from the expected characteristics of NPOs and, as a result, the likely types of remuneration arrangements that might exist with employees.

Scope of the Section

BD4.3 INPAS does not include the section in the *IFRS for SMEs* Accounting Standard that addresses share-based payment (Section 26 *Share-based payments*). Consequently, references to share-based payments have been amended in INPAS D4 *Employee benefits*.

Short-term employee benefits

BD4.4 The characteristics of an NPO require that any surpluses (profits) are used to further the objectives of the NPO and for the benefit of service beneficiaries. For this reason, all references to profit-sharing arrangements have been removed from D4 of INPAS. References to bonuses have been retained, as this might be part of a remuneration structure but not based on a profit-sharing arrangement.

BD4.5 Respondents to Exposure Draft 2 (ED2) were concerned that the removal of profit-sharing arrangements from INPAS, particularly for commercial subsidiaries, would mean that remuneration linked to revenue from a particular activity would not be permitted. Arrangements such as bonus arrangements were, however, not viewed as profit sharing.

BD4.6 Respondents also requested that arrangements for profit sharing be cross-referenced to the *IFRS for SMEs* Accounting Standard. However, the INPAS requirements apply equally to profit sharing and bonus plans, with the guidance in D4.7 being able to be applied to profit-sharing arrangements.

Post-employment benefits

BD4.7 D4 includes guidance on post-employment benefits and the accounting for defined benefit pension schemes. The *IFRS for SMEs* Accounting Standard allows a policy choice for in-year changes to the amounts to be recognised for defined benefit pension schemes. Specifically, these changes could be included in either the profit or loss or in other comprehensive income.

BD4.8 Earlier discussions with the Technical Advisory Group (TAG) highlighted the desire for simplicity by some users of NPO financial statements. The TAG discussed the possibility of removing an accounting policy choice and requiring actuarial changes from the revaluation of defined benefit pension schemes to be presented in the Statement of Changes in Net Assets to achieve this desire for simplicity.

BD4.9 TAG members were, however, of the view that removing a policy choice was effectively introducing a single approach with reliance on a true and fair override to adopt a different approach. With the expectation that few NPOs would have defined benefit pension schemes and those that do might have more complex stakeholder requirements, TAG members were of the view that it was appropriate to maintain the policy choice.

BD4.10 As a consequence, INPAS allows a choice between changes being recognised in the Statement of Income and Expenses or Statement of Changes in Net Assets. Respondents to ED2 strongly supported this proposal, although there was also some support for a single choice to simplify the requirements. Those that expressed a preference for a single choice supported the Statement of Income and Expenses. Respondents did not identify any NPO-specific considerations relating to the removal of the policy choice and it was therefore retained. The accounting policy choice will be considered for subsequent editions of INPAS.

BD4.11 Paragraph D4.38 refers to group arrangements and the possibility that other entities follow other GAAP. This paragraph has been amended to require that the allocation of employee benefit expense could only be made if the controlling NPO was following INPAS.

Disclosures

BD4.12 In developing D1 *Classification of expenses,* it was decided to extend the disclosures in other sections of INPAS where possible to eliminate the potential for overlaps in requirements. Consistent with this approach, the disclosures in D4 were extended to include short-term employee benefits (employee costs). No disclosures had been required in the draft of D4 in ED2.

BD4.13 The cost of employees is often significant for NPOs. It is a cost that attracts interest from users of the financial statements. The inclusion of employee costs was discussed with the TAG and the Practitioner Advisory Group (PAG) and there was consensus that these should be disclosed.

BD4.14 Exposure Draft 3 (ED3) included proposed additional disclosures in D4 that required all NPOs to disclose the cost of employees irrespective of the expense classification approach chosen. These proposals also defined the expenses to be included as employee costs. It was noted that where an NPO produces an analysis by nature of expense, employee related costs were likely to be a category of expenses that were disclosed. If the aggregation of costs chosen by an NPO for employee related costs was different to that required by D4, then the disclosure in D4 would still be required.

BD4.15 Respondents to ED3 requested clarity over the proposals for the disclosure of employee benefits relating to governing body members. The original wording broadly stated that all governing body members were not considered employees for disclosure purposes. Respondents were concerned that this could lead to ambiguity, particularly for those who also hold an executive role within the NPO. The disclosure requirements in paragraph D4.41 were revised to distinguish between to non-executive governing body members and executive governing body members to ensure that executive members who also serve on the governing body were still classified as employees for remuneration disclosure. Additionally, the revised guidance clarified that where a governing body member also holds an employee role, their total remuneration should be separated between employee compensation (disclosed under D4.39) and governance-related compensation (disclosed under H1.9(b)).

BD5 – Provisions and contingencies

Background and history

BD5.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first edition of INPAS. Provisions and contingencies was not included as a prioritised topic. No major editorial changes were proposed for provisions and contingencies, with only minor changes to terminology.

BD5.2 Consideration was given to whether changes were required as a consequence of the development of additional guidance on grants and donations. To date, no consequential amendments have been identified.

BD5.3 While no changes were proposed to the core text, the illustrative examples from the *IFRS for SMEs* Accounting Standard have been amended to be more relevant to NPOs. This included a new example for an onerous grant agreement, which was supported by respondents to Exposure Draft 2 (ED2).

BD6 – Leases

Background and history

BD6.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first edition of INPAS. Accounting for leases was not included as a prioritised topic.

BD6.2 Following a discussion with Technical Advisory Group (TAG) members, consideration was given to the accounting for peppercorn/concessionary leases, where the lease payments would be below fair value of the property being leased or the lease was below market value. It was recognised that this is a significant issue for NPOs. This topic was also raised by some respondents to Exposure Draft 3 (ED3). As this section is not subject to full review, it is outside the scope of the current work. Peppercorn and concessionary leases will be considered for a future edition of INPAS.

BD6.3 No major changes have been made to D6 *Leases* from the *IFRS for SMEs* Accounting Standard, other than minor changes to terminology to align with other sections.

BD7 – Borrowing costs

Background and history

BD7.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first issue of INPAS. Borrowing costs was not included as a prioritised topic. No major editorial changes were proposed for borrowing costs, with only minor changes to terminology.

BD7.2 Respondents to Exposure Draft 2 (ED2) generally agreed with the proposals. A respondent who disagreed considered recognising the cost of borrowing immediately as an expense does not give a faithful representation of the cost of the asset. This was because borrowing costs were directly attributable to the acquisition, construction or production of a qualifying asset and were part of the cost of that asset.

BD7.3 While the capitalisation of borrowing costs could provide a better representation of the cost of construction of a qualifying asset, the simplification provided in the *IFRS for SMEs* Accounting Standard was intended to reduce complexity. It is also arguably better suited to the size of NPOs anticipated to apply INPAS. The capitalisation of borrowing costs will be considered for subsequent editions of INPAS.

BD8 – Income tax

BD8.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first issue of INPAS. Income tax was not included as a prioritised topic. The updates to D8 *Income tax* are largely to make them NPO specific, with consequential changes to terminology.

BD8.2 In the *IFRS for SMEs* Accounting Standard Section 29 *Income Tax* refers to taxable profits and losses. The term 'taxable profits and losses' is the term that is commonly used by tax authorities that cover all organisations in the economy. Elsewhere in INPAS, references to profit and losses have been amended to surplus and deficit. As this is a tax regulation term rather than an accounting term it was proposed to retain the term unchanged. This was discussed with the Technical Advisory Group (TAG) and fully supported.

BD8.3 Paragraph 29.3 of the *IFRS for SMEs* Accounting Standard scopes out Section 24 *Government Grants*. Accounting for government grants is dealt with as part of a comprehensive section on revenue, this reference was initially removed from D8, but in response to feedback was subsequently replaced by references to C1 Part I *Revenue from grants and donations*.

BD8.4 The purpose of paragraph 29.3 in the *IFRS for SMEs* Accounting Standard is to specifically address temporary differences. Consideration was given to whether any additional guidance on temporary differences arising from revenue was necessary, as well as additional guidance on gifts in kind and services in kind. No specific issues relating to government grants and income tax have as yet been identified. The paragraph referring to the temporary differences has been retained to recognise that temporary differences might occur where there were any taxation consequences to revenue from grants and donations.

BD8.5 As INPAS allows for some items of income and expense arising from fair value adjustments to be recognised in the Statement of Changes in Net Assets, INPAS has been amended to allow for a tax expense to be recognised in the Statement of Changes in Net Assets, consistent with the text requiring that the tax expense appears alongside the related transaction. If it becomes clear that a tax expense is unlikely to arise in relation to these transactions, this amendment will be removed in a future edition of INPAS.

BD8.6 The responses to Exposure Draft 2 (ED2) supported the overall approach to D8. Two respondents raised the issue of gift aid made by companies, with one commenting that a national GAAP requires an entity to recognise the income tax effects of a future payment that qualifies for gift aid made by companies to NPOs at the reporting date rather than in the future when the payment was made. The effect is that the gift aid tax relief for companies is recognised at the same time as any related tax charge and is therefore offset in profit or loss.

BD8.7 There might be instances of different tax reliefs for gift aid for companies. However, it would be very difficult to include specific examples in D8, as these examples might not be fully representative of similar transactions internationally. Therefore, for this edition of INPAS, no specific examples have been included.

Group E

Non-financial assets

BE1 – Inventories

Background and history

BE1.1 The recognition and initial measurement of purchased or self-produced inventories does not give rise to any NPO-specific issues, and no changes to the *IFRS for SMEs* Accounting Standard requirements were proposed in the IFR4NPO Consultation Paper (CP).

BE1.2 The CP did identify specific issues in respect of:

(a) the recognition and initial measurement of donated inventories, particularly those donated for resale or for distribution to service recipients;
(b) the recognition and initial measurement of work in progress of services to be provided for no or nominal consideration to service recipients; and
(c) the subsequent measurement of inventories held for distribution to service recipients or for use by the NPO in meeting its objectives.

BE1.3 The CP also identified issues regarding the recognition of revenue in respect of donated inventories and proposed exceptions permitting NPOs not to recognise revenue and inventories on receipt of the donated items but to recognise revenue and either an asset or an expense when the items were sold, transferred to another party in the course of fundraising activities, distributed to service recipients or used by the NPO.

BE1.4 Respondents to the CP supported the proposed permitted exceptions to the recognition and measurement of revenue from donated items, including donated inventories.

BE1.5 Respondents were supportive of the description of the issue. They provided some additional points that needed to be considered in developing the guidance. These included:

(a) specific issues regarding donated inventory (which have mainly been addressed by C1 *Revenue)*; and
(b) the subsequent measurement of perishable inventories, particularly where these were donated.

BE1.6 E1 *Inventories* reflects the adjustments to the requirements of the *IFRS for SMEs* Accounting Standard necessary to ensure that the accounting for inventories is consistent with C1.

Recognition and initial measurement

BE1.7 Exposure Draft 2 (ED2) included proposals in C1 to permit NPOs not to recognise many donated items as inventories. This addresses most of the concerns raised about the initial recognition and measurement of donated items. E1 states that an NPO that uses the permitted exceptions in C1 should not recognise inventories in respect of those items.

BE1.8 Some Technical Advisory Group (TAG) members noted that while these exceptions were expected to meet the needs of NPOs, they might not meet the needs of the users of the financial statements.

BE1.9 Respondents to the CP also supported permitting NPOs to expense work in progress on services, such as legal casework that would be provided to service recipients at no or nominal cost. Respondents were concerned that some NPOs would not have the systems in place to reliably measure such work in progress. E1 provides a permitted exception that allows NPOs to expense this work in progress as the costs are incurred rather than to recognise it within inventories. The TAG discussed whether a requirement for all NPOs to expense work in progress on such services would support greater comparability. However, a permitted exception rather than a requirement to expense the work in progress was proposed, as such work in progress might be material to some NPOs, and it might provide more meaningful information if included as inventory.

BE1.10 Some respondents emphasised the importance of disclosure if items of inventory were not to be recognised. Consequently, NPOs that elected to apply any of the permitted exceptions were required to disclose the exceptions being utilised and provide further information about the inventory to which it relates. This would provide users with useful information that would help them understand the NPO's financial statements.

BE1.11 Some respondents noted that additional guidance on determining fair value where an NPO recognises donated items of inventory would be needed.

BE1.12 A4 *Fair value measurement* provides Application Guidance specifically for donations in kind. It requires NPOs to follow the fair value hierarchy in determining the fair value of donated inventories. This Application Guidance allows that where an NPO needs to refer to level 3 inputs (that is, unobservable inputs) to determine the fair value of the donated inventories, the NPO might use the cost to the donor (where this is known) as deemed fair value.

Responses to Exposure Draft 2 (ED2)

BE1.13 Respondents to ED2 generally supported the proposed exceptions for the reasons discussed above. Among those respondents who did not agree, there was little consensus on a preferred alternative approach. For these reasons, the permitted exceptions as set out in ED2 have been retained.

BE1.14 Respondents, regardless of whether they supported the proposals or not, considered that guidance as to what constitutes a low-value item was required for the purposes of applying the exceptions. Respondents also considered the phrase "other than non-current assets or high-value items" that was used in the exception for donated items for distribution or for the NPO's own use would be difficult to apply.

BE1.15 As a consequence of this latter feedback, the exception for donated items for distribution or for the NPO's own use has been amended to apply to low-value items using the same description as used for donated items for resale.

BE1.16 With regards to low-value items, some respondents noted that in IFRS 16 *Leases*, the IASB considered that low value should not be affected by the size, nature or circumstances of the entity. The IASB provided an indicative amount for the low-value exception that is in this standard in the accompanying Basis for Conclusions. This was set at a level that was expected to be below materiality levels, even in aggregate. The IASB noted that a similar result could be achieved by applying materiality but included the exception because this approach was expected to produce cost relief for entities by removing the burden of justifying that such leases would not be material in the aggregate.

BE1.17 This issue and the approach taken by the IASB in IFRS 16 was discussed with the Practitioner Advisory Group (PAG). PAG members indicated that a single value was unlikely to be appropriate, citing differences, for example, between both low-income and high-income countries. Some members considered that an indicative range could be used or benchmarked to a commonly available product. Other PAG members did not support the inclusion of any value in INPAS, whether that was a single figure or a range. These members considered that the advice on low-value items should be based on materiality.

BE1.18 TAG members agreed with those PAG members who supported guidance based on materiality. While members understood the benefits to NPOs of providing an amount in guidance, they did not consider this would be a workable approach in practice. TAG members did not consider that it would be possible to identify a range of values that would be appropriate for all NPOs in all jurisdictions. Nor did TAG members consider that regulators would necessarily be in a position to supplement the guidance on low-value items with local guidance. In addition, values might become obsolete over time, leading to inconsistent approaches to updating the values.

BE1.19 Consequently, TAG members agreed that guidance on low-value items should be based on materiality. While TAG members accepted this might result in additional work for some NPOs, they considered that this approach would provide the most useful information. TAG members also noted that after the initial assessment, annual updates to the materiality assessment would likely require less time. To support the application of materiality to this issue, additional guidance was developed. As materiality is a pervasive concept, TAG members agreed that there was no need to specifically refer to materiality in the authoritative text, but that guidance on applying materiality when determining which items were of low value would be helpful to NPOs and should therefore be included in the Implementation Guidance.

Reliable measurement

BE1.20 Some respondents to the CP commented that NPOs might face practical issues in measuring inventories in some circumstances. An example provided was a small NPO responding to an emergency that receives large volumes of donated inventories and distributes them almost immediately. A small NPO might not have the systems or resources to keep accurate records without delaying the response to the emergency. In discussion with the TAG and PAG, it was considered that such circumstances would be rare, as many NPOs would be established for those purposes and have the systems and resources to keep accurate records. However, they recognised that some smaller NPOs such as local first responders might not have such systems.

BE1.21 The possibility of electing to apply the permitted exception to not recognise inventories was discussed. However, this exception would require that a revenue and an expense be recognised when the inventory was distributed. It was agreed that in this scenario, the inability to reliably measure the donations would mean that as well as not recognising inventories, a revenue and expense would also not be recognised.

BE1.22 Consequently, E1 proposed that a narrative description of inventories could be provided in the exceptional circumstances where inventories could not be measured reliably. The inclusion of a narrative description was intended to provide transparency of such circumstances. The guidance makes clear that the expectation was that donated inventories could be reliably measured.

BE1.23 Respondents to ED2 generally supported this approach. Some respondents suggested that an NPO should disclose an explanation as to why the donated items could not be reliably measured. TAG members agreed this would aid transparency, and it has been included as an additional disclosure requirement.

Subsequent measurement of inventories held for distribution to beneficiaries or for use by the NPO in meeting its objectives

BE1.24 The *IFRS for SMEs* Accounting Standard requires inventories to be subsequently measured at the lower of cost and estimated selling price less costs to complete and sell.

BE1.25 Measuring inventories by reference to their selling price might not be appropriate for inventories that would not generate future cash flows. The CP proposed two alternatives to this treatment in the *IFRS for SMEs* Accounting Standard:

(a) such inventory would be measured at the lower of cost or current replacement cost; or
(b) such inventory would be measured at cost, adjusted for any loss of service potential.

BE1.26 There was support for both approaches, although a number of respondents expressed concern that it might not always be possible to identify a replacement cost, particularly for some donated items. Other respondents noted that assessing any loss of service potential could be subjective.

BE1.27 E1 requires an NPO to measure inventories held for use or distribution to be measured at the lower of cost adjusted for any loss of service potential and replacement cost. This would allow NPOs to reliably measure inventories that might be impaired, even if a replacement cost was not available. Respondents to ED2 generally supported this approach.

Cost formulas

BE1.28 The *IFRS for SMEs* Accounting Standard permits the use of two cost formulas: the first in, first out (FIFO) formula or the weighted average cost formula. A third formula, first expired, first out (FEFO), was suggested as being more appropriate for NPOs who received donations of perishable items such as food or medical supplies.

BE1.29 For practical purposes, inventories would need to be managed in this manner to maximise the benefits obtained from the donations. However, following discussion with the TAG, the introduction of an additional cost formula was not considered appropriate, as it was not clear that it was necessary and would unlikely be NPO specific.

BE1.30 Also, the proposed additional formula, which was intended to address circumstances where donated items might have a significantly shorter expiry period than the equivalent purchased items, could be accommodated using other permitted cost methods. Where expiry periods for donated items were significantly less than for purchased items, and this affects the value of the items, the economic nature of the items would be different. This difference means that different classes of inventories could be maintained for items donated close to their expiry date and other (usually purchased) items. Either the FIFO or weighted average cost formula would then be used for each class. Identifying items by class of inventories was expected to be no more complex to implement in stock control systems than the use of a FEFO cost model.

BE1.31 ED2 included an illustrative example on this issue. Respondents did not raise any issues with the proposed approach and INPAS does not therefore include FEFO as a permitted cost formula.

Impairment

BE1.32 E5 *Impairment of assets* requires inventories to be adjusted for impairment when the carrying amount will not be fully recoverable. The *IFRS for SMEs* Accounting Standard requires a comparison between the carrying amount and the selling price less costs to complete and sell when determining whether inventories were impaired.

BE1.33 As discussed in paragraphs BE1.24–BE1.27, E1 has introduced an alternative measurement for inventories that will not be sold. Consequently, the impairment requirement in E1 has been amended so that impairment of inventories held for distribution or use by the NPO in meeting its objectives was assessed by reference to the cost adjusted for any loss of service potential or replacement cost.

Disclosure

BE1.34 Respondents to ED2 identified some inconsistencies in wording between the disclosure requirements for E1 and C1. Consequently, the disclosure requirements in E1 have been amended to refer to the requirements in C1. This has ensured consistency between the two sections and reduced duplication.

BE2 – Property, plant and equipment

Background and history

BE2.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first edition of INPAS. Measurement issues associated with property, plant and equipment was proposed as a priority topic in the CP, but this did not attract sufficient support and foreign currency translation was prioritised instead.

BE2.2 Other than for the points considered in BE2.3–BE2.8, only minor editorial changes were proposed from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have been included to align with other sections.

Scope of this Section

BE2.3 Consideration was given to whether the scope of E2 *Property, plant and equipment* needed to be amended to make clear that assets sharing characteristics with an investment property but primarily used for service delivery were to be treated in accordance with E2. This was considered a helpful clarification and as a consequence additional text has been added.

BE2.4 Technical Advisory Group (TAG) members were of the view that additional guidance on heritage assets would be useful. It was agreed that a reference would be made in Z1 *Transition to INPAS,* noting that heritage assets have not been prioritised for inclusion in this edition of INPAS.

Measurement at initial recognition

BE2.5 An additional paragraph has been added to the guidance for property, plant and equipment for assets that have been donated. Property, plant and equipment that has been donated is required to be measured on initial recognition at its fair value in line with the guidance in A4 *Fair value measurement*. This measurement value then becomes the deemed cost of the donated asset. This amendment was considered a consequential amendment from C1 Part I *Revenue from grants and donations*. TAG members discussed the importance of the concept of service potential for non-profits in measuring property, plant and equipment. It was acknowledged that given the scope of the topics included in this edition of INPAS, there should be limitations to the additional guidance provided to assist in applying this concept.

BE2.6 No additional application guidance was proposed for E2, as the additional guidance in A4 is sufficient to address the needs of those NPOs that have received donated property, plant and equipment.

Disclosures

BE2.7 Respondents who provided feedback on B8 *Fund accounting* also provided feedback on property, plant and equipment. These respondents were concerned to ensure that property, plant and equipment whose use was restricted to specific purposes was transparent in the financial statements. Respondents were of the view that it was important to understand the extent to which an NPO was freely able to use its assets in meeting its missional objectives and where this was limited.

BE2.8 Respondents were concerned that while NPOs could provide information on property, plant and equipment with use restrictions if it was useful to the users of its financial statements without introducing it as a requirement, there would be a lack of consistency and potentially transparency. As a consequence, a new disclosure has been added to require the disclosure of aggregate information about property, plant and equipment where donors or grantors have imposed use restrictions to specific purposes. TAG members noted that an NPO could provide further information about these assets in the notes to the financial statements or in its narrative reporting if useful.

BE3 – Investment property

Background and history

BE3.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first edition of INPAS. Accounting for investment property was not included as a prioritised topic.

BE3.2 Other than for points considered in BE3.3–BE3.6, only minor editorial changes were proposed from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have also been included to align with other sections.

Definition and initial recognition of investment property

BE3.3 Technical Advisory Group (TAG) members considered the situation where an NPO holds a property to deliver activities to meet its missional objectives that might fall within the definition of investment property. Given the nature of such assets, INPAS clarifies that such assets (for example, social housing) shall not be classed as investment property but instead as property, plant and equipment. Such assets follow the requirements of E2 *Property, plant and equipment*.

BE3.4 Some property assets could comprise both an investment property and property, plant and equipment. E3 *Investment property* requires that such mixed-use property be separated between investment property and property, plant and equipment. However, it was noted that where an asset has mixed use (part commercial and part for service delivery), an NPO would need to apply judgement to determine which section to apply. It is expected that this judgement would be based on the principal purpose for which the asset was used.

Measurement at initial recognition

BE3.5 The text in this Section is drawn from the equivalent section of the *IFRS for SMEs* Accounting Standard, where investment property that has been acquired is required to be measured at cost on initial recognition. It is, however, possible that an NPO receives donated property that would be considered investment property. This would occur where the donated asset was not used directly for the NPO's missional purposes. As a consequence, an additional paragraph has been added to distinguish between purchased and donated investment property. The new paragraph addresses the initial measurement of the investment property on receipt. It requires a donated investment property to be measured at fair value in line with A4 *Fair value measurement* on initial recognition, which becomes its deemed cost. This is a consequential amendment that has arisen from C1 Part I *Revenue from grants and donations*.

BE3.6 TAG members discussed the importance of the concept of service potential for NPOs in measuring investment property. It was acknowledged that given the scope of the topics included in this edition of INPAS, there should be limitations on the additional guidance provided to assist in applying this concept.

BE4 – Intangible assets other than goodwill

Background and history

BE4.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first edition of INPAS. Accounting for intangible assets other than goodwill was not included as a prioritised topic.

BE4.2 Other than for the points considered in BE4.3–BE4.4, only minor editorial changes have been made from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have been included to align with other sections.

Initial measurement

Acquisition by way of grant or donation

BE4.3 Consistent with investment property and property, plant and equipment, an additional paragraph has been added for donated assets. An adaptation was not initially proposed, but Technical Advisory Group (TAG) members were of the view that intangible assets could be acquired by way of a donation – for example, the donation of the copyright of a book.

BE4.4 On initial recognition, a donated asset is measured at fair value in line with the guidance in A4 *Fair value measurement*, which becomes its deemed cost. TAG members were of the view that service potential was important in considering the measurement of intangible assets by an NPO and that this measurement basis could be used as the deemed cost of the donated asset. It was acknowledged that given the scope of the topics included in this edition of INPAS, there should be limitations on the guidance provided to assist in applying this concept. This is also considered a consequential amendment from C1 Part I *Revenue from grants and donations*.

BE5 – Impairment of assets

Background and history

BE5.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first edition of INPAS. Accounting for impairment was not included as a prioritised topic.

BE5.2 Impairment was discussed in developing the CP as a potential issue for NPOs, as private sector guidance is focused on cash-generating assets, and many NPO assets are not held to maximise cash generation. However, impairment was not considered to be one of the highest priority topics for inclusion in the first edition of INPAS.

BE5.3 Other than the changes set out in BE5.4–BE5.11, no major editorial changes have been made to the accounting for impairment from those contained in the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have been made to align with other sections.

Impairment of inventories

Measurement basis

BE5.4 A change has been made specifically to the impairment of inventories. This change arises from the amendments in E1 *Inventories* relating to donated inventory held for distribution at no or nominal consideration. E1 includes a new measurement base where such inventory is measured at its cost adjusted for any loss of service potential. This reflects the primary focus of NPOs on service potential rather than profit generation. This measurement base is used when considering the impairment of those inventories.

BE5.5 Respondents to Exposure Draft 3 (ED3) referred to materiality, including the need for a materiality threshold to address potential costs or challenges in measuring impairment, the application of the impairment of inventories to smaller NPOs and to providing a narrative description of impairments when impairment amounts were immaterial. Materiality is a pervasive concept across INPAS, and there is materiality guidance in A2 *Concepts and pervasive principles* that could be applied when using this Section. Consequently, immaterial amounts need not be disclosed or narratively described.

Impairment of assets other than inventories

General principles

BE5.6 The indicators of impairment in the *IFRS for SMEs* Accounting Standard are potentially relevant to NPOs but might not be appropriate for all assets. Consideration was given to the inclusion of non-cash indicators of impairment used in IPSAS 21 *Impairment of Non-cash Generating Assets*, which could be useful in providing indicators that are more NPO-specific. However, making such changes for this edition of INPAS could mislead users about the level of review that has taken place on this section. Also, IPSAS 21 is currently being updated for consequential amendments arising from IPSAS 46 *Measurement* and might soon be out of date.

BE5.7 In recognition that many NPOs carry out activities where the primary purpose is not to maximise cash generation, Technical Advisory Group (TAG) members considered whether specific references to service potential in measuring the value of an asset were required. The full description of value in use from A2 has been included in paragraph E5.17 to make the link to service potential clear. It was acknowledged that given the scope of the topics included in this edition of INPAS, there should be limitations to the guidance provided to assist in applying this concept.

BE5.8 A respondent to ED3 proposed that a conceptual framework to properly define service potential was absent but was needed because service potential is contextual to each NPO. The need for more detailed guidance was acknowledged, and this topic will be included in a subsequent edition of INPAS. Section 7 of the IPSASB Conceptual Framework includes guidance that might provide a useful reference point for NPOs taking account of service potential in measuring assets.

BE5.9 One respondent suggested clarifying that other economic benefits or service potential could be estimated through the addition of text to say that in the case of NPOs, this would be the net funds and/or grants the NPO would receive and use in future years in relation to the asset. They were of the view that this estimate could be used to measure impairment. This might be relevant in certain situations but would not necessarily apply to all NPOs. This suggestion will be considered in the future development of authoritative and non-authoritative text on service potential.

Recognising and measuring an impairment loss for an operating unit

BE5.10 The equivalent section of the *IFRS for SMEs* Accounting Standard refers extensively to a cash-generating unit when considering assessments for impairment. While it was not possible to address the NPO-specific issues relating to impairment because a full review of the section has not been carried out, the term 'cash-generating unit' has been amended to 'operating unit'. This has been made to broaden its application away from just consideration of cash-generating assets.

BE5.11 TAG members agreed that it was appropriate to amend the guidance for this term but were concerned that replacing the term 'cash-generating unit' with 'operating unit' might have unintended consequences. This included potential misunderstanding about the organisational level to which impairment testing is applied. Additional text to clarify that the term 'operating unit' applies to either a cash-generating unit or a group of assets that are non-cash generating was proposed. However, following further discussion with TAG members, it was agreed that 'operating unit' was the most appropriate term given the level of review carried out, with 'operating unit' added to the glossary. The definition clarifies that it relates to the smallest grouping of an NPO's assets for operational purposes. References to cash-generating assets have been removed.

BE6 – Specialised activities

Background and history

BE6.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first edition of INPAS. Accounting for specialised activities was not included as a prioritised topic.

BE6.2 It was not clear whether the guidance on extractive industries, agriculture and service concession arrangements would be relevant for NPOs. As a consequence, Exposure Draft 3 (ED3) sought views on the relevance of this material. Respondents provided strong support for retaining E6 *Specialised activities*. They emphasised the need for guidance on specialised activities for NPOs, not only in agriculture but also in extractive activities and service concessions. This feedback supported the inclusion of this section in the first edition of INPAS.

BE6.3 For now, no editorial changes have been included in the accounting for specialised activities from the *IFRS for SMEs* Accounting Standard, other than minor changes to terminology to align with other sections.

Group F

Financial assets and liabilities

BF1 – Financial instruments

Background and history

BF1.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first issue of INPAS. Financial instruments was not included as a prioritised topic.

BF1.2 As this section was not prioritised for full review in this edition of INPAS, changes made were for alignment purposes only, so as not to infer a level of review that has not been carried out. Additional guidance to clarify the application to NPOs has been included as Application Guidance.

BF1.3 In accordance with this principle, not all of the suggested detailed drafting changes made in response to Exposure Draft 2 (ED2) have been taken on board. This included suggestions of simplifications in relation to concessionary loans, the interest rate to be used in calculating the time value of money and the provision of additional NPO-specific examples. The feedback will be retained for consideration for subsequent editions of INPAS.

BF1.4 Other than changes to terminology and changes made to align with other INPAS sections, no further changes were made.

Scope

BF1.5 Changes have been made to the scope of some INPAS financial statements compared to the *IFRS for SMEs* Accounting Standard, particularly regarding the location of fair value adjustments. Accordingly, F1 *Financial instruments* provides guidance on the financial statements in which adjustments should appear. The changes reflect how the Statement of Income and Expenses and the Statement of Changes in Net Assets are to be prepared.

BF1.6 As a consequence, in subsequently measuring a financial instrument, changes in fair value should generally continue to be required to be recognised in surplus or deficit.

BF1.7 To retain consistency with other INPAS sections, references to share-based payments have been removed from this Section. Respondents to ED2 agreed that it was appropriate to remove these references. However, they were concerned that in order to support consistency, guidance would be needed in the rare situations where such transactions existed. Consistent with the approach taken in other sections that refer to share-based payment, Technical Advisory Group (TAG) members were of the view that use should be made of the guidance in P28 and B7.6.

Basic financial instruments

BF1.8 In response to the feedback on ED2, consideration was given to the inclusion of concessionary loans as a type of basic financial instrument. However, TAG members agreed that concessionary loans should not be included, as they are not within the scope of the topics considered for the first edition of INPAS.

Grants

BF1.9 Consideration was given to whether additional guidance on grant prepayment assets and grant payment liabilities as defined in D2 *Expenses on grants and donations* was needed in this Section. TAG members were of the view that the guidance in F1 was sufficient and to keep any necessary additional guidance within D2.

Expected credit loss model

BF1.10 Respondents to ED2 raised concerns about whether the requirements and the language of this Section were too complex for NPOs. Specifically, there were concerns about the use of the expected credit loss model. After ED2 was published, the IASB decided to withdraw the expected credit loss model from the third edition of the *IFRS for SMEs* Accounting Standard. The disclosure of aged receivables has been included instead. The IASB also decided to simplify the requirements related to financial guarantee contracts. These changes have been included in INPAS and are expected to simplify the requirements.

Other financial instrument issues

BF1.11 In line with BF1.5, Part II of F1 has been updated to require that changes in the fair value of hedging instruments are recognised in the Statement of Changes in Net Assets until the instrument is discontinued. At this point, any gains or losses are reclassified to surplus or deficit. This reflects the outcome of discussions with TAG members on which items appear in which financial statement.

BF2 – Liabilities and equity claims

Background and history

BF2.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first issue of INPAS. Liabilities and equity were not included as a prioritised topic.

BF2.2 However, amendments to A2 *Concepts and pervasive principles* for the NPO context have introduced net assets as a financial statement element. Net assets are defined as 'the residual available to the NPO to achieve its objectives after deducting all its liabilities from its assets.'

BF2.3 It was recognised that for some NPOs, holders of equity claims could have established a financial interest in some of the net assets of the NPO because of equity arrangements. To distinguish between this and the situation generally prevalent in private sector entities where equity is the residual interest in the assets of the entity after deducting all its liabilities, it was agreed with the Technical Advisory Group (TAG) that A2 and subsequently this Section would refer to equity claims rather than equity in the NPO context – equity claims being the financial interest in the net assets of an NPO that is due to holders of those claims. F2 *Liabilities and equity claims* was amended to reflect this distinction.

BF2.4 Given the nature of NPOs and the circumstances in which they are likely to have share capital, the paragraphs relating to the sale of options, rights and warrants, extinguishing financial liabilities with equity instruments and treasury shares have been removed. The paragraphs on convertible debt or similar compound financial instruments and capitalisation or bonus issues and share splits have been retained, as it is possible that an NPO has control of, acquires or merges with another entity that has share capital. The guidance could be useful in these circumstances.

BF2.5 Consistent with the proposal that share-based payments do not form part of INPAS given the nature of NPOs, references to Section 26 *Share-based payments* have been removed from this Section.

BF2.6 Other than these amendments, changes were editorial in nature to reflect the terminology being used in INPAS.

Group G

Consolidation and reporting boundaries

BG1 – Consolidated and separate financial statements

Background and history

BG1.1 The IFR4NPO Consultation Paper (CP) considered the definition of the reporting entity in terms of the financial reporting definition and its links to the definition of control. The CP also considered the sometimes complex structures such as branches and other operational structures that can be established to reach local communities and the recipients of the goods and services provided by NPOs (see also comments in the Basis for Conclusions – BA2 *Concepts and pervasive principles*).

BG1.2 Addressing these specific issues has resulted in additional guidance in A2 *Concepts and pervasive principles* relating to the definition of a reporting entity and additional guidance in this section in relation to the application of control, with the focus being on providing guidance to support the identification of the reporting entity. Consequently, this Section has not been modified to address NPO-specific issues related to consolidation.

BG1.3 Along with additional guidance on the application of control for NPOs, changes have been made to be terminology and to provide consistency with other INPAS sections, reflecting the nature of NPOs.

Control

BG1.4 The CP considered alternatives for the approach to the definition of control in relation to the reporting entity. Alternative one was based on the IFRS 10 *Consolidated Financial Statements* and IPSAS 35 *Consolidated Financial Statements* definition of control. Alternative two was based on the guidance in the *IFRS for SMEs* Accounting Standard 2015 edition that included a rebuttable presumption about control to simplify application.

BG1.5 The IFRS and IPSAS standards on consolidated financial statements require a judgement about control to be formed based on the concepts of control in those standards.

BG1.6 On balance, respondents to the consultation favoured the approach in alternative two, but there was also support for alternative one. The reasons provided for favouring alternative two centred on the ease of application, and respondents contrasted this with the resources that might be required in forming the judgements needed under alternative one.

BG1.7 After the CP was issued, the IASB issued an Exposure Draft proposing revisions to the *IFRS for SMEs* Accounting Standard. The third edition of the *IFRS for SMEs* Accounting Standard was issued in February 2025. In this revision, the IASB decided to align the definition of control with IFRS 10. The IASB's view was that using the control model as a single basis for consolidation is a simplification. The IASB acknowledged, based on its post-implementation review of IFRS 10, that assessing control requires judgement, and that depending on the complexity of transactions this could sometimes be significant.

BG1.8 Technical Advisory Group (TAG) members were strongly of the view that alignment with IFRS 10 was important. On the basis of these views, the feedback from the CP and the alignment with IFRS 10 in the third edition of the *IFRS for SMEs* Accounting Standard, the control framework in IFRS and IPSAS has been adopted. In Exposure Draft 1 (ED1), the proposal followed those in the third edition of the *IFRS for SMEs* Accounting Standard. Additional Application Guidance was also included in ED1. In developing this Application Guidance, TAG members supported the use of IPSAS 35 and other internationally available guidance to explain how these concepts apply to NPOs. The Application Guidance specifically addressed how the concepts in IFRS 10 of:

(a) power over the investee;
(b) exposure or rights to variable returns from its involvement with the investee; and
(c) the ability to use its power over the investee to affect the amount of the investor's returns

should be used in an NPO context.

BG1.9 Respondents to ED1 generally agreed that the guidance on the control principles was appropriate and sufficient. No changes have therefore been made to these principles.

BG1.10 The *IFRS for SMEs* Accounting Standard includes a rebuttable presumption to simplify the application of the control principles, which were considered by consultation respondents to be valuable for NPOs. Applying a rebuttable presumption would allow judgements to be formed in line with the benefits of alternative one but allows a simplified approach.

BG1.11 Paragraph 9.5 of the second edition of the *IFRS for SMEs* Accounting Standard says that 'control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity.' It also provided other examples of control relating to powers by virtue of voting rights, power to govern the financial or operating policies of an entity and powers to appoint members of the board or to cast the majority of votes on the board.

BG1.12 The third edition of the *IFRS for SMEs* Accounting Standard continues to include a rebuttable presumption to ease application of the control model. However, the examples have changed to focus on contractual arrangements between the parent and other vote holders, rights arising from other contractual arrangements and the parent's actual and potential votes. These examples appear to be less relevant to NPOs, where control might be more likely to come from the ability to govern the financial or operating policies of an entity and from the power to appoint trustees or members of a board. For a rebuttable presumption to be effective for NPOs, it needs to be applicable to a wide range of NPOs. As a consequence, the examples from the second edition of the *IFRS for SMEs* Accounting Standard have been retained alongside those in the third edition of the *IFRS for SMEs* Accounting Standard.

BG1.13 Respondents to ED1 strongly supported the inclusion of the rebuttable presumption. However, some respondents considered that the drafting required clarification, as INPAS considers a wider range of factors than voting rights. In particular, respondents questioned whether NPOs would have to assess all the elements of control if they were relying on the presumption. Wording to address this concern was included in the final version of the third edition of the *IFRS for SMEs* Accounting Standard, and this has been incorporated into INPAS.

Determining whether consolidation of all entities is appropriate

BG1.14 In developing the Standard, TAG members raised questions about the conceptual basis of consolidation of NPOs and whether there were any differences between for-profit and non-profit entities. It was noted, predominantly through review of academic studies, that some users find it difficult to understand consolidated financial information but value understanding the relationship between associated and controlled entities.

BG1.15 In some cases, the elimination of intra-group items might mean that information is less complete in a way that matters for some readers of the financial statements, perhaps because important 'internal' transactions become invisible when eliminated. This might be best addressed by additional disclosure rather than producing a full consolidation. Alternatively, the presentation of separate financial statements alongside the consolidated financial statements might provide the information users need and illustrate the significance of the group to the NPO.

BG1.16 How the qualitative characteristics that form part of the concepts and pervasive principles for INPAS might apply to consolidation were considered. The two fundamental qualitative characteristics of 'faithful representation' and 'relevance' were identified as being important in considering whether controlled entities should be consolidated by a controlling NPO.

BG1.17 Further guidance to explain how an NPO might consider each of these characteristics in forming a judgement about whether it should consolidate a controlled entity was developed.

BG1.18 One respondent to ED1 considered that guidance on the fundamental characteristics was unnecessary and could be replaced by a cross-reference to A2. However, having the guidance in the same location as the rest of the text on consolidation was considered to be helpful to users of INPAS.

BG1.19 For transparency and accountability when an NPO has not consolidated a controlled entity, it must explain the reasons why and set out the relationship between the entities. This should include information about the nature of the relationship, governance arrangements and the nature and value of transactions between the entities, including related party transactions.

Consolidation procedures

BG1.20 A number of the requirements in G1 *Consolidated and separate financial statements*, particularly with regard to non-controlled entities, might be less likely to occur for NPOs. In particular, paragraphs G1.36–G1.40 relating to non-controlled entities were intended to only be applied in the rare situations where they were needed by an NPO.

BG2 – Investments in associates

Background and history

BG2.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first edition of INPAS. Accounting for associates was not included as a prioritised topic.

BG2.2 No major editorial changes were proposed for accounting for associates from the *IFRS for SMEs* Accounting Standard. A Technical Advisory Group (TAG) member queried whether G2 *Investments in associates* should be retitled to 'Beneficial interest in associates', as beneficial interest is used rather than investment in G1 *Consolidated and separate financial statements*. However, noting that references were made to investing in associates in G1 and that some respondents to Exposure Draft 1 (ED1) did not support the change in terminology, it was concluded that the term 'investments' for the title of this Section be retained.

BG2.3 Respondents to Exposure Draft 3 (ED3) also raised points about terminology on the basis that terms like 'investing' and obtaining returns were less relevant to NPOs. As noted in BG2.2, points about terminology were raised in connection with G1. This feedback was discussed with TAG members. Consistent with the feedback from those discussions, while recognising the possibility of alternative terms, potential amendments or alternative terminology will be considered for subsequent editions of INPAS.

BG2.4 Amendments to 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' have been made.

BG2.5 Significant influence was described in G2.3 in terms of power to participate in the financial and operating policy, with the description of the presumption of control related to voting power and ownership. As noted in G1, power might exist in other forms, particularly in relation to other NPOs. However, as this Section has not been fully reviewed, no amendments have been proposed. The Application Guidance developed for G1 is expected to be useful.

BG3 – Joint arrangements

Background and history

BG3.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first edition of INPAS. Accounting for joint arrangements was not included as a prioritised topic.

BG3.2 To support the application of the guidance by NPOs, when referring to transactions between a party to the joint arrangement and the joint arrangement, edits have been made to make clear where this is only referring to the NPO. No other significant editorial changes have been made for accounting for joint arrangements from the *IFRS for SMEs* Accounting Standard other than minor changes to terminology to align with other sections.

BG4 – Business combinations and goodwill

Background and history

BG4.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first issue of INPAS. Accounting for business combinations including goodwill was not included as a prioritised topic.

BG4.2 Other than changes set out in BG4.3–BG4.10, there have been minor changes to terminology to align with other sections. References to share price and equity have been removed where this is considered to not be relevant to NPOs.

Business combinations defined

BG4.3 One of the key issues considered was the application of the term 'business' to NPOs. Although it is possible that NPOs could acquire businesses, it is perhaps more likely that they merge operations with another NPO. It is acknowledged that NPOs might not see themselves as carrying out a business, but the principles arising from the accounting set out in this Section remain relevant.

BG4.4 To address NPO-specific circumstances, two additional examples of control have been added – control exercised through the power to appoint or remove the majority of an NPO's governing body and by entering into a formal transfer agreement. The latter was particularly important given the expectation that business combinations might involve the merging of two or more NPOs. These changes were consequential amendments arising from the proposals in A1 *Non-Profit Organisations* about the nature of NPOs and G1 *Consolidated and separate financial statements* that describes the application of power in an NPO context.

BG4.5 Some Technical Advisory Group (TAG) members were concerned that the term 'business combination' might be misunderstood, particularly when two NPOs merge. In this Section, the term 'business' is pervasive, and to make amendments as part of a high-level review might result in unintended consequences. As a result, TAG members agreed to maintain the terminology of 'business', subject to the amendments outlined.

BG4.6 Feedback on the use of the term 'business' was sought as part of Exposure Draft 3 (ED3). The majority of respondents supported the use of the term 'business' when combined with the amendments made to reflect the nature of NPOs. Those that disagreed expressed concern that the term 'business' was a term used for 'for-profit, commercial' entities, which was not appropriate and could be confusing or misleading. Acknowledging this risk, it was proposed that pragmatically the term be retained to avoid other possible issues. It was also noted that the term 'business combination' is used to describe a type of transaction, and 'business' as a defined term within those transactions rather than to describe an NPO. An additional paragraph has been added to make this clearer. The glossary reflects this position. TAG members supported this approach.

Application Guidance

BG4.7 The *IFRS for SMEs* Accounting Standard includes guidance on the definition of a business, particularly in differentiating between an asset or group of assets and a business. Illustrative examples were also provided. The Application Guidance with the illustrative examples were considered to be useful and relevant to NPOs.

BG4.8 As noted in BG4.4, the description of businesses has been amended, and additional text has been added to cover NPO combinations motivated by considerations related to their mission as well as financial considerations. TAG members were keen to make clear that an organisation that was a business in the context of this Section could be an organisation that provides services to beneficiaries, not just sales to customers. This has been addressed through the description of businesses in the Application Guidance, and a new paragraph has been inserted to make clear that the requirements of this Section would apply to businesses of all sizes, including small organisations.

Accounting

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

Bargain purchase

BG4.9 TAG members raised a question about whether complexities relating to goodwill should be avoided where two NPOs combine and where one has net liabilities. There was currently insufficient evidence to determine whether this was a significant issue for NPOs, and evidence was sought through ED3.

BG4.10 TAG members questioned whether there should be a simplification in the requirements where two NPOs, both with positive net assets, combine and this would otherwise result in the application of the requirements for a bargain purchase. There were concerns that the cost of applying such requirements would be disproportionate to the benefit from applying the procedures for NPOs. Consequently, the requirements for the additional tests set out in G4.26 have been removed.

Group H

Restatements and additional information

BH1 – Related party disclosures

Background and history

BH1.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first issue of INPAS. Related parties was not included as a prioritised topic.

BH1.2 Other than the changes discussed in BH1.3–BH1.14, no major changes have been made to the requirements for related party disclosures from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have been made to align with other INPAS sections.

Related party defined

BH1.3 It was recognised that NPOs might have governance structures that differ from other organisations, and it could be the case that individuals were the trustee or equivalent of more than one NPO. As a consequence, this Section makes clear that a member of an NPO governing body, whether or not they are remunerated, is a related party. It also requires that the characteristics of an NPO's governing body's governance arrangements are considered in determining related parties.

Disclosures

BH1.4 In developing the disclosures for the classification of expenses, consideration was given to information about key management personnel and governing body members. Paragraph H1.7 requires the disclosure of key management personnel compensation in total. There were no specific disclosures for governing body members. To provide clarity, additional disclosures to cover their personnel compensation arrangements and expenses have been added. Such disclosures provide transparency for accountability purposes.

BH1.5 Details of the personnel compensation paid to governing body members (if any) and the legal basis of those payments were proposed to be disclosed. The legal basis was important, as it is not legal to compensate governing body members in some jurisdictions. There was also a requirement to disclose the nature and amount of all out-of-pocket expenses reimbursed.

BH1.6 It was initially proposed that there were exemptions for the disclosure of two types of related party transactions involving governing body members. These exemptions stated that donations made by a governing body member need not be disclosed, provided there were no special obligations that would require the NPO to amend its normal activities (for example, using specific suppliers or sources of inputs). Similarly, services received by a governing body member were exempt from disclosure if they were provided on the same terms as those offered to any other eligible individual.

BH1.7 Technical Advisory Group (TAG) members supported these exemptions, especially where amounts paid or received were on the same terms as those applied to other donors or beneficiaries to reduce reporting burdens for NPOs. However, the feedback from Exposure Draft 3 (ED3) questioned the appropriateness of these exemptions. Respondents were concerned that governing body members might be able to exert significant influence when making grants and donations even where transactions were at arms' length, particularly if an NPO was reliant on such grants and donations. Respondents were also concerned that governing body members could exert influence to ensure that they received the services from an NPO, potentially in advance of other recipients and encouraged transparency.

BH1.8 Acknowledging the importance of transparency and the potential burdens that might arise from this reporting, it was agreed that disclosure of grants and donations should not be excepted given the risk of undue influence or conflicts of interest, and that these were relevant to the users of the financial statements. TAG members supported this conclusion and, as a result, this exception to the disclosure requirements was removed.

BH1.9 The disclosure of services received on the same terms as other eligible recipients was separately considered. It was possible that governing body members benefitted favourably by being prioritised for the receipt of services, even though services were provided on the same terms as other eligible service recipients. The fact that a governing body member was in receipt of services and the nature of the service received were subsequently required to be disclosed, but on balance, it was not believed necessary to disclose the transactions or amounts. It was agreed that this exception would be reviewed in advance of the second edition of INPAS to ensure that it was working effectively. TAG members supported this approach in balancing transparency versus reporting burdens. This exception does not apply to amounts outstanding beyond an NPO's normal terms.

BH1.10 While materiality applies to the disclosures required in this Section, to promote transparency TAG members agreed that an NPO could be encouraged to voluntarily disclose immaterial transactions and how it manages the relationship with governing body members where those members were in receipt of services. This provides NPOs with an opportunity to build trust by voluntarily disclosing transactions that could offer valuable context. The Implementation Guidance was updated to provide further clarification on how these disclosures should be made, with accompanying examples.

BH1.11 H1 *Related party disclosures* is based on a typical private sector group structure and in particular where there is a parent-to-subsidiary-type relationship. These kinds of structures could also be relevant to NPOs, particularly if separate legal entities have been created to carry out commercial activities, but less relevant for others. However, without a full review of this Section, it was proposed to leave the existing language about group relationships largely unchanged.

BH1.12 H1 provides an additional exemption from disclosures where a government or another entity under the control, joint control or significant influence of government controls, jointly controls or has significant influence over an NPO. This exemption in the *IFRS for SMEs* Accounting Standard was introduced to reduce the burden on preparers. It was decided to maintain this exemption to similarly reduce the burden on the preparers.

BH1.13 In reviewing this Section, consideration was given to whether service potential needed to be included within the scope of related party transactions to align with other sections. TAG members were of the view that service potential doesn't exist without another asset or service and therefore was not itself a separate related party transaction. As a consequence, this concept has not been included.

BH1.14 Finally, it was decided to broaden one of the disclosure categories from entities with control, joint control or significant influence to entities and individuals with control, joint control or significant influence, reflecting the broader nature of those who might hold equity claims.

BH2 – Hyperinflation

Background and history

BH2.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first issue of INPAS. Hyperinflation was not included as a prioritised topic.

BH2.2 No major editorial changes were proposed for hyperinflation, with minor changes to terminology and to align with other Sections. The main changes were to reflect the structure of the balance sheet proposed for NPOs in INPAS and the names and scope of the financial statements as they relate to income and expenses.

BH3 – Events after the end of the reporting period

Background and history

BH3.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first edition of INPAS. Events after the end of the reporting period was not included as a prioritised topic.

BH3.2 There were no significant issues arising from the high-level review of this Section. Other than terminology, changes reflect alignment with other INPAS sections. Key changes to note are:

(a) the sources of bankruptcy have been expanded to include ‘grantor.’ This reflects the importance of grantors to an NPO, and that the bankruptcy of a grantor could have flow – on effects for an NPO;
(b) ‘trade’ has been deleted against ‘trade receivable’ consistent with B2 *Statement of Financial Position*;
(c) references to profit sharing have been removed consistent with the amendments made to D4 *Employee benefits*;
(d) references to dividends have been removed as this was not expected to be a feature of NPOs who do not operate for returns. Amendments to the draft text allow for the possibility of an NPO making a distribution to holders of equity claims. This was expected to be extremely rare and would be reviewed to take account of feedback on equity as requested as part of Exposure Draft 1 (ED1);
(e) an amendment has been made to reflect that it is not an entity’s owners that has the power to amend the financial statements after issue, but there might be ‘others’ who have this type of power. This was to reflect that ownership is not a key driver of how an NPO operates; and
(f) significant grant agreements concluded after the end of the reporting period have been added as a non-adjusting event following feedback from respondents to Exposure Draft 2 (ED2). This reflects the importance of grant arrangements to NPOs and the potential impact on an NPO’s future operations.

BH4 – Supplementary information

Background and history

BH4.1 Providers of grant funding to NPOs frequently require special purpose financial and other reports for the activities that they are funding. Feedback during stakeholder outreach throughout the course of the IFR4NPO project has highlighted that the lack of harmonisation of donor reporting formats results in a significant burden to NPOs. Funders and auditors have also commented that the frequent inability of these special purpose financial reports to be reconciled or cross-referenced to entity level audited financial statements is a significant assurance challenge.

BH4.2 The possibility of an additional donor/project statement was included in the Consultation Paper (CP). Around one third of respondents supported the development of a donor/project statement. It was acknowledged that if donors were willing to rely on such statements and not require special purpose financial reports, this could reduce burdens, costs and complexity. However, other respondents felt that donors' requirements were best met by special purpose financial reports, not general purpose financial reports. There was also a concern that any proposals would only be helpful to some NPOs and that this could come at the cost of additional complexity.

BH4.3 The objective of producing supplementary project/programme information as part of the NPO's general purpose financial statements requires coordinated outreach with donors, which was supported by consultation respondents.

BH4.4 Respondents to the CP supported the availability of guidance on the form and content of supplementary information, as it would assist consistency. A guidance-based approach would allow each organisation to balance the cost/benefit of preparing supplementary information in its own context. Respondents were therefore of the view that reporting on material projects should be optional and not a mandatory requirement.

BH4.5 In response to this feedback, it was proposed that the IFR4NPO project develop a standard format for an optional Supplementary statement that could meet the financial accountability needs of providers of grant funding. The objective was to present key auditable financial information about a specific project or grant (or projects/grants) in a way that could be useful to the grantor for accountability purposes, as well as meaningful to the primary users of general purpose financial statements.

BH4.6 A Supplementary Statement Working Group (SSWG) was set up to develop proposals for a Supplementary statement. It comprised six members drawn from the project's Donor Reference Group (DRG), Practitioner Advisory Group (PAG), Technical Advisory Group (TAG) and a Country Champion.

BH4.7 The output of the SSWG has been used to produce INPAS Practice Guide 1 *Harmonised grant reporting* (INPAS Practice Guide 1). INPAS Practice Guide 1 provides guidance for NPOs that wish to prepare one or more Supplementary statements and use the statements for accountability purposes. Each Supplementary statement presents financial information on income, expenses, inventory and capital costs for a specified set of activities that are based on the audited financial statements.

BH4.8 The Supplementary statements are not part of INPAS. This is because there are numerous permutations of Supplementary statements that an NPO could produce. This is inconsistent with the principles of general purpose financial reporting, which require that information should be capable of being useful to all users and not only to a particular subset.

Scope of this Section

BH4.9 The relationship between INPAS Practice Guide 1 and INPAS is covered in INPAS H4 *Supplementary information*. A whole-of-NPO set of supplementary information was considered to be valuable as part of INPAS, because it provides an audited base from which an NPO could produce additional statements (outside of the general purpose financial reporting), as well as additional information for primary users.

BH4.10 TAG members noted that producing whole-of-NPO supplementary information could be a burden if an NPO was not preparing Supplementary statements. H4 therefore only requires the provision of such information where an NPO prepares and distributes one or more Supplementary statements using INPAS Practice Guide 1. NPOs that do not use INPAS Practice Guide 1 could optionally provide the information required by this Section.

BH4.11 In establishing this requirement, it was the intention that NPOs that produce Supplementary statements using INPAS Practice Guide 1 provide this information irrespective of when an NPO prepares and distributes them. It was possible, for example, that the Supplementary statements were prepared and distributed after the preparation of the NPO's general purpose financial report. When an NPO intends to issue Supplementary statements, use of H4 was strongly encouraged. H4 provides an important bridge to the Supplementary statements and the resulting information needed to deliver the benefits of harmonised reporting.

BH4.12 The act of preparing a Supplementary statement using INPAS Practice Guide 1 is not on its own sufficient to trigger a requirement to use H4. The Supplementary statements must be useful to the stakeholder for whom they are prepared for accountability purposes – for example, as a part of the assurance processes for the grantor. Supplementary statements must be both prepared and distributed for the purposes of discharging accountability for H4 to apply.

Disclosure of supplementary information

BH4.13 H4 proposed that an NPO to disclose whole-of-NPO information consistent with the classes of information prescribed in INPAS Practice Guide 1 when it has prepared one or more Supplementary statements. Where this information was not disclosed elsewhere in the financial statements, additional disclosures must be made. This was to allow a whole-of-NPO Supplementary statement to be prepared from the disclosures in the financial statements or notes to the financial statements.

BH4.14 Mindful of reducing reporting burdens, Exposure Draft 3 (ED3) proposed that the presentation of a whole-of-NPO Supplementary statement was not required where information was already presented elsewhere in the financial statements. A whole-of-NPO Supplementary statement using the INPAS Practice Guide 1 prescribed format was instead proposed to be an option (as it was likely to benefit users) rather than required.

BH4.15 It was also recognised that for those NPOs that produce Supplementary statements, there was an opportunity over time to converge the information requirements with the proposed reporting requirements of D1 *Classification of expenses*. NPOs might, for example, find it beneficial to produce expense information in accordance with the prescribed format included in INPAS Practice Guide 1.

BH4.16 Respondents to ED3 supported the proposal that a whole-of-NPO Supplementary statement need not be presented if the additional information was already in the financial statements and/or notes. Respondents were of the view that a whole-of-NPO Supplementary statement need not be presented to avoid duplication, information overload and to reduce the reporting burden.

BH4.17 In considering the ED3 responses, TAG members were concerned that requiring users to assemble whole-of-NPO financial information from across the financial statements could be both burdensome and confusing. TAG members were of the view that presenting the supplementary information together could enhance clarity, reduce the effort required from users and ensure that financial data was presented in a more accessible and structured manner. Additional Implementation Guidance has therefore been added to demonstrate the benefits of a whole-of-NPO supplementary statement. The preparation of a whole-of-NPO Supplementary statement was therefore encouraged.

Basis for the supplementary information disclosures

BH4.18 Comments from one of the respondents on the location of supplementary information raised questions about the scope of the information included in the disclosures (for example, whether some components of net assets should be included). Additional guidance requiring consistency with the Statement of Income and Expenses and the Statement of Net Assets but excluding components not reported in the movements in funds has been added. This Section also includes clarification of what to report if, on an exceptional basis, an NPO produces supplementary information that was not consistent with the reporting boundary of an NPO or the recognition and measurement principles required by the Standard.

Inventory and capital acquisition costs

BH4.19 INPAS Practice Guide 1 allows but does not require an NPO to report on inventory and/or capital costs as part of its Supplementary statements. This Section of the Supplementary statement was intended for use by NPOs where their stakeholders were seeking accountability for the cash resources provided to purchase or create inventory or capital assets. H4 clarifies that the information for the whole of an NPO was only required where an NPO uses the inventory or capital section in one or more of its Supplementary statements prepared in accordance with INPAS Practice Guide 1.

Group Z

Transition to INPAS

BZ1 – Transition to INPAS

Background and history

BZ1.1 The IFR4NPO Consultation Paper (CP) proposed that only prioritised topics would be fully reviewed for the first edition of INPAS. Accounting for the transition to INPAS was not included as a prioritised topic. However, the development of INPAS and its proposals has meant that there were additional considerations for an NPO adopting INPAS for the first time and so this Section has been further developed.

BZ1.2 This Section is based on an entity moving from another framework such as full IFRS, national GAAP or the cash basis of reporting (potentially consistent with the local income tax basis) and also provides for those entities that did not previously present financial statements. This Section requires that at the date of transition to INPAS, all entities need to create opening balances to recognise all assets and liabilities. INPAS defines new assets and liabilities that need to be included.

BZ1.3 Technical Advisory Group (TAG) members were asked to consider whether the pragmatic exceptions and approaches in Section 35 of the *IFRS for SMEs* Accounting Standard were also appropriate for NPOs or whether they needed to be amended. The issues considered included presentation of comparatives, the measurement of assets and liabilities on initial recognition, the amount of time permitted to adopt all of the INPAS requirements and the potential to exclude narrative reporting from the statement of compliance for a transitional period.

BZ1.4 Other than these considerations, minor changes have been made to align with other INPAS sections, including the removal of references to share-based payments and in respect of terminology.

First time adoption

Application of INPAS

BZ1.5 Z1 *Transition to INPAS* sets out what constitutes a first financial report under INPAS. It provides examples of the situations when this might exist and references NPOs that might have previously produced their financial reports using IFRS Accounting Standards. In response to feedback on Exposure Draft 3 (ED3), clarification has been provided that this paragraph also applies to financial reports previously produced using IPSAS Standards.

Transition period

BZ1.6 INPAS is broader than the *IFRS for SMEs* Accounting Standard, as it requires a narrative report in addition to the financial statements. Consequently, INPAS requires a single compliance statement that covers both the financial statements and the narrative report. Compliance with the financial statements alone does not constitute full compliance with INPAS.

BZ1.7 In Exposure Draft 1 (ED1), which sought feedback on the proposals for narrative reporting, there was a specific matter for comment about the amount of time needed to adopt the narrative reporting requirements and whether a transition period was needed. The need for such a transition period was raised as for some NPOs, there was a concern that there would be a significant challenge in adopting the requirements for financial statements and, as a result, that the requirement for a narrative report could be a barrier to adoption.

BZ1.8 Respondents to ED1 provided a range of views on a transition period. Some felt the scope of the minimum requirement could be easily achieved and that no transition period was necessary. Others felt that it should be a little longer than two years but no more than five years. Reflecting on this feedback, a two-step approach was proposed where an NPO could express compliance with the requirements for the financial statements as an initial step. The second step would be compliance with the full INPAS requirements once narrative reporting requirements had also been met. This was proposed as without setting time limits for achieving full INPAS compliance, less than full compliance could occur in perpetuity. TAG members agreed that NPOs should not be able to avoid full compliance indefinitely. A two-year period for all requirements to be met was agreed. TAG members also agreed that after the two-year transition period, if an NPO has failed to meet the full requirements for general purpose financial reports, it would be unable to express compliance with any aspect of INPAS.

BZ1.9 Respondents to ED3 provided feedback on this two-step approach. There remained a cross-section of views about the length of a transition period or whether one was needed at all. A two-year transition period was viewed as striking a balance between flexibility and timely adoption and was intended to provide consistency and comparability across NPOs globally. The two-year transition period would allow time for NPOs to develop the necessary capacity to meet both the financial and narrative reporting requirements. During this period, NPOs could work towards full adoption, with the expectation that both components would be in place before a full compliance statement with INPAS was made.

BZ1.10 While this period applies universally, regulators and standard-setting bodies have the flexibility to develop tailored implementation roadmaps, introduce phased approaches or provide additional guidance to support NPOs within their jurisdictions, including to smaller NPOs. Given the importance placed on narrative reporting by stakeholders, TAG members encouraged the adoption of narrative reporting with the two-year transition period.

Reapplication of INPAS after ceasing compliance

BZ1.11 INPAS does not prescribe specific circumstances under which an NPO that previously applied INPAS but later ceased compliance could reapply the standard. This approach aligns with INPAS's principles-based nature, allowing flexibility to accommodate diverse NPO contexts while ensuring consistent financial reporting practices. It is also consistent with the *IFRS for SMEs* Accounting Standard.

BZ1.12 Respondents to ED3 sought clarity on whether an NPO that re-applies INPAS must automatically follow retrospective application under B7 *Accounting policies, estimates and errors* or whether it could elect transition provisions under Z1. NPOs have the option to choose between these approaches, depending on their circumstances. This ensures that organisations returning to INPAS compliance could do so in a way that minimises disruption while maintaining transparency.

BZ1.13 NPOs could choose to enhance transparency by disclosing the rationale for their chosen approach rather than only identifying the selected method as required under Z1.15. Providing this context could help build trust with stakeholders by enabling users of financial statements to better understand the reasons behind an NPO's transition decisions and promote greater consistency in financial reporting.

BZ1.14 TAG members were also of the view that as part of the journey for adopting INPAS, it might be useful for an NPO to explain which parts of INPAS it has adopted and its plans for achieving full compliance with INPAS. This statement could explain which aspects of INPAS an NPO plans to adopt and the associated timeframe. The scope for such a statement has been included in the Standard.

Comparative information

BZ1.15 Section 35 of the *IFRS for SMEs* Accounting Standard requires comparative information before being able to state compliance with the Standard. Consideration was given to whether comparative information would be needed on the first time adoption of INPAS. For those NPOs that have not previously prepared financial statements, there would be no loss of information in allowing comparatives not to be required. A pragmatic exception in these circumstances would not diminish the information available and reduce barriers to adoption. For those entities that already produce financial statements using an international or national GAAP, comparatives would be available and such an exception should not apply.

BZ1.16 TAG members were of the view that comparative information was necessary. They recognised that brought forward amounts would be needed to capture restricted funds and unrestricted funds. Comparative information would be needed to enable the opening balances to be determined. TAG members were therefore of the view that in practice, this information could be available if planned as part of implementation arrangements.

Procedures for preparing financial statements at the date of transition

BZ1.17 Section 35 of the *IFRS for SMEs* Accounting Standard provides for deemed costs to be used where assets and liabilities were not previously recognised. For clarity, guidance on assets that were more common to NPOs has been added to INPAS to confirm that a deemed cost could be used.

BZ1.18 The cash basis might have previously been used by an NPO when transitioning to INPAS. In such circumstances, TAG members agreed that references to accounting policies that relate to the balance sheet under a previous accounting framework would not include the cash basis. An NPO must provide a full opening balance sheet and not start with zero opening balances.

BZ1.19 INPAS has introduced grant agreements with delivery obligations that might have assets and/or liabilities associated with them on first time adoption and grant agreements without delivery obligations where there were considerations about what should be included as part of restricted funds or unrestricted funds. Consideration was given as to how these should be recognised on first time adoption. Given the need to split accumulated funds between restricted funds and unrestricted funds, it was acknowledged that a prospective approach would not be possible and there would be a need for retrospective application of INPAS to at least some transactions. To reduce the implementation work required, TAG members supported a proposal that agreements that have been completed or were due to complete within 12 months of the date of transition to INPAS need not be included.

BZ1.20 Respondents to ED3 identified challenges in carrying out the procedures for first time adoption. This included the ability to carry out fair value measurements to generate the deemed costs of assets and liabilities, availability of historical information, accounting systems and lack of capability. These challenges were acknowledged, and future educational resources and other guidance materials will be developed to help address these challenges.

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