International Non-Profit Accounting Standard

Implementation Guidance

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Notices

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Group A

Principles

IA1 – Non-Profit Organisations

IA1.1 The following paragraphs provide Implementation Guidance relating to the description of NPOs. They address various questions that an organisation or jurisdiction may wish to consider when determining if an entity would meet the description of an NPO as outlined in A1 *NPOs*.

IA1.2 This Implementation Guidance includes illustrative examples to highlight potential issues in determining whether an entity is an NPO and provides guidance on decision-making processes.

How should an individual organisation or a jurisdiction use the broad characteristics to determine if an entity is an NPO?

IA1.3 The broad characteristics approach to describing an NPO was developed to identify to which entities INPAS is expected to apply. To determine if an entity is an NPO, as outlined in INPAS A1, an individual organisation or jurisdiction should assess the entity against the two essential broad characteristics:

(a) their primary objective is to provide a benefit to the public; and
(b) their surpluses are directed for the benefit of the public.

If both these characteristics are met, the entity can be described as an NPO, and users of its general purpose financial reports will benefit from the use of INPAS.

What is meant by 'for the benefit of the public'?

IA1.4 In many cases, it is clear when an entity meets the requirement to operate 'for the benefit of the public'. Jurisdictions may have specific laws or regulations for these purposes. For example, organisations may be granted charitable status after proving that they serve the public interest. However, there are situations where determining this can be more complex. This could happen when an entity has multiple objectives, some of which may not directly benefit the public, or where the group of people benefiting from the entity's purpose is narrowly defined. In such cases, judgement is needed to assess whether the entity's primary objective provides a benefit to a sufficient section of the public, while ensuring that any private benefits that arise are no more than incidental.

IA1.5 Importantly, the sufficiency of the public benefit should be evaluated in relation to the NPO's specific purpose. Depending on its objectives, this might mean benefiting a small, focused section of society rather than wider groups or the general public. The key is ensuring that the benefit aligns with the NPO's overarching goals and that the public impact is meaningful, even if it is directed at a narrower group.

Can an entity distribute surpluses for private benefit and still be described as an NPO?

IA1.6 When evaluating whether surpluses are being distributed for private benefit, it is essential to consider both the amount and the nature of these distributions. For example, a cooperative may distribute surpluses to its members through rebates based on transaction volumes, rather than dividends. In some cases, this can align with the entity's objective of benefiting the public, such as providing services and goods at the lowest possible cost to disadvantaged communities. However, if the distribution primarily serves as a reward to members rather than advancing the public benefit, this may indicate a focus on private benefit. In such complex cases, judgement is needed to determine whether the surpluses are genuinely being used to further the entity's public benefit objective or are for private gain.

How can the indicators help to assess whether an entity meets the broad characteristics of an NPO?

IA1.7 The indicators in paragraph A1.14 are intended to support the assessment of whether an entity meets the broad characteristics of an NPO, particularly in cases where this is not immediately clear. They are designed to help evaluate whether an entity's operations, governance, and resource allocation align with those characteristics.

IA1.8 When using the indicators, entities are encouraged to assess each one individually, as some may suggest that the entity aligns with the characteristics of an NPO, while others may not (see illustrative examples). The evaluation should be based on the overall balance of the outcome of the assessment across all indicators, rather than on any single result. Entities should also consider any additional factors relevant to their organisational type, as well as applicable laws or regulations in their jurisdiction.

Absence of individuals (or entities) with rights to financial returns from surpluses

IA1.9 This indicator supports the principle that surpluses are directed for public benefit. An NPO typically does not have individuals (or entities) who hold rights to financial returns from surpluses. Such rights often arise through share capital ownership, which is uncommon in NPOs. Where these rights exist, this may suggest that surpluses are not being directed solely for public benefit and that private benefits may exist beyond what is incidental.

IA1.10 When evaluating an entity using this indicator, it is possible that individuals (or entities) do hold rights to financial returns from surpluses. In such cases, entities should refer to the guidance in IA1.6, which addresses circumstances where some private benefit is present.

IA1.11 The nature and extent of the rights to financial returns may, in some cases, be sufficient on their own to determine whether an entity meets the broad characteristics of an NPO. In other cases, the information obtained through this assessment may need to be considered alongside the outcomes of the other indicators to form a well-rounded judgement.

Requirement that the NPO transfer residual net assets upon dissolution to an entity with a similar purpose

IA1.12 This indicator supports the principle that, upon dissolution, an entity's remaining resources continue to serve public benefit purposes. This is typically achieved through the transfer of residual net assets to another NPO with a similar mission.

IA1.13 When evaluating an entity using this indicator, it is important to distinguish between the transfer of residual net assets and the settlement of pre-existing obligations. Some entities may have members or founders who contributed initial seed funding and have a contractual or legal right to the return of those funds. INPAS considers such arrangements to represent liabilities, which would be expected to be settled in the normal course of dissolution. These settlements do not represent a distribution of residual assets and do not, on their own, preclude an entity from being considered an NPO.

IA1.14 If residual assets are required to be distributed to private individuals or organisations on dissolution, the nature of those rights may, in some cases, be sufficient to determine that the entity does not meet the broad characteristics of an NPO. In other cases, this information should be considered in conjunction with the outcomes of the other indicators to form a balanced judgement.

Receiving or providing voluntary funding

IA1.15 The receipt or provision of voluntary funding is often central to an NPO's operating model. It is common for an NPO to receive voluntary resources in the form of grants, donations of money, goods, services, or volunteer time. An NPO may also provide voluntary funding, such as making grants or donations to individuals or other organisations in support of its public benefit objectives.

IA1.16 A key consideration in assessing this indicator is that the receipt of voluntary funding should not give rise to a right for the provider to receive financial or economic returns. If voluntary funding results in financial or economic return to the provider, this may indicate that the arrangement is intended to provide private benefit rather than to serve a public benefit purpose.

IA1.17 When assessing an entity using this indicator, it is possible that some voluntary funding arrangements involve mutual benefit to both the provider and the recipient entity. For example, a donation may be made to fund the construction of a new community facility that the provider will also use. In such cases, it is important to assess whether any benefit received by the provider is incidental or if it suggests a more direct financial or economic return.

IA1.18 Where voluntary funding arrangements result in the provider receiving a financial or economic return, the nature and extent of those rights may be sufficient in themselves to determine that the entity does not meet the broad characteristics of an NPO. In other cases, this information should be considered alongside the outcomes of the other indicators to form a balanced judgement.

Holding and using assets for the benefit of the public

IA1.19 An NPO often holds and uses assets to deliver services and goods for the benefit of the public, rather than to generate financial returns for individuals, members, or other resource providers. These assets may include property, equipment, or other operational resources essential to achieving the entity's purpose. In many cases, an NPO also holds and manages assets such as artistic works, heritage items, or natural resources, with responsibilities to preserve and protect them for the public good. Financial assets, such as endowments, may also be held to support ongoing public benefit activities over time.

IA1.20 Only holding and using assets in ways that support the entity's mission and serve the broader public interest without granting private rights to benefit from those assets would indicate that the entity meets the broad characteristics of an NPO. Where assets are held for multiple purposes, the information from this assessment will need to be considered in conjunction with the outcomes of the other indicators to form a balanced judgement.

Can an NPO still be considered an NPO if it receives substantial government funding or is controlled by a public sector body?

IA1.21 NPOs are often in receipt of substantial funds from government to support government policies and activities. This funding may also include stipulations that mean government is exposed to, or has rights to, variable returns from its involvement with the NPO and can affect those returns through its power over the activities of the NPO. Other NPOs may be established by public sector bodies for specific purposes such as an NPO that performs the function of raising funds for public sector hospitals. These public sector bodies may, for example, direct the policies of the governing body of the NPO and control the NPO's activities by appointing the majority of the post holders on the NPO governing body.

IA1.22 A key factor to determine whether an entity is an NPO or public sector entity is the level of control exercised by the public sector, not the extent of government funding. However, despite government or public sector control, the entity may still meet both the broad characteristics of an NPO and the relevant indicators. In these situations, it may still be appropriate to apply INPAS. However, the decision on whether to use INPAS or a public sector reporting framework is likely to be determined by the relevant government jurisdiction.

Is it appropriate for government and public sector organisations to use INPAS?

IA1.23 The users of the general purpose financial reports of government and public sector organisations have accountability and decision-making needs that differ from the entities that are described as NPOs in A1. While there are aspects of INPAS that may be of use to government and public sector entities, there are transactions and economic events that are only relevant in the public sector context such as taxation, which are not within the scope of INPAS (see paragraph A1.15).

Examples A1 – NPOs

Determining whether an entity can be described as a non-profit organisation

The following examples illustrate how the broad characteristics approach can be applied to identify non-profit organisations. The circumstances of individual entities will vary significantly. These examples are intended to illustrate how professional judgement may be applied. They demonstrate how the broad characteristics outlined in A1, along with the indicators, can be used to make informed judgements when assessing whether an entity is a non-profit organisation.

Example 1 – Private organisation providing education services

Entity A is a private organisation dedicated to providing education to children who have lost parents to HIV/AIDS. It was established as a Trust with an initial endowment of CU10m from a private estate. Entity A is required under the regulations of the jurisdiction in which it operates to ensure that, as a minimum, the relevant government prescribes the educational curriculum that is provided to students.

In order to supplement its income, Entity A accepts a limited number of fee-paying students. The fees for these students are determined in accordance with market rates. The surplus from fee-paying students is applied by Entity A towards its objective of providing education to children who have lost parents to HIV/AIDS. It also accepts some donations from the general public and a number of small government grants.

The revenue from fee-paying students, donations and government grants has enabled Entity A to expand the range of educational services it offers and to increase the number of children who have lost parents to HIV/AIDS on its school roll. The trustees of Entity A manage its resources in order to maximise the number of children it can accept and to maintain a high-quality educational service. Any profits or surpluses that are generated from the endowment or other revenue sources are required to be directed towards Entity A's primary objectives.

Broad characteristics

Primary objective of providing a benefit to the public

The primary objective of Entity A is to provide education to children who have lost parents to HIV/AIDS and not to maximise its surpluses from fee-paying students. Although free education services are restricted to those children who have lost parents to HIV/AIDS, the acceptance of a limited number of fee-paying students is acceptable given its purpose.

Direct surpluses for the benefit of the public

Entity A applies all its surpluses to its primary objective of providing a benefit to the public by educating children who have lost parents to HIV/AIDS. They are not distributed to the provider of the initial endowment, holders of equity claims, or other providers of financial resources.

Relationship with the public sector

Entity A is a private organisation that receives some revenue from government grants and is required to ensure that, as a minimum, it provides an educational curriculum prescribed by the relevant government. Although the government grant has conditions attached which require it to be spent on educational activities, Entity A is not required to accept the funding. Furthermore, while Entity A must adhere to the minimum curriculum requirements set by the government, it retains full autonomy over how it delivers this curriculum and is free to offer additional educational activities beyond those prescribed by the government. Based on these factors, Entity A operates as a private entity rather than a government or public sector entity.

Indicators

Entity A displays the broad characteristics required to be described as an NPO. This means it may not be necessary to examine the indicators. However, if the indicators were considered, they would provide additional support for classifying Entity A as a non-profit organisation, as detailed below.

Indicator	Factors
Rights to financial returns	Entity A has no holders of equity claims with a right to financial returns.
A requirement to transfer of residual net assets upon dissolution	In the event that Entity A is dissolved, the founding document of Entity A requires its residual net assets to be transferred to an entity with a similar purpose.
Voluntary funding	Although Entity A receives some fee income, it is primarily reliant on voluntary funding, including income from its founding endowment, donations and government grants.
Purpose and use of assets	Entity A controls assets such as buildings, equipment and sporting facilities. Although these are partly funded by fee income, they are held to deliver educational provision and not to generate financial returns to providers of resources.

Assessment

Entity A is a non-profit organisation as it meets the broad characteristics in A1.2. Consideration of the additional factors supports this assessment.

Example 2 – Social enterprise selling bicycles

Entity B is a company that refurbishes donated and purchased second-hand bicycles and sells them on a commercial basis. For every bicycle that it sells, it gives a bicycle for free to someone in the local community who cannot afford to purchase their own. The objective of the company is to promote the use of bicycles and to reduce unnecessary waste by stopping bicycles that could be refurbished from being sent to landfill.

The company was founded by two investors in social enterprises who provided the initial capital and have equal equity stakes. The initial capital investment was spent on tools and a workshop. Profits that the company makes have been reinvested within the company to date to promote its growth and the achievement of its broader social objectives. The holders of equity claims are entitled to dividends should there be sufficient profits available to distribute. If the company is wound up, any remaining stock of bicycles and the tools and workshop are to be donated to an organisation with similar aims, and the holders of equity claims are entitled to any remaining residual net financial assets.

Broad characteristics

Primary objective of providing a benefit to the public

Whether Entity B has a primary objective of providing a benefit to the public is not clear. While it gives bicycles away for free to those who cannot afford them, and also reduces unnecessary waste being sent to landfill, it also aims to generate a profit from the commercial sale of refurbished bicycles.

In this case it will be necessary to examine the social enterprise's founding documents to determine whether its primary objective is to give bicycles for free to those that cannot afford them, or whether it seeks to maximise profits from the sale of bicycles and provide financial returns to holders of equity claims, while also achieving its social objective.

Direct surpluses for the benefit of the public

Entity B to date has directed profits to promote its growth and wider social objectives. There is nothing, however, to prevent it from providing financial returns to its holders of equity claims either now or in the future.

While it may be argued that until now some profits have been directed for the benefit of the public, profits have also been used to expand the business and increase profits. Again, it will be necessary to determine whether the sale of bicycles is the primary objective, or is simply a way of financing providing bicycles for free to those that cannot afford them.

Indicators

Entity B could potentially be described as a non-profit organisation although this would depend on whether its primary objective is to give bicycles away for free to those that cannot afford them or whether it seeks to maximise profits from the sale of bicycles while also achieving its social objective. There is also a significant question related to the right that holders of equity claims have to financial returns, even if to date they have not received them.

As it is not clear from the broad characteristics if Entity B is a non-profit organisation, an assessment using the indicators will be helpful.

Indicator	Factors
Rights to financial returns	Entity B has holders of equity claims with a right to financial returns.
A requirement to transfer of residual net assets upon dissolution	If it is dissolved, the founding document of Entity B requires that any remaining stock of bicycles and the tools and workshop are donated to an organisation with similar aims, but the holders of equity claims are entitled to any residual net financial assets.
Voluntary funding	While Entity B receives some voluntary funding through the donation of bicycles, it is primarily reliant on sales for funding.
Purpose and use of assets	Entity B controls some assets including tools and equipment. These have been funded through founding capital and subsequently from sales. These assets are partly used to refurbish bicycles that will be given away for free and to refurbish bicycles that will be sold for a profit. That profit may in turn be given to holders of the equity claims with a right to financial returns.

Assessment

Considering the broad characteristics and the additional indicators, in this case it may be more appropriate for Entity B to use financial reporting standards applicable to for-profit entities.

Example 3 – Sports club

Entity C is a sports club in an urban area that organises competitions and provides coaching and training for a wide range of age groups within its local community. It was established to promote physical activity and wellbeing among a community with limited financial resources and little access to other sporting facilities.

Entity C is a membership organisation. To participate in the sports club's activities individuals must be resident in the local area and pay an annual membership fee. However, the membership fee is set at a nominal rate to ensure that it is affordable. Entity C receives the majority of its income from grants from a range of organisations including a local professional football team and a major employer in the community. Entity C also has a small clubhouse that is open to the general public where it sells food and drinks. The food and drinks are available at subsidised cost to members. Any profits or surplus from the clubhouse and other activities of Entity C are used to maintain the sporting facilities and pay for the costs associated with coaching and competitions. If Entity C were to dissolve, residual net assets are to be distributed to another entity with similar objectives in the community.

Broad characteristics

Primary objective of providing a benefit to the public

The primary objective of Entity C is to promote physical activity and wellbeing within a community with limited financial resources and little access to similar resources. Although restricted to a defined local paying membership, Entity C appears to have a primary objective of providing a benefit to the public. The value associated with the facilities and services received in exchange for the membership fee exceed the fee paid. Entity C does not seek to maximise financial returns for providers of financial resources and the private benefits that members receive from subsidised food and drink are incidental.

Direct surpluses for the benefit of the public

Entity C receives income from membership fees, grants and sales at its clubhouse. Surpluses are directed to its primary objective of providing a benefit to the public. Membership fees are nominal, and members do not pay for coaching or use of the sports facilities. As noted, members do receive subsidised food and drinks at the clubhouse which could potentially be seen as a private benefit to providers of resources to the entity. However, this is a relatively minor activity and an incidental benefit.

Indicators

While the Entity C could be described as a non-profit organisation from review of the broad characteristics, its restricted membership means that it might be useful to support this assessment with an examination of indicators.

Indicator	Factors
Rights to financial returns	Entity C has no holders of equity claims but does have members. These members do not have a right to ongoing financial returns. They currently have the incidental benefit of subsidised food and drinks, but this is not a right.
A requirement to transfer of residual net assets upon dissolution	If Entity C is dissolved, the residual net assets are required to be transferred to another entity in the community with a similar purpose.
Voluntary funding	Although it generates some income from membership fees and food and drinks sales at its clubhouse, the majority of Entity C's income is from voluntary funding (primarily grants).
Purpose and use of assets	Entity C controls assets such as sports facilities and equipment and its clubhouse. These are used to promote the physical activity and wellbeing of members to the benefit of the community.

Assessment

Examination of the broad characteristics and indicators highlights that, although benefits are restricted to members, it is reasonable to describe Entity C as an NPO. Membership is focussed on a community with limited financial resources and little access to similar resources and membership fees are nominal. The NPO provides a societal benefit arising through increased health and wellbeing. Any private financial benefits received by members from subsidised food and drink are incidental. In the event of dissolution, residual net assets are required to be transferred to another entity in the community with a similar purpose and not to members or other providers of financial resources.

Example 4 – Government sponsored animal shelters

Entity D is a network of animal shelters, where pets that have been abandoned are looked after until they can be rehomed. It does not charge fees for rehoming animals. While it receives some funding from private donations and endowments, the majority of its income is from a government grant that under the terms of its constitution it is required to accept. Any surplus is reinvested in the entity to fulfil its animal welfare objectives. As part of the conditions of the government grant, the government is permitted to have a director on the governing board of Entity D. This director has a veto over certain defined matters, including changes to the rules that govern the entity and the annual expenditure budget. If the entity were to dissolve, it is required to pass its net assets to another entity with similar aims.

Broad characteristics

Primary objective of providing a benefit to the public

The primary objective of Entity D is to ensure the welfare of abandoned animals by looking after them until they are rehomed. It does not receive fees for rehoming animals. This would indicate that the entity has a primary objective of providing a benefit to the public.

Direct surpluses to the benefit of the public

Entity D applies all its surpluses to its primary objective of providing a benefit to the public. They are not distributed to the provider of the initial endowment, holders of equity claims, or other providers of financial resources.

Relationship with the public sector

Entity D receives the majority of its funding from a government grant that it is required to accept. The government, through its director who sits on the governing board of Entity D, has a veto over key decisions. This effectively means that that the government can dictate how Entity D achieves its objectives through control over its key financial and operational policies. Based on these factors, Entity D may operate as a government or public sector entity rather than a private sector entity. Whether or not it is an NPO, it appears to be controlled by the government.

Indicators

Although Entity D meets both broad characteristics, the ability to direct the relevant activities means that it is subject to control by government and it could be described as a government or public sector entity rather than as a non-profit organisation. This is supported by examining the indicators.

Indicators	Factors
Rights to financial returns	Entity D has no holders of equity claims.
A requirement to transfer of residual net assets upon dissolution	If Entity D is dissolved, the residual net assets are required to be transferred to another entity with a similar purpose.
Voluntary funding	Although it generates some income from voluntary funding, the majority of its income is from a government grant that it, under the terms of its constitution, is required to accept.
Purpose and use of assets	Entity D's control of the assets relating to the animal shelter could be impacted by the key decisions of the director appointed by government.

Assessment

In this circumstance, whether Entity D can be described as an NPO for the purposes of applying INPAS will depend on the financial reporting requirements required for entities that are controlled by government in the jurisdiction. If the jurisdiction requires that all government-controlled entities apply relevant public sector financial reporting standards, then Entity D should use these to meet the needs of users. If not, then the use of INPAS may be appropriate.

Example 5 – A cooperative of small agro-extractivist producers

Entity E is an agricultural cooperative established by 136 small-scale farmers in a rural community. The cooperative arose from the community's need to support economic development in areas of low economic activity and low-income families. Its main activities include purchasing agricultural products from its members, such as coconuts, rice, beans, and corn. While rice, beans, and corn are traded in local markets, the cooperative's primary economic activity is extracting oil from the coconuts, which is then sold domestically and internationally.

The cooperative owns farmland where members collectively cultivate crops using agro-ecological methods. Entity E runs a "cantina," where both members and non-members can sell their coconuts and purchase goods at discounted prices. Members enjoy more favourable conditions, including a 20% discount on goods and year-end rebates.

Entity E's marketing strategy emphasises the organic nature of the coconut oil and the cooperative's positive social impact on local communities. This enables the cooperative to sell its products at a premium, generating increased revenue that is distributed among its members.

Entity E received voluntary funding to improve and expand its coconut oil production.

If Entity E were to dissolve, its residual net assets would be transferred to another entity in the community with similar objectives.

Broad characteristics

Primary objective of providing a benefit to the public

Entity E was founded to improve the economic situation of small-scale farmers and address social issues within the community, such as poverty and gender conflicts. These objectives align with the first broad characteristic, which requires the entity's primary purpose to focus on providing public benefit rather than generating profit for private individuals. While members of the co-operative receive discounts and rebates, these do not divert resources from its broader mission. Any benefits to members are incidental to the co-operative's main purpose of addressing societal challenges.

Direct surpluses to the benefit of the public

The cooperative distributes surpluses from increased revenue to its members, who previously received much lower prices from larger landlords. This helps alleviate poverty in the community, improving the economic well-being of low-income families and fostering overall economic growth and sustainability. This practice aligns with the NPO characteristic of directing surpluses for public benefit rather than private financial gain.

Indicators

Entity E meets most aspects of the broad characteristics associated with an NPO. Its primary purpose is to benefit the local community and, while members receive certain advantages, the cooperative's activities seem to be aimed towards public benefit. As this judgement maybe finely balanced, examining the indicators will be useful.

Indicator	Factors
Rights to financial returns	While members receive rebates and discounted goods, they do not hold rights to financial returns from surpluses akin to shareholders in a for-profit organisation. The benefits given align with the entity's purpose.
A requirement to transfer of residual net assets upon dissolution	Upon dissolution, Entity E's assets would be transferred to a similarly purposed entity in the community, indicating that the cooperative's resources would continue to serve the public benefit.
Voluntary funding	Entity E received voluntary funding to improve and expand its oil production capacity. This expansion led to increased revenue, which is distributed among the cooperative's members. The higher earnings enhance members' access to essential services such as healthcare and education, thereby improving their quality of life and contributing to broader community development.
Purpose and use of assets	The cooperative holds and uses assets, such as farmland and oil production facilities, to provide sustainable farming solutions and economic support for its members and the broader community.

Assessment

Based on the assessment of the broad characteristics and indicators, Entity E could be a non-profit organisation. Its primary focus on community benefit, the absence of financial return rights for members akin to shareholders, the requirement to transfer assets to a similar entity upon dissolution, and its use of voluntary funding and assets, all support its classification as an NPO. However, the final determination of whether Entity E is described as an NPO under INPAS will depend on the financial reporting requirements determined by the individual jurisdiction for cooperatives.

IA2 – Concepts and pervasive principles

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

Users of general purpose financial reports

Are donors and other funders primary users of financial statements?

IA2.1 Paragraph A2.8 confirms that donors (and other funders) are acting as primary users when they do not have rights to demand information tailored to meet their particular information needs. However, donors' (and other funders') needs are complex because in some instances they may only have access to generally available information and in other instances they may be able to require information to be tailored to meet their particular needs (special purpose financial reports). When donors (and other funders) are not requesting special purpose financial reports they are primary users.

IA2.2 Any special purpose financial reports are outside the scope of INPAS. However, INPAS Practice Guide 1 – *Harmonised grant reporting* offers a standard format for an optional supplementary statement that can meet the financial accountability needs of grantors.

What information might be needed by resource providers and the public that benefit from the services and goods provided by an NPO or on the activities that it carries out?

IA2.3 Resource providers and the public that benefit from the services and goods provided by the NPO, or on the activities that they carry out, need the financial and non-financial information in an NPO's general purpose financial report. This is to support accountability and decision making in the following areas:

(a) The financial activity of the NPO during the period. This will include information on how an NPO meets its missional purposes (including financial and service objectives). It will include information to assess whether the NPO has used resources in a way which maximises economy, efficiency and effectiveness in the delivery of its activities. For example, information in the Statement of Income and Expenses and the Statement of Changes in Net Assets will inform assessments of how an NPO has met its financial objectives and whether it has acquired its resources economically. The narrative report will also provide information on financial performance.
(b) The sustainability of the NPO's activities over the long term and the demonstration of the achievement of its objectives. An NPO will need to provide users with information on its levels of funds and reserves. It will need to be able to demonstrate that it will be able to access long term funding sources and that these resources can meet current and future costs related to future activity.
(c) Liquidity (that is, resources available to meet current obligations) and solvency (that is, resources available to meet future obligations). The Statement of Cash Flows and associated notes will contain the relevant information.
(d) The ability of the NPO to comply with the specifications set by government regulatory or other similar bodies that the NPO must satisfy in providing services and raising resources. The narrative report will be able to provide information to support this.

Qualitative characteristics of information in general purpose financial reports

Fundamental qualitative characteristics

How might an NPO make decisions about materiality in the general purpose financial reports?

IA2.4 An NPO needs to assess the needs of its primary users. This assessment guides how the NPO reports financial information and what information is important. It is therefore fundamental when considering materiality.

IA2.5 When making materiality judgements, an NPO needs to consider the impact that the information could reasonably be expected to have on existing and potential primary users of its general purpose financial reports. Those primary users are:

(a) resource providers;
(b) the public that benefit from the services and goods provided by the NPO; and
(c) those acting as representatives of the interests of resource providers and the public that benefit from the services and goods provided by the NPO.

These are users who cannot require an NPO to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. In addition to those primary users, other parties, such as the NPO's management, regulators and other members of the public, (that is, those that do not benefit from the services and goods provided by the NPO) may be interested in financial information about the NPO and may find the financial statements useful. However, the financial statements are not primarily directed at these other parties.

IA2.6 When assessing whether information is material to the financial statements and narrative report, an NPO applies judgement to decide whether the information could reasonably be expected to influence decisions that primary users make based on those financial statements. When applying such judgements, the NPO considers both its specific circumstances and what the information provided in the financial statements contributes to the decision-making needs of primary users.

IA2.7 The application of materiality is vital to support accountability and decision making. The definition of materiality at paragraph A2.23 focuses on information being material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make based on those reports.

IA2.8 INPAS requirements only need to be met if their effect is material to the complete set of financial statements (including prior period information) and the narrative report. Judgements made on materiality are pervasive to general purpose financial reports. This means that all decisions (judgements) on information to be included in NPO general purpose financial reports, including recognition, measurement, presentation and disclosure, will be subject to materiality considerations. This includes what information can be aggregated or shown separately.

IA2.9 The information needs of primary users are discussed in paragraph IA2.3 above. When making materiality judgements, an NPO needs to ensure that the needs of both existing and potential users are met. For example, where an NPO provides medical services using both donated and non-donated assets (including hospitals and outreach centres to be able to serve the various local communities) it needs to consider the common information needs of its primary users. In this scenario the NPO considers that the current users of the financial statements are the funders providing the donated assets. However, to decide what might be material information and to make the relevant materiality judgements the NPO must consider not only the current users of the financial statements, but also potential users. These potential users include:

(a) donors or funders that might contribute resources in the future;
(b) service users or other members of the community that rely on the medical services provided by the NPO; and
(c) individual members of a local government body that act on behalf those in receipt of the medical services.

IA2.10 An NPO is only required to apply INPAS recognition and measurement requirements when the effect of applying them is material. An NPO might conclude that an item of information is material for various reasons. Those reasons include the item's nature (qualitative), size (quantitative), or a combination of both, judged in relation to its circumstances. The NPO's assessment is therefore both quantitative and qualitative.

IA2.11 For example, E2 *Property, plant and equipment* requires that an NPO recognise an item of property, plant and equipment when it meets the criteria in paragraph E2.4. An NPO has assessed that its accounting policy to not capitalise some low value expenses on property, plant and equipment will not have a material effect on the current financial statements or on future financial statements. This is because information reflecting capitalised amounts and their depreciation that are below this low value threshold could not reasonably be expected to influence decisions made by the primary users of the NPO's financial statements. The NPO therefore decides to establish an accounting policy of only capitalising items of property, plant and equipment above a certain threshold.

IA2.12 Materiality can also affect how information is presented and disclosed. For example, an NPO might carry its property, plant and equipment at historical cost in the Statement of Financial Position. However, it may have a single investment property that it cannot reliably measure at fair value, and which is therefore measured at historical cost less accumulated depreciation and impairment. Paragraph B2.2 requires investment properties held at historical cost less accumulated depreciation to be presented as a separate line item in the statement of financial position.

IA2.13 However, if the NPO determines that the carrying value of the single investment property is not material it might decide to present it in the property, plant and equipment line item. The NPO may also take the decision to report the item as a separate column in the reconciliation of the property, plant and equipment note showing separately aggregations of items of property, plant and equipment and the investment property.

IA2.14 The examples of the application of materiality in IA2.11–IA2.13 above is based on an assessment of quantitative materiality and assumes that there are no relevant qualitative factors.

What factors should an NPO consider to assess materiality?

IA2.15 Paragraph B1.19 requires that an NPO assess whether information, either individually or in combination with other information, is material in the context of its financial statements when these are taken as a whole. This means that while information is not judged to be material on its own, it might be material when considered in combination with other information in the complete set of financial statements.

IA2.16 An NPO will normally assess whether financial information is quantitatively material by considering the size of the impact of the transaction, other event or condition. This is considered against measures of its financial position (for example, net assets), financial performance (for example, income, expenses and/or surplus or deficit) and cash flows.

IA2.17 The assessment includes not only the size of the impact of a transaction that it recognises in its primary financial statements but also takes account of any unrecognised items that could ultimately affect primary users' overall perception of the NPO's financial position, financial performance and cash flows (for example, contingent liabilities or contingent assets). The NPO needs to determine if the impact is of such a size that information about the transaction, other event or condition could reasonably be expected to influence its primary users' decisions about the NPO including the provision of resources to it. So, this might, for example, be decisions about when to recognise an item of income or expense in the financial statements (timing) or whether an item is so material that it should be presented on the face of the Statement of Income and Expenses or otherwise included in the relevant disclosures.

IA2.18 Identifying what measures to use for the quantitative assessment is a matter of judgement. Measures may be a specified amount (threshold amount), a rate (percentage) relative to amounts in the primary financial statements or some other level and these are often used as a tool in making materiality judgements. The measure selected will need to be appropriate for the transaction, event or condition.

IA2.19 An assessment about materiality is often made with reference to the overall level of income. However, as income can fluctuate between years, it may be more appropriate to use expenses as a reference point. Judgements about materiality depend on which measures are of significant interest to the primary users of the NPO's financial statements. Other example measures might be:

(a) overall revenues for grants and donations;
(b) total expenses;
(c) the NPO's financial surplus or deficit;
(d) total funds in net assets;
(e) total non-current assets;
(f) financial position or financial performance ratios; and
(g) cash flow measures.

IA2.20 Materiality assessments also require analysis of NPO-specific and external qualitative factors. Qualitative factors related to an NPO's transactions, other events or conditions include, but are not limited to:

(a) local and national interest, including political or community interest, in a transaction, event or condition;
(b) receipt of a donation from an individual or organisation with conflicting objectives to those of the NPO;
(c) related party involvement in an NPO;
(d) uncommon or non-standard features in an NPO's operations;
(e) unexpected variations or unexpected changes in trends.

IA2.21 An NPO could identify an item of information as material based on one or more materiality factors. Generally, the more factors that apply to an item, or the more significant those factors are, the more likely it is that the item is material. These factors may need to be considered individually or as a combination of factors.

IA2.22 External qualitative factors relate to the context in which an NPO operates. This might be related to transactions, events or conditions that if present are more likely to influence primary users' decisions. They might include but are not limited to the economic or regulatory environment, an NPO's location, the sector an NPO operates in, regulatory issues or the particular concern that many NPOs and their primary users have for environmental issues.

IA2.23 The presence of qualitative factors generally lowers the thresholds for the quantitative assessment. The more significant the qualitative factors, the lower those quantitative thresholds will be.

How might materiality judgements affect presentation of information in general purpose financial reports?

IA2.24 An NPO will need to use materiality judgements to present information in the financial statements in a clear and understandable way; this might be to:

(a) aggregate or disaggregate information;
(b) emphasise material matters or items of information;
(c) describe transactions as simply as possible without omitting material information or adding to the length of the general purpose financial report;
(d) provide information in a way that maximises, to the extent possible, comparability among NPOs and across reporting periods;
(e) highlight relationships with different pieces of information across the general purpose financial report;
(f) present information appropriately for primary users, for example, in a narrative or tabular format; or
(g) avoid or minimise duplication in different parts of the general purpose financial report.

IA2.25 An NPO will need to consider the overall perspective of its financial position, financial performance and cash flows, along with its non-financial information. It also needs to consider the relationships between different items of information and aggregations of information which might lead to an item being assessed as material. An NPO must also consider whether the NPO's financial position, financial performance and cash flows, along with its non-financial information, are presented in a fair and understandable way to avoid obscuring material information.

How will materiality interact with regulatory requirements?

IA2.26 For an NPO to confirm compliance with INPAS it must comply with the requirements of its sections including those related to materiality. An NPO cannot provide less information than required by INPAS and confirm compliance even if local laws and regulations permit otherwise. Conversely, local laws and regulations or specific legal agreements (for example, grant agreements) may require information to be provided, even if this does not meet an NPO's quantitative or qualitative measures of materiality. This might, for example, include information to be reported on remuneration. In such cases, providing information in accordance with the regulatory requirements is permitted by INPAS though the NPO should avoid obscuring material information in the financial statements.

Undue cost and effort

How does an NPO determine when it can or should use the undue cost or effort exemption?

IA2.27 An undue cost or effort exemption is available to a reporting NPO for certain requirements in INPAS. As explained in A2.39–A2.40 this will depend on:

(a) the NPO's specific circumstances;
(b) management's judgement on the costs and benefits from applying that requirement; and
(c) the information available at the time of the assessment.

IA2.28 It is important that an NPO does not treat the undue cost or effort exemptions as accounting policy choices. They are not. An accounting policy choice is appropriate when INPAS explicitly includes options for the accounting treatment for an item or transaction, such as a cost measurement basis for the valuation of certain assets. An undue cost or effort exemption would be relevant specifically for those situations where management has selected the fair value measurement basis for the valuation of a class of assets, but is unable to determine a fair value without undue cost or effort for certain items and hence uses the exemption and uses cost as a measurement basis.

What factors might lead to undue costs or undue effort?

IA2.29 An NPO's specific circumstances will vary and this will be a driver of the cost and level of effort required. It is not possible to reflect all situations, but factors may include:

(a) the relative costs of producing the information in relation to the benefit to users – the cost of producing the information would be expected to be material (in order to be undue) to the NPO's income and expenses;
(b) the practicalities in obtaining the information needed;
(c) the expectation of, if the information relates to the first occurrence of the type of transaction, whether the initial cost from its recognition and measurement, although initially significant, will be lower on an ongoing basis;
(d) consideration of the asset's or liability's significance in relation to the NPO's operations when applying the undue cost or effort provisions; and
(e) consideration of the asset's or liability's significance in relation to an NPO's assets when measured in accordance with the exemption.

IA2.30 In determining the NPO's specific circumstances, an NPO should consider these factors, alongside other relevant context, individually and collectively. As an example, there may be no suitably qualified valuers in the jurisdiction in which an NPO operates an asset that requires measurement. A valuer would need to physically inspect the asset to provide a valuation, and therefore a valuer from another jurisdiction would be needed. This may result in an 'undue cost or effort', because of a language barrier or the cost of travel and/or subsistence. An NPO also might need to consider the specific circumstances of the absence of a valuation professional in the context of the other factors. It may or may not in itself be sufficient to support an exemption.

How should an NPO measure the impact of the benefits to users in the context of undue cost or effort?

IA2.31 Management's judgement on the impact on the benefits that users would gain from applying that requirement requires consideration of:

(a) how the economic resource allocation and other decisions of those that are expected to use the financial reports could be affected by not having that information; and
(b) whether there is undue cost or effort involved in the incremental cost or additional effort that would substantially exceed the benefits to users of the financial reports.

IA2.32 These judgements are concerned with the users of the financial information. An NPO needs to consider the benefits that users of general purpose financial reports might have had if the information had been available and therefore the impact of it not being available. Management will need to consider and be able to explain factors such as:

(a) the reliance that users might have placed on the affected information;

(b) the extent to which this information is routinely provided by other NPOs in the locality or in the NPO's field of activity;
(c) the importance of the information to the financial objectives of the NPO; and
(d) the impact of the loss of the information to the understanding of the NPO's financial resilience.

What obligations does management have in exercising judgement for the undue cost or effort exemption?

IA2.33 Management must not use the undue cost or effort exemptions to avoid providing information that an NPO would prefer not to disclose. The exercise of judgement is fundamental to decisions made. As required in A2.41, management must be able to explain its rationale for exercising the exemption through disclosures in the notes to the accounts. The explanation should identify:

(a) the key factors that have led to management's decision;
(b) the weight applied to each of these factors;
(c) how the balance of the factors had led to the conclusion; and
(d) both the impact on costs and effort as well as the impact on the loss of information.

IA2.34 An NPO will need to reassess its decisions on the use of undue cost or effort exemptions if the latest information at the reporting date changes. This may result in the NPO no longer needing to rely on the exemption or may change the reasons for its use, which an NPO should report. As is noted in paragraph A2.40 if the undue cost or effort exemption applies after initial recognition to a subsequent measurement of an item, for example where the fair value of investment properties cannot be measured reliably without undue cost or effort, a new assessment of undue cost or effort should be made at that subsequent date based on information available at that date.

General purpose financial reports and the reporting NPO

The reporting NPO

What does an NPO need to consider when determining its reporting boundary?

IA2.35 Paragraphs A2.48–A2.51 set out the requirements relating to the identification of a reporting NPO, including the need to prepare general purpose financial reports as if it were one economic entity or other complete set of activities.

IA2.36 An economic entity or other complete set of activities is likely to exist where there is an identifiable and integrated set of activities and assets operated to raise or manage funds and resources for the NPO. The NPO uses these collective resources to provide services and goods for the benefit of the public.

IA2.37 There may be circumstances when it is difficult to identify the reporting NPO. This might be when:

(a) the organisational structures are complex or hard to define;
(b) the potential reporting entity might be a part of a legal entity; or
(c) the potential reporting entity may be a combination of two or more legal entities.

Complexities may also come from the existence of branches. See paragraphs IA2.42–IA2.45 for more guidance on the identification of branches.

IA2.38 When difficulties remain in identifying the reporting NPO, an NPO will also need to apply paragraph A2.53, which requires the determination of the boundary of the reporting NPO by examining the existence of users and their information needs. These users of the reporting NPO's general purpose financial reports will include:

(a) the public, to whom the NPO provides services and goods;
(b) resource providers to the NPO; and
(c) those acting in their capacity as representatives of the interests of resource providers and the public that benefit from the services and goods provided by the NPO.

IA2.39 INPAS expects users of the general purpose financial reports to be able to take economic or other decisions based on the information provided in these reports. The reports should also provide transparency over how an NPO has demonstrated accountability in relation to a range of obligations. In many cases, the range of users who are dependent on the general purpose financial reports for accountability purposes, making decisions or allocating resources will be obvious. However, to determine who the users might be and their need for financial reporting, it may be necessary to consider such factors as:

(a) whether management is acting on behalf of others providing resources;
(b) impacts of the NPO's activity on the welfare of external parties; and
(c) the financial characteristics of the NPO, including its size.

IA2.40 In considering size, an NPO should take account of all relevant information, including the level of any indebtedness, the number of transactions, the amount of financial and other resources it receives and the number of members of the public who benefit from the services and goods it provides. The larger the size of the NPO, the more likely that users will exist who use the financial or other reported information for decision-making and accountability purposes.

IA2.41 When assessing the boundary of a reporting NPO based on the existence and information needs of users, it is essential that the boundary:

(a) does not contain an arbitrary set of economic activities (or other set of activities related to its purposes);
(b) is complete (that is, if the financial information provided would be incomplete and lack neutrality, this would not meet the requirements for faithful representation of transactions); and
(c) results in information for the users of the general purpose financial reports that is neutral, in accordance with the requirements for faithful representation (that is, the information presents what it purports to represent).

What does the reporting NPO need to consider when it operates through a system of branches?

IA2.42 An NPO may operate through a system of branches, which are administrative arrangements. This is where the arrangement of the NPO's operating structure is according to function, location, or other factor to facilitate its administration. These branches may include supporters' groups, members' groups, or offices in various locations and they may operate nationally or internationally. When the branch is a part of a reporting NPO (for example, an internal subdivision of a reporting entity), the general purpose financial reports of the reporting NPO should include the activities of the branch. INPAS describes such internal subdivisions as internal branches.

IA2.43 A branch may produce a separate general purpose financial report because of legal or other regulatory requirements. However, INPAS requires that the NPO still considers its relationship, if any, with that branch or other reporting NPO entity for financial reporting purposes.

How might a reporting NPO identify internal branches?

IA2.44 An NPO may consider the following factors to assist in its decisions about whether an operational structure is an internal branch of an NPO and not a separate reporting entity. The factors include whether the operational structure:

(a) is a separate legal structure;
(b) is required to provide separate general purpose financial reports;
(c) uses the name of the reporting NPO in its title, its letterheads, on its website or as a part of its publicity;
(d) raises funds solely for the reporting NPO;
(e) presents itself to the public as a local or other form of representative of the reporting NPO; and/or
(f) receives financial and administrative support, instruction, and advice from the reporting NPO.

IA2.45 Consideration of these factors will require judgement. Displaying just one of the factors may not mean that an organisation meets the definition of a branch, but in combination with another might lead the reporting NPO to decide that it is an internal branch.

How should assets, liabilities, net assets, income and expenses of branches be recognised?

IA2.46 There might be occasions when an internal branch produces separate regulatory general purpose financial reports but may still be an internal branch. In such circumstances, the NPO must recognise all the income, expenses, assets, and liabilities in its financial statements. This is unlikely to be regularly the case but might happen where, for example, an international NPO has internal branches in separate jurisdictions and where one or more of those jurisdictions requires that the organisation (which is an internal branch of the international NPO) produce separate general purpose financial reports.

IA2.47 An NPO must record all transactions of an internal branch gross within its general purpose financial reports and not net them off against other transactions within its own separate general purpose financial report unless another section in INPAS permits such netting off. Where a reporting NPO consists of multiple branches any inter-branch transactions need to be eliminated within the financial statements of the reporting NPO.

IA2.48 Branches may hold separate bank accounts and/or produce financial statements for their own purposes. However, the general purpose financial reports of the reporting NPO must include the transactions of an internal branch or branches including its assets, liabilities, net assets, and restricted and unrestricted funds in net assets and income and expenses.

IA2.49 For example, the reporting NPO must recognise in its financial statements all funds raised by internal branches as income where they meet revenue recognition criteria in C1 *Revenue*.

How does an NPO determine whether a subscription or fee-based structure is a reporting NPO or another form of reporting structure?

IA2.50 An NPO may operate under a subscription or fee-based structure. In such circumstances the NPO may pay a subscription or a fee to a national or international NPO as a means to fund that NPO. A national or international NPO will set the parameters under which the subscribing or fee-paying NPO operates. The subscribing or fee-paying organisations that operate under such frameworks might take the form of the three structures discussed in the table below.

Table 1: Typical forms of operating structures that are subscription or fee-based

	Type of organisation	Accounting treatment
1	Part of the national or international organisation (this may or may not be operating as an internal branch)	INPAS requires that the financial and other transactions are included in the general purpose financial reports of the national or international NPO.
2	A separate legal entity or other incorporated structure which has a relationship with the national or international NPO	INPAS requires that the NPO ascertain the financial reporting relationship, if any, with that organisation in accordance with A2 *Concepts and pervasive principles* and G1 *Consolidated and separate financial statements*.
3	Separate legal entities or other incorporated structure where there is no direct relationship with the NPO	INPAS requires these organisations to produce general purpose financial reports as a separate reporting NPO (if meeting the definition of a reporting NPO). Where relevant, the NPO should follow national financial reporting requirements.

How does an NPO determine whether an organisation established as a separate legal entity to manage the financial burden or risk of the activities of the NPO, or purely for fundraising activities, is a reporting NPO or another form of structure?

IA2.51 An NPO may be established as a separate legal entity:

(a) to undertake specific activities;
(b) to manage the risk of loss; or
(c) for the sole purpose of raising funds, for example to provide financial support to a hospital.

IA2.52 The NPO that creates these separate legal entities will need to establish its financial reporting relationship, if any, with these separate legal entities (including any reporting NPOs) based on the provisions in A2 on the identification of a reporting NPO and the definition of control in G1 of INPAS.

How does an NPO determine whether an organisation using affiliated structures is a reporting NPO or another form of structure?

IA2.53 Organisations may operate as ‘affiliated’ structures. These organisations may include both individuals and/or other organisations including NPOs as members. These members may pay a fee or subscription for access to services or other membership benefits. When these relationships are more akin to a customer–supplier relationship, the NPO has not established a financial reporting relationship with its members.

When might an NPO need to consider service potential?

IA2.54 Assets held by an NPO that embodies service potential may be held, for example, for community purposes, or for medical or recreational purposes and be used to provide or support services for the public that use them. Such services may be for collective or individual consumption and payment for those services might be at cost or for a nominal charge. Services may be provided in areas or activities in which market competition is limited or non-existent or alternatively may be provided on an economic basis or not. In such circumstances, an NPO may need to consider the service potential of an asset, rather than its ability to generate a financial return through cash generation.

Examples A2 – Concepts and pervasive principles

The following illustrations assume that the relevant transactions are material.

Example 1 – Separate legal entities with a relationship with an NPO

Background

NPO A promotes dramatic arts throughout a jurisdiction. A subdivision operates one of the activities, the "For Everyone Theatre", which develops theatrical plays that promote diversity. The "For Everyone Theatre" has a separate bank account to manage the income from the theatre sales.

NPO A establishes six NPO entities which tour the plays developed by "For Everyone Theatre" across six of the regions of the nation. It establishes the governing bodies for each of the entities, where it appoints the majority of the membership of each board. There is a standard constitution to operate within a set of parameters. Each of these entities pays 50% of its ticket sales to NPO A when they reach a certain agreed level. NPO A uses this fee to develop the plays for the following year's programme of the "For Everyone Theatre". Other NPO theatre groups can also pay a fee for the plays and may use the national logo for the plays, though they must agree to perform the plays as written.

Analysis

NPO A includes the "For Everyone Theatre" transactions, including the financial assets in the bank account, in its financial statements.

The six NPO theatre entities are separate legal entities and NPO A needs to establish the financial reporting relationship with those companies. As NPO A establishes the constitution, appoints the majority of the voting members of the governing body and benefits from the relevant activities (both receipt of the fees and the promotion of the relevant activities established under the constitution), NPO A controls the six NPO theatre entities.

Other NPO theatre groups that were not set up by NPO A are separate entities (or parts of separate entities). Entity A has no power in relation to their governing bodies or the operation of these theatre groups. There is no direct financial reporting relationship with Entity A. These theatre groups will produce their own financial statements under the provisions of INPAS or other GAAP under which they might operate.

Example 2 – Entity established by an NPO

Background

NPO B, a hospital, decided to have a more focused approach to fundraising. It therefore set up a separate NPO Entity (NPO C) solely to raise funds for the hospital. This allows NPO C to focus on attracting legacies from individuals in the locality and investing the resources to maximise returns (provided this was effectively risk managed and in accordance with the charitable purposes of NPO C).

NPO B establishes NPO C using the name of the hospital and establishes its purposes such that fundraising is solely for use by the hospital. NPO C pays a regular dividend to the hospital to fund services.

Analysis

Based on the facts and circumstances outlined above and because NPO B:

- has established the charitable purposes of NPO C;
- determines the use of those resources, and
- has created a mechanism where it has power over the relevant activities of NPO C to benefit from these relevant activities.

NPO B controls NPO C.

NPO B would include NPO C in its consolidated financial statements as a controlled entity.

Example 3 – Affiliated organisations

Background

NPO D, a tennis association, improves the fitness of a nation through the medium of tennis. There are twenty separate legal entities; tennis clubs that pay a subscription to the association and receive non-mandatory advice and guidance on how to run a tennis club to improve the fitness in a local area and on issues such as inclusivity and outreach. Individuals not able to sign up to a club can become members of the association for a small fee. NPO D provides regular videos to improve their skills and the individuals can update a chart when they have mastered a particular skill.

Analysis

The twenty separate legal entities have customer–supplier relationships with the umbrella organisation, NPO D.

While they receive advice and guidance from NPO D, NPO D does not require them to follow that advice and guidance. NPO D does not have power over the relevant activities or funds of these separate legal entities.

NPO D may be a reporting NPO, as a separate legal entity. The twenty tennis clubs are also separate legal entities. However, as their relationship with NPO D only concerns the provision of services, and NPO D does not have power to control their activities or funds, they will produce their own financial statements. NPO D will not consolidate them into its financial statements.

Example 4 – Internal branches

Background

NPO E supports educational needs across a nation. It has six internal branches, which are all separate unincorporated organisations. NPO E establishes the following organisations:

- organisation A raises funds for NPO E across the nation;
- organisations B, C and D distribute resources effectively across communities, identifying where need for services is greatest. They have all established separate bank accounts and produce informal quarterly financial accounts. Organisation D is always late with its monthly returns and disputes the need to produce them. Its bank account was set up in the name of the chief finance officer;
- organisation E to raise awareness of specific educational needs, and

- organisation F provides administrative support for the effective operation of organisations A to E and to provide advice and guidance on operational and financial issues.

NPO E established all six organisations to follow its constitution. They use the same website, letter heads and the title of NPO E.

Analysis

Despite the separate bank accounts, all six organisations are internal branches to the national NPO E. This is because the organisations meet four of the factors that might indicate they are branches, that is, they:

- are not separately incorporated;
- do not have autonomous governing bodies;
- follow the financial reporting and other operational requirements of the main NPO; and
- use the same website and letterheads of the national NPO.

NPO E should recognise the funds raised by Organisation A as its income. Even though Organisation D challenges the structure and has established the bank account in the name of its chief finance officer, the funds are used to benefit the recipients of the educational services of NPO E. NPO E therefore recognises the transactions of organisation D in its financial statements as a reporting NPO.

IA3 – Narrative reporting

Principles

What is meant by sensitive information?

IA3.1 Sensitive information will arise when the mandatory reporting requirements of A3 *Narrative reporting* would compromise commercial (for example, legal and contractual), operational or personal (for example, due to data protection) confidence. Disclosures should not prejudice the ability of the NPO to fulfil its mission. This includes putting at risk the safety or wellbeing of individuals working/volunteering for the NPO, or those to whom it provides services and goods.

IA3.2 An NPO should present the narrative reporting information required by A3 related to those operations and activities that does not result in the reporting of sensitive information. An NPO will need, where possible, to aggregate information to avoid the potential risks associated with the disclosure of any sensitive information.

IA3.3 An NPO should not provide any information that would have the effect of highlighting the nature or substance of operationally sensitive information. It is not possible to provide an exhaustive list of types of operationally sensitive information or circumstances which could prejudice the ability of an NPO to fulfil its mission. The following examples are therefore provided to be illustrative of the possible consequences of disclosing information that would qualify as sensitive:

(a) risk of personal harm, either physical or otherwise, to employees or members of their close family;
(b) risk of persecution, harassment, social exclusion or displacement of service beneficiaries;
(c) disruption to services, for example, by risk of damage to buildings, other assets or equipment or logistical difficulties in delivering services to service recipients; and
(d) release of personal information about service recipients or beneficiaries, for example, patient details.

IA3.4 The guidance in paragraphs IA3.1 to IA3.3 should not be used by an NPO as a way of hiding poor performance or financial problems that may have arisen with aspects of its operations.

IA3.5 When sensitive information as described in paragraph IA3.1 has not been reported, an NPO should consider whether any disclosures can be made in the narrative report about the information excluded. For example, an NPO providing healthcare support may decide not to report certain information related to the services it provides to patients to avoid reporting personal or confidential information. The NPO’s narrative report may include commentary to explain that personal and confidential information has been excluded and to indicate what information it has therefore been able to provide.

IA3.6 An NPO will remain in compliance with the requirements of INPAS in circumstances where sensitive information as described in paragraphs A3.6 and IA3.1 to IA3.3 has been excluded from the narrative report. Nothing in the Implementation Guidance on sensitive information will prevent an NPO from complying with its legal responsibilities or any of the professional or fiduciary responsibilities of any of its officers.

What is meant by balanced narrative reporting information?

IA3.7 Paragraph A3.8 requires that the narrative reporting information presented by an NPO is balanced. Narrative reporting must not be biased towards a particular portrayal of its circumstances, for example, used as a selling pitch or to provide a subjective view of performance or the financial statements that does not reflect reality. An NPO must provide an objective view of what has gone well and what has not gone well during the reporting period and the implications that this has for the future.

IA3.8 In making a judgement of whether the narrative report is balanced, an NPO should consider issues such as:

(a) does the narrative overstate what has been achieved?
(b) is there too much focus on successes to the exclusion of activities that were less successful?
(c) is reporting deliberately selective with items omitted in order to portray a particular view of the NPO's activities or financial position?
(d) does the narrative report put the information presented into its full context?

How should the qualitative characteristics be applied?

IA3.9 Faithful representation requires the NPO to provide information that is complete, neutral and free from error. Narrative reporting information should be reviewed by the NPO to ensure that it is not partial, wholly subjective and/or materially incorrect, taking into consideration the overall requirement to ensure balanced reporting.

IA3.10 An NPO should only provide information that is relevant, that is information that is capable of making a difference to the decisions made by users. What is relevant will be NPO-specific and may be based on the magnitude or nature of the information provided. Including only relevant information will enable an NPO to produce a concise narrative report that is focused on the needs of users.

IA3.11 An NPO should aim to provide users with assurance that the information provided is a faithful representation. The information provided by the NPO should also be verifiable. This may involve providing evidence of a formal assurance process to which the information has been subjected or describing how the NPO satisfies itself that the information is a faithful representation.

IA3.12 Timeliness requires that information is available to users in time to be capable of influencing their decisions. Generally, an NPO should aim to provide the most up-to-date information that it can although this does not mean that older information is not of use to users, as it may be useful for identifying and assessing trends.

IA3.13 An NPO should also ensure that users are able to identify and understand similarities and differences among the information that is provided in the narrative report. Although the NPO may utilise different performance measures, comparability means that users should be able to make meaningful comparisons between the information that is presented.

IA3.14 There is no set format for presenting narrative reporting information. The nature of the NPO and its activities will influence what is most understandable to users. As narrative reporting information will be both numerical and descriptive in nature, an NPO has the option of using a variety of different formats which may include charts, graphs, tables, narrative text and infographics.

IA3.15 In general, an NPO should ensure that information is presented in a manner that is:

(a) easy to read;
(b) visually appealing;
(c) focused and/or concise, concentrating on the key information;
(d) consistent with other information presented in the general purpose financial report; and
(e) cross-referenced to relevant external information.

Information to be included in the narrative report

How should information reported in the narrative report be balanced?

IA3.16 An NPO will need to balance the information requirements of A3 to produce the narrative report. The disclosure objectives of each of the categories of the mandatory requirements are summarised in Figure IA3.1. The disclosure objectives are intended to meet the needs of the primary users of the general purpose financial report. Information to meet one requirement might help meet the reporting needs of another. For example, information on the amounts of unrestricted funds or funds which are not designated for specific purposes will illustrate the financial position and net assets of the NPO and its financial resilience. This may represent a principal risk or uncertainty for the NPO that affects the achievement of performance objectives.

Figure IA3.1: Summary of the objectives of the narrative report mandatory categories

The narrative report must provide information to resource providers and to the public that depend on the goods and services provided by NPOs that enable them to understand:

An overview of an NPO	Performance reporting	Financial objectives and strategies	Analysis of the financial statements	Principal risks and uncertainties
The context of the NPO, including its legal form, structure, governance arrangements, purpose, mission, vision and main activities.	What the performance objectives of the NPO are and what it intended to achieve during the reporting period. What it has done in working towards those performance objectives and what it has achieved during the reporting period.	Financial objectives and strategies relating to its financial position, income and expenses, net assets and cash flows. How these financial objectives and strategies support the achievement of the NPO's performance objectives.	Significant changes and trends in the NPO's financial position, income and expenses, net assets and cash flows.	The principal risks and uncertainties that affect the achievement of the NPO's performance objectives and its financial position, income and expenses, net assets and cash flows.

What information is relevant to providing an overview of the NPO?

IA3.17 An overview of the NPO provides users with an understanding of the purpose of the NPO, how it is governed, its activities and how its relationships with other entities and the environment in which it operates affect its performance and financial statements.

IA3.18 To provide users with this contextual information, an NPO must address the three questions in paragraph A3.13.

Who are we? – the narrative report must consider:

(a) the legal form of the NPO – is the NPO a company, a trust, a co-operative membership organisation, and/or registered with a regulator (for example, charity)? Is it registered in more than one jurisdiction?
(b) the operational structure of the NPO – is the NPO part of a group, does it control other entities, is it part of a consortium, does it have a large number of staff, and/or does it operate in more than one jurisdiction?
(c) the governance arrangements of the NPO – is there an executive board, non-executive oversight, trustees?

What do we exist for? – the narrative report must consider:

(a) the purpose of the NPO – what is the mission and vision of the NPO, what are its values?
(b) the key objectives of the NPO – what are the key things that the NPO is looking to do?
(c) who are the beneficiaries of the NPO?
(d) the outcomes and impact the NPO is seeking to achieve – what changes is the NPO looking to make?

What do we do? – the narrative report must consider:

(a) the environment in which the NPO operates – what jurisdiction(s) or communities does it operate in, what is the legal, economic and political situation in which it operates?
(b) the main activities of the NPO – does it deliver services and goods itself directly to the public, does it make grants to individuals or organisations, does it lobby governments or organisations on behalf of others?
(c) what services and goods does the NPO provide – what are the specific services and goods that it delivers?
(d) how the NPO works with other entities – is it reliant on donors to provide funding, does it deliver services to the public along with another organisation?

IA3.19 The information needed to provide this overview should be readily available to most NPOs from documents like the founding constitution, grant proposals and reports to service users and goods recipients.

IA3.20 Paragraph A3.13 specifies that the narrative report must provide a description of the legal form of the NPO, how it is structured and what governance arrangements apply to it. This might include:

(a) information on how decisions are taken by the NPO, including the structure of the arrangements to facilitate this, for example, governing body arrangements, committees and/or management structures;
(b) key responsibilities for those structures, senior officers or personnel;
(c) how performance is measured, managed and monitored; and
(d) how compliance with regulatory requirements is ensured.

This information should provide an overview of the governance arrangements so that the users of the general purpose financial report understand the arrangements to ensure accountability and enable effective decision-making.

Performance reporting

How should performance measures and descriptions be selected?

IA3.21 Reporting should be focused on the objectives that management has set to monitor the activities or performance of the NPO. Performance objectives should not be created purely for the purpose of the narrative report.

IA3.22 The performance measures and descriptions that an NPO selects will depend on its performance objectives, the nature of its activities and whether it should focus on inputs, outputs, outcomes and/or impact.

IA3.23 An NPO may use a mix of input, output and outcome measures depending on its activities. An NPO will need to take these into account when it selects measures and descriptions for performance reporting. Some measures may already be used in reporting to donors, reporting to management, or those providing oversight of the NPO, and those to whom the NPO is providing services and goods, as well as other stakeholders.

Inputs – this will be relevant where performance is best measured by the quantity of resources used to deliver an NPO's mission, for example, the number of employees, volunteers, or amount of donations.

Outputs – this will be relevant where performance is best measured by what an NPO produces in terms of good or services delivered, for example, the number of free meals provided, trees planted or vaccinations given.

Outcomes – this will be relevant where performance is best measured by the impact that an NPO is having on its intended beneficiaries, for example, longevity, air quality or literacy.

IA3.24 Performance information required by paragraphs A3.14–A3.16 gives an NPO the opportunity to provide users with an understanding of why the NPO exists, what it intends to achieve in the near and longer term, and how intends to accomplish this, including what it has done in the reporting period to achieve its objectives. Performance information is best supported by performance measures and descriptions (see paragraph IA3.23).

IA3.25 Performance objectives should be linked to the discussion of the missional objectives or purposes of the NPO included within the overview. They will be derived from these purposes and should indicate what the NPO intends to achieve in both the near and the longer term and how it will accomplish this.

IA3.26 Many NPOs will already provide performance information outside of their general purpose financial report to groups such as donors. While an NPO may be able to draw on the information that is contained in such reports, it should ensure that the information presented is not too detailed and that it complies with the high-level reporting principles.

IA3.27 Reporting performance information on the services or activities of an NPO might usefully include actual to budget comparisons, particularly where users take decisions on resource allocation. It might also include information on efficiency, including performance ratios and/ or an examination of direct and indirect costs, if these are relevant performance measures for the NPO.

IA3.28 Reports on performance may include the following information about funds:

(a) an overview;
(b) their significance to the delivery of performance objectives and the activities of the NPO;

(c) the nature of any material restrictions on the funds and the effects of those restrictions on the activities of the NPO;

(d) the changes in resources within those funds during the reporting period, including restricted funds, and the major movements in the year;

(e) the policy for holding unrestricted funds, which can be used to describe the NPO's financial sustainability.

This information should reflect how funds held by the NPO impact performance, its activities and its financial position. It should not merely replicate the disclosures included in the financial statements.

IA3.29 As set out in IA3.28(e), an NPO may provide information about target levels of unrestricted funds, or unrestricted net current assets, as a measure of financial health. This could be expressed, for example, as a proportion of total funds, or a percentage of annual expenses.

IA3.30 Reporting performance may cover more than one reporting period. Care should be taken to ensure that any performance measures that cover more than one reporting period are faithfully representative and consistently report the performance for each period and, when necessary, provide an overview of the service performance over a number of reporting periods.

IA3.31 Performance information may also consider the anticipated broader or longer-term effects of a project's or organisation's outputs, outcomes and activities. This is more difficult to measure, but may take the form of programme evaluations, case studies or quantitative evidence.

Financial strategies and objectives

What should be included in financial objectives and strategies?

IA3.32 Paragraphs A3.17–A3.18 require an NPO to provide information on financial objectives and strategies and demonstrate how these relate to its performance objectives. Given that an NPO exists to primarily deliver a benefit to the public rather than to generate financial returns for investors, financial objectives and strategies are likely to be derived from the NPO's performance objectives.

IA3.33 For example, an NPO may have a performance objective of delivering a certain volume of services over a financial period but have volatile incoming resources. To ensure that the NPO has sufficient resources to deliver this volume of services, it may have a reserves policy that requires it to hold resources equivalent to six months of expenses in unrestricted funds. To achieve this, the NPO may have a strategy of increasing both the amount and percentage of unrestricted donations it receives compared to those that can only be spent on a specific set of activities. The NPO may therefore consider it useful to set out an overview of the strategy intended to achieve this financial objective including, in this case, the reserves policy.

Analysis of the NPO's financial statements

What should the discussion and the financial statement analysis focus on?

IA3.34 Financial statement commentary required by paragraphs A3.19–A3.21 gives an NPO the opportunity to report on and analyse the financial statements. The focus of the NPO's analysis of the financial statements should be to provide a better understanding of the financial position, income and expenses, net assets and cash flows of the NPO.

IA3.35 The narrative reporting information on the financial statements may focus on the significant items, transactions and events that are presented in the NPO's financial statements and the factors that have influenced them. This provides context to the financial statements, thus ensuring that they are useful for accountability and decision-making purposes.

IA3.36 The focus of the analysis of financial statements should be on significant changes and trends and the achievement of the NPO's performance objectives, both in this period and in the future. An explanation should be provided of the impact that these changes and trends have on the NPO's:

(a) financial position;
(b) income and expenses;
(c) net assets; and
(d) cash flows.

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

Principal risks and uncertainties

How should the principal risks and uncertainties be described?

IA3.37 Principal risks and uncertainties are those that could significantly disrupt the ability of the NPO to achieve its performance objectives and its financial objectives and strategies. This will include, but is not limited to:

(a) how the NPO works with others to deliver its main activities;
(b) changes to the political environment;
(c) changes to the legal or regulatory environment;
(d) changes to the physical environment;
(e) changes to the economic environment;
(f) reliance on volunteers;
(g) reliance on certain donors;
(h) capacity and capability of the NPO's resources; and
(i) the NPO's ability to generate and manage financial resources, or its operations and governance.

In describing the key risks and uncertainties, any changes from previous periods should be disclosed, and users should also be given information on how the NPO manages its risks and uncertainties.

IA3.38 For example, a key risk could be reliance on donations from the public to fund services, which have historically fallen significantly during periods of economic recession. An economic recession might mean the NPO is unable to generate the required level of donations and lead to a reduction in the services it provides. This would impact both its financial and performance objectives. Mitigations to manage the impact of this risk could include levels of reserves or a longer-term plan to diversify income sources.

IA3.39 A key risk for an NPO may be the risk of harm to the NPO's service recipients and staff, which might exist due to the environments in which it operates or the nature of the activities undertaken. Any failures could fundamentally risk an NPO's ability to deliver its objectives and strategies and undermine confidence in its ability to deliver. The narrative report might also disclose mitigations to manage the incidence and impact of this risk such as safeguarding arrangements, systems and protocols or health and safety procedures which operate throughout an NPO's activities.

Presentation

Are there benefits of linking to other reported information?

IA3.40 To meet the reporting requirements in A3 it may be useful to cross refer from information in other reports produced by the NPO, for example reports on performance, impact or governance reports (see paragraphs A3.26–A3.27). Including information by cross reference may be useful to avoid duplication or to reduce the amount of standing information. Cross references from other reports can be used to enable clear and concise reporting. The cross references allow the key messages to be understood by users by ensuring that these messages are not obscured by too much detail. Paragraph A3.27 sets out the information requirements where such cross references are used in the narrative report. To ensure these information requirements are achieved, where information is included by cross reference it must be:

(a) consistent with the mandatory reporting requirements of A3; and
(b) available whenever the narrative report is available, on the same terms and with a clear cross reference in the narrative report, with precise information on where other reported information can be located.

How should judgements be made on the selection, measurement and presentation of narrative information?

IA3.41 Paragraph A3.35 requires an NPO to disclose those judgements that are most relevant to users' understanding of the narrative information in its selection, measurement and presentation. An NPO should select only the information that it considers is most significant to the user's understanding of the information provided. This might include, for example, a decision by an NPO to disclose performance information by region or activity, or why an NPO utilises a certain financial ratio to determine if it has sufficient funds to continue to provide services.

What is an effective means of presenting narrative information?

IA3.42 The narrative report should be written using clear, concise and simple language. Sector-specific jargon should be avoided where possible. Where the use of technical terms is necessary to communicate clearly, prior knowledge should not be assumed and terms should be defined for users and then used consistently throughout the narrative report.

IA3.43 In addition to the use of clear and simple language, how information is presented can significantly affect understandability. The nature of the information will determine the most appropriate method of presentation, but tabular, graphical or pictorial methods can be effective ways of both explaining concepts to users and highlighting key information. They should, however, serve a clear purpose, be accessible for all users and be supported by appropriate narrative text.

IA3.44 An NPO may also wish to consider the use of case studies involving those that provide financial and other support to it and those that benefit from the services and goods they provide. Case studies and feedback can enable an NPO to provide more in-depth information about individual activities and personal insights that will enable users to more readily engage with the report. If an NPO uses case study information in its narrative report, the NPO will need to consider whether such case study information meets the requirements of paragraph A3.8 for balanced information.

Comparative information and consistency of reporting

How can consistency of reporting of information in the narrative report be achieved?

IA3.45 Paragraph A3.31 requires consistency of reporting of narrative information. This is because users' understanding of narrative information is improved when its content and presentation is consistent over time. Consistency of reporting can be supported by careful consideration about what users require, particularly when first preparing narrative information, including financial and other performance information. Consistency of reporting is also supported by establishing well documented processes to develop easily replicated information in subsequent reporting periods.

IA4 – Fair value measurement

What should an NPO do when it encounters difficulties in obtaining reliable data for fair value measurement?

IA4.1 An NPO may find it challenging to apply fair value measurement where there is no data relating to a specific asset or information is scarce or unreliable. Management may need to use judgement to determine an item's fair value. A fair value needs to be determined with reference to the best available information, with that information providing an evidence base for the valuation that is determined.

IA4.2 Sources of information can include, but are not limited to:

(a) the cost of the same or similar item if purchased in the jurisdiction now;
(b) the cost of the same or similar item if purchased in the jurisdiction when it was manufactured or last available to be purchased;
(c) second hand markets for the same or similar items in the jurisdiction;
(d) costs of the key components that make up an asset; and
(e) publications that provide asset valuations that can be used for benchmarking.

IA4.3 Obtaining data may be a challenge when it relates to heritage assets or assets held for preservation. Such assets can also be part of the public sector. IPSAS 45 *Property, plant and equipment* refers to the measurement of heritage assets and may provide a source of additional information.

Examples A4 – Fair value measurement

These examples portray hypothetical situations illustrating the judgements that might apply when an NPO measures assets and liabilities at fair value in different valuation situations. Although some aspects of the examples may be present in actual fact patterns, all the relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying A4 *Fair value measurement*.

Example 1 – Highest and best use (land)

An NPO receives land from a donor. The land is currently developed for industrial use as a site for a factory. The current use of the land is presumed to be its highest and best use unless market or other factors suggest a different use. Nearby sites have recently been developed for residential use as sites for high-rise apartment buildings. On the basis of that development and recent zoning and other changes to facilitate that development, the NPO determines that the land currently used as a site for a factory could be developed as a site for high-rise apartment buildings because market participants would take into account the potential to develop the site for residential use when pricing the land.

The highest and best use of the land would be determined by comparing both of the following:

(a) the value of the land as currently developed for industrial use (that is, the land would be used in combination with other assets, such as the factory, or with other assets and liabilities);
(b) the value of the land as a vacant site for residential use, taking into account the costs of demolishing the factory and other costs (including the uncertainty about whether the NPO would be able to convert the asset to the alternative use) necessary to convert the land to a vacant site (that is, the land is to be used by market participants on a stand-alone basis).

The highest and best use of the land would be determined on the basis of the higher of those values. In situations involving real estate appraisal, the determination of highest and best use might take into account factors relating to the factory's operations, including its assets and decommissioning or other liabilities.

Example 2 – Level 1 principal (or most advantageous) market

An asset is sold in two different active markets at different prices. An NPO enters into transactions in both markets and can access the price in those markets for the asset at the measurement date. In Market A, the price that would be received is CU26, transaction costs in that market are CU3 and the costs to transport the asset to that market are CU2 (that is, the net amount that would be received is CU21). In Market B, the price that would be received is CU25, transaction costs in that market are CU1 and the costs to transport the asset to that market are CU2 (that is, the net amount that would be received in Market B is CU22).

If Market A is the principal market for the asset (that is, the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after taking into account transport costs (CU24).

If neither market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximises the amount that would be received to sell the asset, after taking into account transaction costs and transport costs (that is, the net amount that would be received in the respective markets).

Because the NPO would maximise the net amount that would be received for the asset in Market B (CU22), the fair value of the asset would be measured using the price in that market (CU25), less transport costs (CU2), resulting in a fair value measurement of CU23. Although transaction costs are taken into account when determining which market is the most advantageous market, the price used to measure the fair value of the asset is not adjusted for those costs (although it is adjusted for transport costs).

Example 3 – Restriction on the sale of an equity instrument

An NPO holds an equity instrument (a financial asset) for which sale is legally or contractually restricted for a specified period (for example, such a restriction could limit sale to qualifying investors). The restriction is a characteristic of the instrument and therefore, would be transferred to market participants. In that case the fair value of the instrument would be measured on the basis of the quoted price for an otherwise identical unrestricted equity instrument of the same issuer that trades in a public market, adjusted to reflect the effect of the restriction. The adjustment would reflect the amount market participants would demand because of the risk relating to the inability to access a public market for the instrument for the specified period. The adjustment will vary depending on all of the following:

(a) the nature and duration of the restriction;
(b) the extent to which buyers are limited by the restriction (for example, there might be a large number of qualifying investors); and
(c) qualitative and quantitative factors specific to both the instrument and the issuer.

Example 4 – Restrictions on the use of an asset

A donor contributes land in an otherwise developed residential area to an NPO (a neighbourhood association). The land is currently used as a playground. The donor specifies that the land must continue to be used by the association as a playground in perpetuity. Upon review of relevant documentation (for example, legal and other), the NPO determines that the fiduciary responsibility to meet the donor's restriction would not be transferred to market participants if the NPO sold the asset; that is, the donor restriction on the use of the land is specific to the NPO. Furthermore, the NPO is not restricted from selling the land. Without the restriction on the use of the land, the land could be used as a site for residential development. In addition, the land is subject to an easement (that is, a legal right that enables a utility to run power lines across the land). The following is an analysis of the effect on the fair value measurement of the land arising from both the restriction and the easement:

(a) donor restriction on use of land: because in this situation the donor restriction on the use of the land is specific to the NPO, the restriction would not be transferred to market participants. Therefore, the fair value of the land would be the higher of its fair value used as a playground and its fair value as a site for residential development, regardless of the restriction on the use of the land; and

(b) easement for utility lines: because the easement for utility lines is specific to (that is, a characteristic of) the land, it would be transferred to market participants with the land. Therefore, the fair value measurement of the land would take into account the effect of the easement, regardless of whether the highest and best use is as a playground or as a site for residential development.

Example 5 – Donation of an asset that has a specification greater than required for operations

A donor provides the use of office space in a building that it owns, where the office space can only be used by the NPO. The building is in the centre of the town in a highly desirable location, which is not necessary for the NPO's operations. In other words, the specification of this office space is greater than is needed for the NPO's operations. The cost of this office space can be readily obtained as there is an active market for this type of office space.

As this office space cannot be sold or used by anyone else (sublet), the NPO cannot obtain revenue that approximates to the market value of the office space. The market value of the office space is therefore not relevant to the NPO and it is the service capacity that is relevant and needs to be measured. The fair value of the office space will be determined with reference to office space that would meet the operational needs of the NPO. The NPO is able to operate effectively with office space in an area of the town that is cheaper to lease. In this example, the NPO uses the market value of the office space that it would otherwise have used for operational purposes. The market value of the donated office space in this example is not relevant for the NPO in measuring the value of the donated office space.

Example 6 – Donation of services

A doctor based in country A uses some of their annual vacation to train a doctor in country B on a new surgical technique that enhances patient recovery. The doctor based in country A donates this time and does not receive any remuneration from the NPO for this service.

The NPO determines the fair value of the service provided by the doctor with reference to the type of service provided (surgical training), location of the delivery (country B) and the timing (that is, the year when it happened). The fair value therefore reflects the salary/cost of a doctor with the most equivalent experience in country B, which may be the doctor being trained. The actual salary of the doctor in country A is not a factor in determining the fair value.

Example 7 – Donation of copyright (intangible asset)

A supporter of an NPO donates to it the copyright in a piece of music that they have written. This donation entitles the NPO to any royalties arising from the use of the copyright until it expires in 20 years' time. The supporter has not imposed any conditions on its use but has encouraged the NPO to maximise its use to generate funds for the NPO.

The fair value of the copyright material is unique to the piece of music that has been written and there are no observable inputs available. The NPO has decided that the most appropriate valuation technique is the income approach which converts the expected revenue that the NPO expects to earn from royalties over the next 20 years to a single current value. The NPO chooses the present value technique. As there are no observable inputs, the NPO estimates the amount of revenue that it expects to receive by:

(a) obtaining historical information about royalties earned (provided to it by the supporter); and
(b) forecasting future revenues based on its missional plans to use the copyright material that take account of the historic information.

The NPO then discounts the forecasted revenue to take account of the time value of money. This creates a present value that is the copyright's fair value.

IA5 – Foreign currency translation

Functional currency

What factors might be considered relating to the determination of an NPO's functional currency?

IA5.1 The functional currency of an NPO is determined by assessing the currency of its primary economic environment. This is the environment where it mainly generates and expends cash. The most important factors to consider in this assessment are described in paragraph A5.3.

IA5.2 Often, this assessment will be straightforward. For example, if an NPO, based in a country with currency CX, pays for services and goods to deliver its public benefit in a range of currencies with CX being the most significant, pays its workforce and property rental costs and other overheads in CX and receives grants and donations in a number of currencies including CX, then its functional currency will be CX.

IA5.3 In more complex cases, it may be necessary to consider the additional factors described in paragraph A5.4. For example, if the NPO in the example above pays for its direct costs in a range of currencies with CY being the most significant, but pays its overhead costs in CX, and mainly receives its funding from donors in currency CY, then it is possible that functional currency cannot be identified from the primary characteristics alone.

IA5.4 In this example, if the NPO retains significant cash surpluses in CX or has borrowings in CX, then it is likely that its functional currency may be CX. The management of the NPO, in deciding to manage its funding in CX, may have considered that, although they are exposed to a range of currencies through income and direct costs, access to funding in CX is a priority given the relative significance of the NPO's CX cash flows compared to any other single currency though it should be remembered that this Section gives priority to the primary factors in paragraph A5.3.

IA5.5 Alternatively, if the NPO raised borrowings in CY and retained its donations in CY until they are required, it is possible that the functional currency of the NPO would be CY. In this instance, the management's decision to denominate funding in CY probably reflects the relative materiality of the direct costs incurred in CY compared to the overheads in CX, indicating that CY is the functional currency.

IA5.6 In the more complex assessments, the materiality of the currency flows and balances should be considered and the management's approach to managing currency exposures and funding may provide an indication of the primary economic environment. In the most extreme case, where no single currency dominates, the functional currency may be the currency of the country in which the NPO is based, given the absence of a clear reason to identify any alternative.

Reporting foreign currency transactions in the functional currency

How should an NPO account for transactions that are denominated and settled in different currencies?

IA5.7 A transaction may be denominated in one currency and settled in another. This may happen where a provider of a good or service prices in a currency that the provider operates in but, for convenience of settlement, both parties agree to settle the transaction in the recipient's currency.

IA5.8 For example, a supplier will record a sale and receivable in its currency and likewise the purchaser will record an expense and payable in its currency when a supply is made. If the transaction is settled in the purchaser's currency, at the settlement date the purchaser will make a payment in its currency to settle the outstanding amount at the spot rate. The supplier will receive an amount that settles its receivable at that date. If the supplier does not immediately convert the currency received, they may experience an exchange gain or loss. The purchaser may have an exchange gain or loss depending on how exchange rates have moved from the date that the supply was made.

How might foreign exchange translations impact on grant agreements?

IA5.9 Some grants or donations are made to fund a defined amount of expenses by the recipient. Resources can be provided under a grant agreement (including those for grants, donations or similar income) that specify outcomes, activities or the distinct services and goods to which the transaction applies, leading to fulfilment rights for the grantor and a delivery obligation for the grant recipient. Alternatively, grant agreements may restrict the use of the resources provided without specifying distinct outcomes, activities, goods or services. If the grant recipient is incurring costs in a different currency or currencies to that of the resources being provided, the grant recipient may be exposed to exchange rate differences. The impact of these exposures will vary depending on the requirements of each grant transaction.

IA5.10 Some grant agreements may specify an exchange rate to be applied to calculate the amount of expenses to be recorded against grant revenue received or revenue recognised in relation to the expenses to be reimbursed. The use of a specific exchange rate may lead to a deficit, or surplus, compared to the grant revenue or expenses permitted to be recognised on an individual grant transaction.

IA5.11 If the exchange rate gains results in a surplus, the grant agreement may specify how the surplus should be treated. The absence of any specific terms relating to the surplus, either written or implied, might mean that the surplus may be used for any future purpose and can be treated as part of the grant recipient's unrestricted funds (or the grant agreement may specify this). Alternatively, a grantor or other donor may specify that any surpluses or underspends that arise as a result of exchange rate gains are to be returned to them.

IA5.12 The terms of a grant agreement with delivery obligations may require the NPO to spend all the money it received under that agreement, including any exchange gains, on the specified activities, even if all delivery obligations have been met. This requirement will have no impact on the reported results of the NPO in a reporting period as it relates to future expenses. It may, however, result in a surplus or deficit on the grant agreement across multiple future reporting periods.

IA5.13 Where exchange rate risk has been transferred to the grant recipient, a grant agreement may specify that any shortfall on the agreement arising from an exchange loss will need to be met by the grant recipient (from the grant recipient's unrestricted funds). This might be the case, even if the shortfall arises from exchange rates defined in the agreement.

IA5.14 Generally, exchange rate gains and losses will follow the presentation of the grant agreement to which they relate. B8 *Fund accounting* prescribes which transactions are to be presented as part of restricted funds. This includes the presentation of grant agreements. Any change in exchange rates may impact the obligations that an NPO has under a grant agreement (whether they are grant agreements with delivery obligations or not).

IA5.15 B8 requires that an NPO discloses the nature and purpose of material restricted funds in a note to the financial statements. The disclosure requirements include exchange rate differences that impact on an individual fund.

Use of a presentation currency other than the functional currency

What is the impact of an NPO using a different currency to present its financial statements than its functional currency (and why might an NPO choose to do this)?

IA5.16 Using a presentation currency that is different to the functional currency does not mean that any foreign exchange gains or losses would not be recognised in the financial statements. Any existing foreign exchange gains or losses will also be translated into the presentation currency and remain unchanged other than for the effect of translation.

IA5.17 It should also be noted that use of a presentation currency will result in a new exchange difference, arising from the translation of the income and expenses, and opening net assets, as described in paragraph A5.21. This is not a realised gain or loss, as it only arises from the translation of the financial statements to the presentation currency. Unlike transaction gains and losses, this translation item is separately presented in the Statement of Changes in Net Assets.

IA5.18 One potential reason for using a different presentation currency to prepare financial statements may be to permit the provider of funding to identify the amount of expense incurred and the funding provided, in the currency in which the funding was denominated.

Examples A5 – Foreign currency translation

The following examples illustrate the application of the principles for accounting for foreign exchange gains or losses for grant expenses. They include the treatment of foreign exchange gains or losses for grants (both with and without delivery obligations):

- where grants are received in advance;
- the accounting treatment where foreign exchange gains are required to be refunded; and
- the treatment of transactions where grants received in advance are held in a specific account.

The Implementation Guidance in D5 *Provisions and contingencies* includes a separate example of where there is an onerous grant agreement as a result of exchange rate movements on grant revenue (see Example 3).

Note in the illustrative examples below references to grant related expenses are not grant expenses as defined in D2 *Expenses on grants and donations*.

Example 1 – Grant revenue transaction without delivery obligations (grant received in advance)

Background

The functional currency of NPO A is CX. On 1 January 20X3, NPO A receives a grant of CY50 from donor B, when the exchange rate is 2CX = 1CY. NPO A converts the grant into CX100 on the day of receipt.

The grant agreement restricts the use of the grant to a designated activity, but the grant agreement does not include delivery obligations. The terms of the grant agreement require NPO A to spend all the funds provided on the activity. NPO A recognises the grant as revenue on receipt and for the purposes of this example, the grant is presented as part of restricted funds (in accordance with the requirements of B8 *Fund accounting*).

This example sets out the impact on two scenarios:

- the grant agreement specifies that NPO A translates the grant related expenses against the grant at the spot rate when NPO A receives the funds; and
- the grant agreement specifies that NPO A translates the grant related expenses against the grant at the spot rate when NPO A incurs the expense (including two different alternative spot rates).

NPO A incurs all its expenses in currency CX.

Analysis

a) Grant related expenses are measured at the spot rate when the funds are received.

<u>Recognition of grant receipt as revenue</u>

On 1 January 20X3, NPO A records the grant receipt as revenue, as described in paragraph C1.58 – C1.60, as it has no present obligation at the date of receipt.

1 January 20X3	Debit	Credit
Cash	CX100	
Revenue (Restricted funds)		CX100
NPO A recognises the receipt of the grant in its functional currency CX		

<u>Recognition of grant related expenses</u>

NPO A incurs grant related expenses of CX100 on 1 June 20X3, when the spot rate is 2.5CX = 1CY. The expense follows the presentation of the related revenue.

1 June 20X3	Debit	Credit
Expenses (Restricted funds)	CX100	
Cash		CX100
NPO A recognises the grant related expenses at the spot rate.		

The change in exchange rate between 1 January 20X3 and I June 20X3 has no impact on the financial statements of NPO A as NPO converted the funds on the date of receipt and so the subsequent change in exchange rate has no impact on NPO A.

After recording all the transactions, the impact on NPO A's financial statements is as follows:

1 June 20X3	Restricted funds	Unrestricted funds	Total
	CX	CX	CX
Statement of income and expenses			
Revenue	100		100
Expenses	(100)		(100)
Surplus/(deficit)	0		0
Statement of changes in net assets			
Surplus/(deficit)	0		0
Movement between reserves	0		0
Closing balance	0		0
Statement of financial position			
Overall cash movements	0		0

b) Grant related expenses are measured at the spot rate when expenses are incurred

Recognition of grant receipt as revenue and grant related expenses

The recognition of these transactions will both be same as in example 1a).

Totality of grant related expenses

Although NPO A has spent all the translated funds, because the grant agreement requires that grant related expenses are measured at the spot rate that the expenses are incurred, the grant agreement terms are such that NPO A has in effect only spent CY40 of the CY50 provided. This is because the spot rate was 2.5CX = 1CY when NPO A incurred the expenses so that the CX100 spent equated to 40CY.

Consequently, the terms of the grant agreement require NPO A to spend a further CY10 of expenses on the activity. To meet this requirement, NPO A must spend a further CX25, which it incurs on 1 July 20X3. The spot rate on 1 July 20X3 is also 2.5CX = 1CY.

1 July 20X3	Debit	Credit
Expenses (Restricted funds)	CX25	
Cash		CX25
NPO A recognises additional grant related expenses to ensure that it spends all the grant revenue (currency CY) in accordance with the terms of the grant agreement.		

In accordance with the terms of the grant agreement NPO A has now incurred grant related expenses of CY50. This is CX125 measured at the spot rate of 2.5CX = 1CY on the date the NPO incurred the grant related expenses.

Movement between funds

In accordance with the terms of the grant agreement, the change in exchange rate has led to NPO A incurring additional expenses and a resultant deficit of CX25 on the agreement. The terms of the grant agreement require NPO A to meet this additional grant related expense from its own resources. The

NPO meets the additional grant related expenses from its unrestricted funds. NPO A meets the deficit by means of a transfer of CX25 on 1 July 20X3.

1 July 20X3	Debit	Credit
Unrestricted funds	CX25	
Restricted funds		CX25
The transfer of funds from unrestricted funds to restricted funds to meet the deficit on the individual grant agreement.		

After recording all the transactions, the impact on NPO A's financial statements is as follows:

1 July 20X3	**Restricted funds**	**Unrestricted funds**	**Total**
	CX	**CX**	**CX**
Statement of income and expenses			
Revenue	100	0	100
Expenses	(125)	0	(125)
Surplus/(deficit)	(25)	0	(25)
Statement of changes in net assets			
Surplus/(deficit)	(25)	0	(25)
Movement between funds	25	(25)	0
Closing balance	0	(25)	(25)
Statement of financial position			
Overall cash movements	0	(25)	(25)
Unrestricted funds		(25)	(25)

Recognition of grant related expenses – alternative exchange rate

If the exchange rate on 1 June 20X3 had been 1.5CX = 1CY, then NPO A would only have needed to incur CX75 under the terms of the grant agreement. If the terms of the grant agreement do not include a requirement to make refunds, this would leave NPO A with a cash surplus of CX25 from the grant revenue received of CX100. If the terms of the grant agreement allow for the surplus on the agreement to be used for any purpose, then NPO A would record a transfer between restricted funds and unrestricted funds in the opposite direction to the scenario above.

1 July 20X3	Debit	Credit
Restricted funds	CX25	
Unrestricted funds without restrictions		CX25
Transfer of the surplus on the grant agreement from restricted funds to unrestricted funds.		

After recording all transactions, the alternative exchange rate would impact on NPO A's financial statements as follows:

1 June 20X3	Restricted funds	Unrestricted funds	Total
	CX	CX	CX
Statement of income and expenses			
Revenue	100	0	100
Expenses	(75)	0	(75)
Surplus/(deficit)	25	0	25
Statement of changes in net assets			
Surplus/(deficit)	25	0	25
Movement between funds	(25)	25	0
Closing balance	0	25	25
Statement of financial position			
Overall cash movements	0	25	25
Unrestricted funds	0	25	25

Grant agreements often include requirements that the recipient must spend all the revenue they receive on the purpose specified in the grant. If that had been the case, NPO A would need to incur additional grant related expenses of CX25 and the outcome would be equivalent to scenario a).

Example 2 – Grant agreement with delivery obligations (expenses reimbursed in arrears)

Background

The functional currency of NPO C is CX. On 1 September 20X2, NPO C enters into a grant agreement with delivery obligations with donor D, specifying that grant related expenses will be reimbursed up to an amount of CY50. The terms of the grant agreement require that this transaction is presented in restricted funds (in accordance with the requirements of B8). NPO C incurs grant related expenses of CX100 on 1 January 20X3 when the spot exchange rate is 2CX = 1CY.

The grant agreement specifies that NPO C translates the grant related expenses at the spot rate when it incurs them and when the delivery obligation has been met.

Analysis

Recognition of grant related expenses and related grant revenue

NPO C recognises grant revenue of CX100 together with a receivable of CX100 for the reimbursement of the grant expenses on 1 January 20X3. The receivable is denominated in CY, since it is measured at the exchange rate when the expenses are incurred. As a result, the receivable is translated at CY50 (as CX100 = CY50 at the spot rate of 2CX = 1CY on 1 January 20X3).

1 January 20X3	Debit	Credit
Cash		CX100
Expenses (Restricted funds)	CX100	
NPO C recognises the expenses incurred under grant agreement using its functional currency CX.		
Grant receivable	CX100	
Revenue (Restricted funds)		CX100
NPO C recognises the grant receivable in restricted funds in its functional currency.		

Settlement of grant receivable

On 30 June 20X3 NPO C retranslates the receivable of CY50 to the latest exchange rate as it is a monetary item. As the exchange rate has moved to 2.5CX = CY1, NPO C recognises an exchange gain of CX25 (with CY50 = CX125). NPO C presents the foreign exchange gain in the restricted funds that contains the grant agreement.

30 June 20X3	Debit	Credit
Grant receivable	CX25	
Foreign exchange gain		CX25
NPO C recognises the foreign exchange gain on retranslation of the grant receivable on settlement.		

Donor D pays NPO C CY50 on 30 June 20X3, in accordance with the fulfilment right in the grant agreement. At this date, the spot rate is 2.5CX = 1CY. NPO C converts this into CX immediately and obtains CX125 at the spot rate. The receipt of CX125 clears the receivable.

30 June 20X3	Debit	Credit
Cash	CX125	
Grant receivable		CX125
NPO C recognises the cash payment from Donor D and the clearance of the grant receivable in its functional currency CX.		

This change in exchange rates results in an exchange gain for NPO C. If the terms of the grant agreement permit NPO C to retain this surplus for any purpose, then NPO C will be able to transfer the surplus on that specific arrangement to unrestricted funds.

After recording these transactions, the impact on NPO C's financial statements is as follows:

30 June 20X3	Restricted funds	Unrestricted funds	Total
	CX	CX	CX
Statement of income and expenses			
Revenue	100	0	100
Expenses	(100)	0	(100)
Operating surplus/(deficit)	0	0	0
Foreign exchange gain/(loss)	25		25
Surplus/(deficit)	25		25
Statement of changes in net assets			
Surplus/(deficit)	25	0	25
Movement between funds	(25)	25	0
Closing balance	0	25	25
Statement of financial position			
Cash	0	25	25
Unrestricted funds	0	25	25

Example 3 – Grant agreement with delivery obligations (grant received in advance)

Background

The functional currency of NPO E is CX. On 1 January 20X3, NPO E receives a grant of CY50 from Donor F under a grant agreement with delivery obligations. The grant agreement requires NPO E to incur expenses on a specific project with measurable performance obligations. The grant agreement is presented in a restricted fund (in accordance with B8). The exchange rate on receipt is 2CX = 1CY. NPO E converts the grant into CX100 (CY50 = CX100 at a rate of 2CX = 1CY) on the day of receipt.

NPO E expects to incur CX100 of expenses to meet the delivery obligation. The grant agreement specifies that NPO E translates grant related expenses at the spot rate on the date that it incurs the expense. The grant agreement requires that NPO E returns any amounts not spent on the project to donor F.

Analysis

Recognition of grant receipt as a delivery obligation liability

NPO E recognises that it has a delivery obligation liability when it receives the grant (in accordance with paragraph C1.86).

1 January 20X3	Debit	Credit
Cash	CX100	
Delivery obligation liability		CX100
NPO E recognises the delivery obligation liability in currency CX – its functional currency.		

Recognition of grant related expenses

NPO E incurs grant related expenses of CX100 on 30 June 20X3. Under the terms of the grant agreement, grant related expenses incurred by NPO E are translated at the spot rate when they are incurred. The spot rate on 30 June 20X3 is 2.5CX = 1CY.

30 June 20X3	Debit	Credit
Expenses (Restricted funds)	CX100	
Cash		CX100
NPO E recognises the expenses in its functional currency CX.		

Recognition of grant related revenue

As the spot rate on 30 June 2023 is 2.5CX = 1 CY. NPO E has incurred grant related expenses of CY40 in currency CY on the project, which is the date that the delivery obligation is met (CX100 = CY40, at the exchange rate of 2.5CX = 1CY). NPO E is required by the grant agreement with delivery obligations to return CY10 to donor F.

NPO E recognises a separate liability of CX25 for the refund, arising from the obligation to return some of the grant proceeds to donor F, which is the equivalent of CY10 at the spot rate on 30 June 20X3. As the delivery obligation liability has not yet been applied to expenses at the date the obligation is met this liability must be retranslated at the spot rate at 30 June 2023. Revenue recognised in accordance with the grant agreement is CX75.

30 June 20X3	Debit	Credit
Delivery obligation liability	CX100	
Revenue (Restricted fund)		CX75
Refund liability to grantor		CX25
NPO E clears the delivery obligation liability and recognises the revenue of CX75. It also establishes a separate refund liability of CX25 in accordance with the grant agreement.		

Clearing the refund liability

NPO E settles the refund liability on 1 August 20X3 by paying CY10 to donor F. As the spot rate on 1 August 20X3 has moved to 3CX = 1CY, the refund liability is increased by CX5 to CX30 (as CY10 is now worth CX30 at a rate of 3CX = 1CY). The additional amount required to settle the refund liability to the grantor creates an exchange loss of CX5. This is treated as an exchange loss since the refund liability to the grantor is a monetary item that will result in a cash outflow from NPO E (see paragraph A5.12). The exchange loss is recognised in revenue consistent with the original transaction (see paragraph A5.13).

1 August 20X3	Debit	Credit
Refund liability to donor – settlement	CX30	
Cash		CX30
NPO E pays refund to donor F (recorded in NPO E's functional currency)		
Exchange loss	CX5	
Refund liability to donor – arising from exchange loss		CX5
NPO E recognises the exchange rate loss on the translation of the repayment of the refund into currency CY		

Movement between funds

The changes in exchange rates collectively result in a deficit of CX30 on the grant agreement (with CX25 being a refund to the donor and CX5 being a loss between the date of refund liability and its settlement). This shortfall is addressed on 1 August 20X3 and is funded from the NPO's unrestricted funds.

1 August 20X3	Debit	Credit
Unrestricted funds	CX30	
Restricted funds		CX30
NPO E recognises the transfer of resources from unrestricted funds to restricted funds in accordance with the terms of the grant agreement.		

After recording all the transactions, the impact on NPO E's financial statements is as follows:

1 August 20X3	**Restricted funds**	**Unrestricted funds**	**Total**
	CX	**CX**	**CX**
Statement of income and expenses			
Revenue	75	0	75
Expenses	(100)	0	(100)
Operating surplus/(deficit)	(25)	0	(25)
Foreign exchange loss	(5)	0	(5)
Surplus/(deficit)	(30)	0	(30)
Statement of changes in net assets			
Surplus/(deficit)	(30)		(30)
Movement between funds	30	(30)	0
Closing balance	0	(30)	(30)
Statement of financial position			
Overall cash movements	0	(30)	(30)
Unrestricted funds	0	(30)	(30)

Example 4 – Grant agreement without delivery obligations (grant received in advance and held in foreign currency account)

Background

The functional currency of NPO G is CX. On 1 January 20X3, NPO G receives a grant of CY50 from donor H, when the exchange rate is 2CX = 1CY. NPO G retains the grant in CY in a foreign currency account along with a number of other grants.

The grant agreement constrains expenses to a designated activity, but it is not a grant agreement with delivery obligations. For the purposes of this example, the grant agreement is presented as part of restricted funds (in accordance with the requirements of B8). All of the grant will be spent on the activity. The grant agreement specifies that the grant related expenses are measured against the grant at the spot rate when the expense is incurred.

Analysis

Recognition of grant receipt as revenue

As in example 1, revenue is recognised when the grant is received, using the spot rate on 1 January 20X3 to record the revenue and cash.

1 January 20X3	Debit	Credit
Cash	CX100	
Revenue (Restricted funds)		CX100
NPO G recognises the receipt of the grant and translates it into its functional currency CX.		

Retranslation of grant received as foreign currency cash

As the grant received is held as cash in a foreign currency bank account, it is a monetary item and retranslated at each reporting date. On 30 June 20X3 the spot rate is 2.5CX = 1CY. This results in an exchange gain of CX25 (as CY50 = CX125 as the spot rate). The foreign exchange gain is presented as an exchange gain as part of restricted funds following the presentation of the original agreement.

30 June 20X3	Debit	Credit
Cash	CX25	
Foreign exchange gain		CX25
NPO G recognises the foreign exchange gain for the grant received in its functional currency CX.		

If the individual balance on the grant arrangement cannot be identified because there are a number of transactions in the bank account, the total exchange gain or loss will need to be allocated. INPAS paragraph AA5.14 requires that an allocation method is used that is a suitable proxy for the cash balance on the grant agreement. If there had been two active grant arrangements in currency CY, NPO G could have allocated the exchange gain based on the accounting balance for each of the grants. NPO G would need to consider whether significant accruals for any of the grant agreements would render this approach inappropriate.

Recognition of grant related expenses

NPO G incurs grant related expenses of CX100 on the date the balance is retranslated (30 June 20X3). These expenses are funded by converting the holding of CY to obtain CX100. At the spot rate of 2.5CX to 1CY, CY40 is required to provide CX100. As the cash has been retranslated no further accounting adjustment is required.

30 June 20X3	Debit	Credit
Expenses (Restricted funds)	CX100	
Cash		CX100
NPO G recognises grant expenses incurred in its functional currency CX.		

Recognition of grant obligation under the grant agreement

As the cash was held in a CY account until it was used, the change in exchange rates between 1 January 20X3 and 30 June 20X3 means that NPO G has also only used CY40 of the CY50 of cash received for the grant. The remaining CY10 is still held in the foreign currency account.

The grant agreement specifies that all of the grant is to be spent on the project. As there is no delivery obligation, NPO G does not have a present obligation to incur the expenses, but the grant agreement restricts the spending of the remaining CY10 to the activity. NPO G will not need to recognise a provision for additional expenses and will recognise the expenses as and when they are incurred.

On 31 July 20X3, when the spot rate is 3CX = 1CY, NPO G spends the remainder of the grant CY10. This is translated at the spot rate into CX30.

31 July 20X3	Debit	Credit
Expenses (Restricted funds)	CX30	
Cash		CX30
NPO G recognises the remaining expenses on the grant of CY10 in its functional currency CX at the spot rate of 3CX = 1CY.		
Cash	CX5	
Foreign exchange gain		CX5
NPO G recognises a foreign exchange translation gain for the remaining expenses.		

The change in exchange rate results in NPO G incurring CX30 more expense than was received as revenue, but this shortfall was paid for by the exchange gain. NPO G did not require any additional resources to fund the expenses.

Under the terms of the grant agreement the donor has incurred grant expenses of CY50.

Movement between funds

As there is no surplus or deficit on this funding arrangement there are no fund movements.

After recording all the transactions, the impact on NPO G’s financial statements is as follows:

31 July 20X3	Restricted funds	Unrestricted funds	Total
	CX	**CX**	**CX**
Statement of income and expenses			
Revenue	100	0	100
Expenses	(130)	0	(130)
Operating surplus/(deficit)	(30)	0	(30)
Foreign exchange gains/(losses)	30	0	30
Surplus/(deficit)	0	0	0
Statement of changes in net assets			
Surplus/(deficit)	0	0	0
Movement between funds	0	0	0
Closing balance	0	0	0
Statement of financial position			
Cash	0	0	0

Group B

Financial statements

IB1 – Presentation and compliance

Scope

What is the objective of NPO general purpose financial statements?

IB1.1 The objective of general purpose financial statements is to provide information about the financial position, income and expenses (financial performance) and cash flows of an NPO that is useful to existing and potential users of their financial reports for accountability and decision making. General purpose financial statements can also provide information that is useful for predicting the level of resources required for continued operations, the resources that may be generated by continued operations and the associated risks and uncertainties.

Fair presentation

What should an NPO with public accountability consider regarding fair presentation and the use of INPAS?

IB1.2 Any NPO that has public accountability (A1.16–A1.17) can use INPAS to assist in preparing its financial statements. However, the simplifications and presentational differences in INPAS mean that an NPO with public accountability is unlikely to be able to assert (per paragraph B1.2) a fair presentation in accordance with INPAS, as it may be required to adopt financial reporting standards that differ from these requirements.

Going concern

What factors should an NPO consider to assess whether it should produce its general purpose financial statements using the going concern basis of reporting?

IB1.3 Before it is appropriate to conclude that the going concern assumption in accordance with paragraphs B1.4–B1.5 is appropriate, those responsible for the preparation of financial statements will need to consider a wide range of factors, including material uncertainties in the NPO's operating environment of the NPO. Factors include:

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

IB1.4 Such considerations will depend on the facts in each case. Assessments of the going concern assumption are not necessarily predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the NPO is nonetheless a going concern. For example, there may be multi-year funding agreements or other arrangements in place that will ensure the continued operation of the NPO.

Complete set of financial statements

Can an NPO use different names for the each of the financial statements listed in paragraph B1.6 (or labels for headings and line items)?

IB1.5 The financial statements listed in B1.6 can be referred to using different names within and across jurisdictions. The Statement of Financial Position may also be referred to as a balance sheet. The Statement of Income and Expenses may also be referred to as a statement of financial performance, an operating statement, or a statement of financial activities. The notes may include items referred to as schedules. The use of alternative names to those listed in B1.6 is permitted provided the names used would not mislead the users of the financial statements.

IB1.6 An NPO should use titles, including labels for headings and line item descriptions that are, in the NPO's view, most meaningful for the users of its financial statements. INPAS expressly permits use of alternative titles and labels for headings and line items to provide this flexibility. An NPO must not use alternatives if the overall effect is to mislead the users of its financial statements.

How should an NPO present information in the financial statements?

IB1.7 INPAS sets out the components of financial statements and minimum requirements for disclosure on the face of the Statement of Financial Position and the Statement of Income and Expenses, as well as for the Statement of Changes in Net Assets. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes.

IB1.8 The Standard allows for some flexibility over the presentation of the financial statements. Examples of how this flexibility can be used include:

(a) an NPO can choose a different order of the financial statements to that described in B1.6, provided they have equal prominence;

(b) an NPO can choose how to sequence the information provided it complies with other elements of the Standard. For example, non-current assets might appear before current assets, and current liabilities before non-current liabilities to allow working capital to be presented in the financial statement. Judgements about sequencing must reflect the nature of the NPO and the needs of users of the financial statements;

(c) information in the Statement of Financial Position may be presented to follow a 'vertical' or 'horizontal' presentation;

(d) an NPO can choose to present their income before their expenses before arriving at the surplus or deficit from operating activities in the Statement of Income and Expenses. Alternatively, expenses can be presented first with income showing how expenses have been funded. An NPO is required to choose a format that best explains the activities, transactions, and events to users of its financial statements.

Consistency of presentation and comparative information

What are the implications for consistency and comparability for NPO general purpose financial statements?

IB1.9 Comparability is an enhancing qualitative characteristic of useful financial information. It enables users to identify similarities in, and differences between, two sets of items.

Comparability is not a characteristic of an individual item of information, but rather a quality of the relationship between two or more items of information.

IB1.10 Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an NPO, between transactions or events of a similar nature within an NPO, or in a single period across more than one NPO. Consistency helps achieve comparable financial statements. In some cases, an NPO may revise its accounting principles or policies to better represent a particular transaction or event in general purpose financial statements. Paragraph B7.14 in B7 *Accounting policies, estimates and errors* sets out the disclosures required in such situation. The inclusion of additional disclosures or explanation may also be necessary to satisfy the characteristics of comparability.

IB1.11 An NPO needs to provide information for accountability purposes and that is useful as an input for decision-making purposes. This information includes its:

- financial position;
- income and expenses;
- cash flows;
- achievement of objectives or operational performance;
- compliance with relevant legislation or other regulations governing the raising and use of resources; and its future plans.

The usefulness of such information is enhanced if it can be compared with, for example:

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

When should an NPO provide comparative information for narrative and descriptive reporting?

IB1.12 B1.16 requires that an NPO provide comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements. This will require the NPO to apply judgement about how best to meet the objectives of financial reporting and to assess the information needs of the primary users of its financial statements.

IB1.13 An NPO's judgement about when to provide comparative information for narrative and descriptive information should take account of both the materiality of the information to the delivery of the NPO's performance, or financial objectives, and also the NPO's overall purpose or mission. These considerations include whether the comparative information provides material information about:

(a) the NPO's progress in achieving its purposes or mission;
(b) how the NPO intends to meet its purposes or mission in the future;
(c) the context it provides for evaluating the financial sustainability of the NPO;
(d) how the NPO has used, or intends to use, its existing resources (people and assets);
(e) how the NPO is dealing with any legal or regulatory issues;
(f) how the NPO has worked, or intends to work, with key partners or communities;
(g) how the NPO has impacted, or intends to impact, on the environment;
(h) how the NPO has generated, or intends to generate, the financial resources it needs.

Materiality and aggregation

How do materiality and aggregation affect the presentation of an NPO's financial statements?

IB1.14 Financial statements result from processing a large number of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation is the presentation of summarised information, which is classified or aggregated as required by INPAS. This may form line items on the face of the Statement of Financial Position, Statement of Income and Expenses, Statement of Changes in Net Assets, and Statement of Cash Flows or be presented in the notes.

IB1.15 Paragraphs B1.17–B1.19 require that in classifying items in the financial statements, similar material items must be separated and that dissimilar, immaterial items may be aggregated. The presentation of information in the financial statements must take account of materiality. If a line item is not individually material, it can be aggregated with other items, either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.

IB1.16 The judgement about how to classify items in the financial statements should focus on whether disclosure of information is important to the user's understanding of the financial statements. An NPO should disclose items that are material by nature or amount.

IB1.17 INPAS does not permit the aggregation of each material class of items in any individual financial statement, as it could mislead users of the financial information. Separation is required to help provide an appropriate understanding of the financial position, financial performance and cashflows of the NPO.

Compliance with INPAS

What issues arise in terms of reporting compliance with INPAS?

IB1.18 Where all requirements of INPAS have been complied with, paragraph B1.20 requires that an NPO makes a statement in the notes to the financial statements that it has complied with the requirements. This statement cannot include any exceptions or caveats to the level of compliance with the Standard, except where an NPO discloses (in accordance with paragraph B1.22) that a departure from this INPAS is necessary to achieve fair presentation. If an NPO uses exceptions or caveats (other than as prescribed in paragraph B1.22), then compliance with INPAS cannot be stated.

What needs to be disclosed if management's view is that compliance with INPAS would provide misleading information in the narrative report?

IB1.19 Provided an NPO's narrative report is consistent with the financial statements and meets the mandatory reporting requirements in A3 *Narrative reporting*, it is not anticipated that compliance with INPAS would be so misleading that it would conflict with the objective general purpose financial reports of an NPO in A2 *Concepts and pervasive principles*. This is because management can decide what it should include in its narrative report, provided it also complies the principles in A3. If management conclude that adhering to any of the mandatory reporting requirements and principles in A3 would be so misleading that the information provided would not meet the objective of general purpose financial reports, they should explain in the narrative report why this is the case.

IB2 – Statement of Financial Position

Information to be presented in the Statement of Financial Position

What information should be presented in the Statement of Financial Position?

IB2.1 Paragraph B2.2 sets out the minimum information that must be presented on the face of the Statement of Financial Position. This level of information is consistent with that required in other international financial reporting standards. However, it presumes that the majority of NPOs will not have equity claims in the form of share capital and that this information is not required to be shown on the face of the statement. In the unusual circumstances where an NPO has share capital, it can choose to disclose it separately. Otherwise, it will be reported as a part of net assets. Paragraph B2.15 requires further disclosures if an NPO has share capital.

IB2.2 An NPO's net assets can therefore be a combination of the aggregate of the NPO's accumulated surpluses or deficits (comprising restricted funds, unrestricted funds and reserves) as well as equity claims. The provision of information through additional disclosures and the sequencing of information should reflect an NPO's assessment of the needs of the primary users of its financial statements. Judgements should be made based on the usefulness of the information to users of an NPO's general purpose financial reports as outlined in paragraphs B1.17–B1.19.

IB2.3 For private sector entities, it is typical that the balance sheet shows its equity (the equivalent for an NPO being net assets) split between controlling interests (that is, that owned by majority equity holders) and non-controlling interests. This requirement (to split controlling and non-controlling interests) has been retained in paragraph B2.2, as some NPOs may have non-controlling interests. However, in most cases, an NPO will have no non-controlling interests and will not need to apply the requirement of B2.2.

IB2.4 In addition to the separation of restricted funds and unrestricted funds, B2.12 requires that restricted cash be presented on the face of the Statement of Financial Position or in the notes to the financial statements. This disclosure is intended to identify cash that is restricted, for example, due to jurisdictional currency regulation, rather than cash that a purpose related restriction imposed by a grantor (see B8 *Fund accounting*).

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

Does an NPO have to follow a sequence or format for the items in the Statement of Financial Position?

IB2.5 Paragraph B2.2 does not prescribe the sequence or format in which items are to be presented. However, in line with the principles for presenting financial statements set out in B1 *Presentation and compliance*, material items should be presented separately. Items are material if omitting, misstating or obscuring them would impact decisions made by users of the financial statements.

IB2.6 This may require the inclusion of additional line items in the Statement of Financial Position. An NPO should also consider whether information is being obscured by including insignificant line items that could be aggregated without affecting the economic or other decisions made by users of the financial statements. An NPO should also consider the labels it uses for line items and the headings it uses for the grouping of line items.

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

Why is information needed about share capital?

IB2.7 Many NPOs will not have share capital, having been formed under legislation or regulations that do not require the NPO to have equity holders, for example, an NPO may be a partnership or trust. However, an NPO may have some form of equity claims arising from its set up. These equity claims may provide the holders of those equity claims with an interest in the residual net assets of the NPO. Net assets may include debt or other instruments that give the owners of that debt or instrument rights to the assets of the NPO other than as ordinary loan collateral. Where this exists, B2.16 requires additional disclosures.

IB2.8 In those situations where an NPO does have share capital, paragraph B2.15 requires disclosure of information about the amount of shares, the amount received and the ownership. For the majority of NPOs, the requirement of this paragraph is unlikely to apply.

IB2.9 Relevant disclosures in B2.15 include:

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

IB3 – Statement of Income and Expenses

Presentation of income and expenses

What information should be presented in the Statement of Income and Expenses?

IB3.1 Financial activities, transactions and other events will differ between NPOs as they meet their missional purposes. These differences mean that disclosing components of income and expenses that assist in an understanding of the financial activities delivered is important. This information is also useful for making projections of future results.

IB3.2 Additional line items are therefore included on the face of the Statement of Income and Expenses and the descriptions used and the ordering of items is amended when this is necessary to explain the elements of activity. Factors to be considered include:

(a) materiality;
(b) the nature and function of the components of revenue; and
(c) the nature and function of the components of expenses.

IB3.3 Paragraph B3.7 does not prescribe the sequence or format in which items are to be presented in the Statement of Income and Expenses. However, in line with the principles for presenting financial statements set out in B1 *Presentation and compliance*, material items should be presented separately. Items are material if omitting, misstating or obscuring them would make a difference to decisions made by users of the financial statements. This is another reason to include additional line items in the Statement of Income and Expenses. An NPO should also consider whether information is being obscured by including insignificant line items that could be aggregated without affecting decisions made by users of the financial statements.

Should separate columns be used to present restricted and unrestricted funds?

IB3.4 The use of separate columns to present in the Statement of Income and Expenses aggregated income and expenses with restrictions and aggregated income and expenses without restrictions is not required. An NPO can, however, choose to present this information.

IB3.5 To highlight movements on restricted and unrestricted funds in the financial reporting period, an NPO can sequence the order of the complete set of financial statements so that the Statement of Changes in Net Assets is shown before the other financial statements.

IB3.6 An NPO may also consider providing a summary of fund information as it relates to income and expenses. This could be presented as a separate note or included as an addendum at the foot of the Statement of Income and Expenses.

IB3.7 The presentation and related disclosure requirements for income and expenses in funds with restrictions is set out in B8 *Fund accounting*. The presentation of information additional to the INPAS requirements should be based on an NPO's assessment of the needs of the primary users of its financial statements.

What information should be provided about revenue?

IB3.8 Income comprises revenue, interest income and other income (including income from royalties and licences). Paragraph B3.7 requires that revenue as a component of income is presented separately on the face of the financial statement.

IB3.9 An NPO should use the most relevant analysis of revenue. The sources of revenue that affect restricted and unrestricted funds could be disaggregated. The analysis could also distinguish between donations, grants for operating activities, grants for and donations of non-current assets, donations in kind and sales of services and goods. The illustrative financial statements provide examples of the classification of revenue.

How should a transaction not usual for an NPO be disclosed instead of describing it as extraordinary?

IB3.10 Paragraph B3.10 specifies that the Standard does not permit any items to be described as extraordinary. However, there may be circumstances when presenting or disclosing additional line items will be beneficial to users' understandings of the financial statements.

IB3.11 Where material by nature or by amount, transactions that could benefit from separate presentation or disclosure include:

(a) restructurings of the activities of an NPO and reversals of any provisions for the costs of restructuring;
(b) disposals of specific items of property, plant, and equipment;
(c) disposals of specific investments;
(d) litigation settlements; and
(e) changes to other significant specific provisions.

This list is not exhaustive, and other types of transactions or circumstances may occur that would be helpful to disclose separately. These items should be explained in the notes to the financial statements, whether or not they are explicitly required by an INPAS Section. The narrative report can be used to further explain these items in terms of an NPO's financial performance, objectives and/or strategy.

Analysis of expenses

How should expenses be classified?

IB3.12 Paragraph B3.11 requires that expenses be subclassified. D1 *Classification of Expenses* provides for the approach to the analysis of expenses on the face of the Statement of Income and Expenses.

IB8 – Fund accounting

Characteristics of a fund

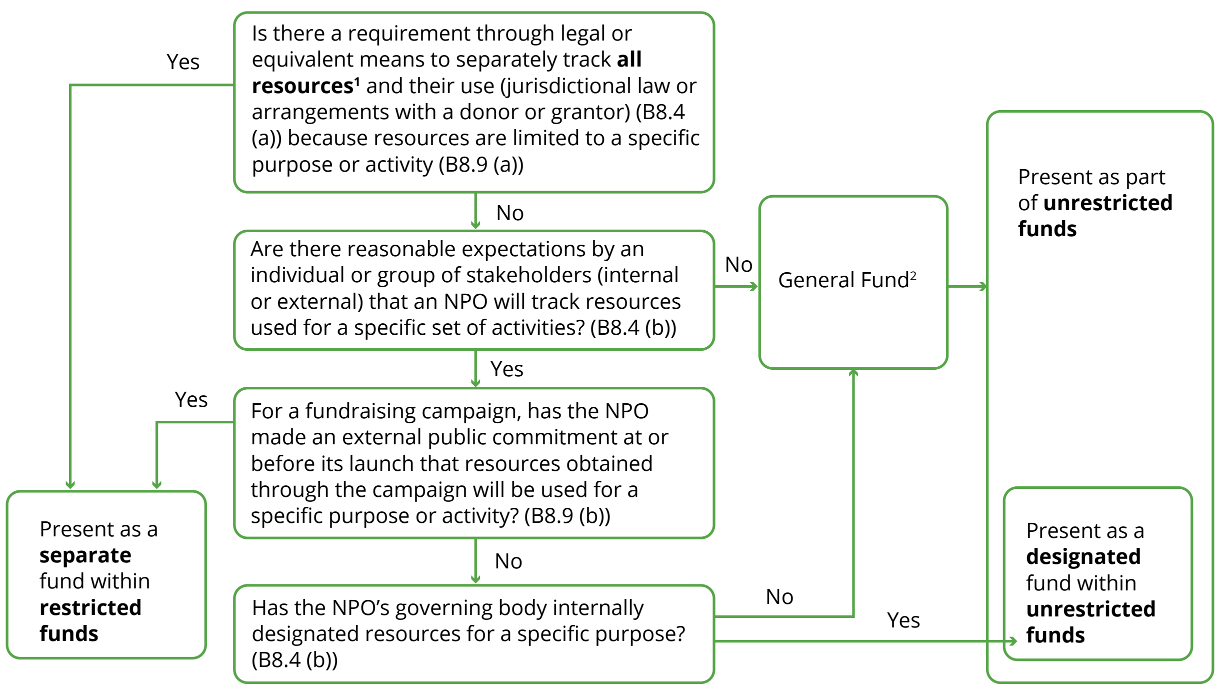
When does a separate fund exist?

IB8.1 All of an NPO's income and expenses must be recorded against a fund. For simpler organisations only a General Fund may exist. Funds other than the General Fund may exist for a variety of reasons. Most commonly it will be:

- an operating choice by an NPO about how it manages itself;
- a requirement because of jurisdictional law relating to NPOs;
- a requirement arising from legal or equivalent means, for example, arrangements with grantors or donors; or
- a result of the publicly communicated actions by the NPO that have created reasonable expectations that an NPO will use resources for a specific purpose.

IB8.2 An NPO must determine whether it has funds other than the General Fund. An NPO must also determine whether or not any of the separate funds identified are restricted funds. The decision tree in Figure IB8.1 can assist in making the decisions.

Figure IB8.1: Decision tree for the identification and classification of funds



Notes

[1] **all resources** means income, expenses, plus as a minimum non-current assets and liabilities.

[2] An NPO may establish additional funds for internal management purposes, for example to track a grant made with no restrictions, or to track specific assets. This may result in the reallocation of funds from the General Fund, rather than from new resources.

IB8.3 Critically, an NPO must assess whether transactions that might require a separate fund are material. The guidance in paragraphs IA2.4 to IA2.26 of A2 *Concepts and pervasive principles* should be used to assess materiality. This assessment of materiality is to determine the funds that are to be separately presented in the financial statements. This is different to what an NPO may need to track internally to satisfy the requirements of grantors or other stakeholders.

IB8.4 In applying the guidance on materiality, an NPO can choose to set a financial threshold for transactions that might be clearly trivial for the purposes of determining whether a separate fund should be presented. Setting such a threshold may assist in the application of the guidance, but an NPO will still need to consider if any of these transactions are material by nature and therefore need to be recorded separately.

IB8.5 Applying the materiality guidance will assist an NPO in identifying where a smaller (but not clearly trivial) fund exists and aid decisions about whether a separate fund should be presented. Where a fund would be individually immaterial, an NPO may decide not to establish a separate fund in the first instance.

IB8.6 A separate fund does not need to be presented for each individual grant (see paragraphs IB8.3 to IB8.5), however, an NPO may choose to present a separate fund for each grant where this expected by stakeholders, and the criteria for a fund are met, particularly if this simplifies reporting requirements.

Is there a difference between funds, grants and projects?

IB8.7 An NPO can be asked for reports for a fund, a grant or a project. In INPAS there is only a requirement to report on a fund. However, to meet the requirements of INPAS, the NPO will need to record grants and determine when and how to recognise grant revenue and grant expenses. INPAS Practice Guide 1: *Harmonised grant reporting (Practice Guide 1)* can be used to report on an individual grant or grouping of grants to an individual stakeholder. Use of Practice Guide 1 can provide transparency about the use of a grant and use of other resources needed to meet the purposes of a fund. A grant is not the same as a fund.

IB8.8 In INPAS these terms are used as follows:

Fund – all NPO transactions are recorded against a fund. A fund separate to the General Fund exists where the criteria in B8.4 have been met. A fund is used to present accounting information.

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

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

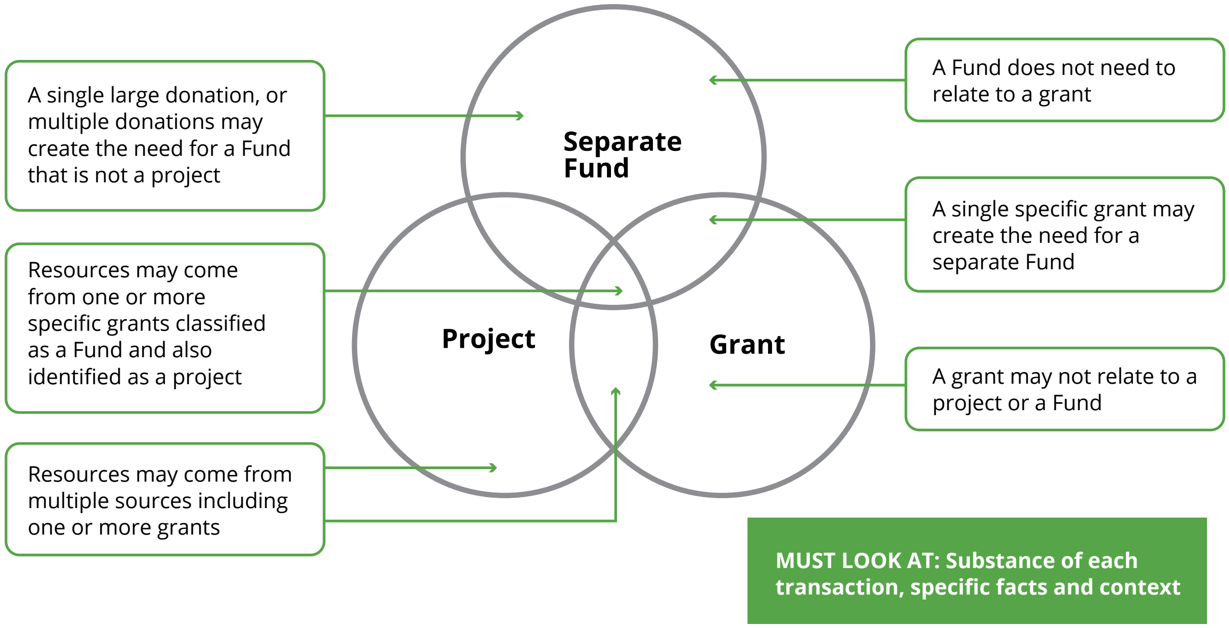
IB8.9 In INPAS it is possible that:

(a) a single transaction may need to only be recorded as a grant, or within a separate fund, or included in a project report, that is, there is no overlap between them;
(b) a single transaction is a grant that is also within a separate fund;
(c) a single transaction is a grant that is part of a project;

(d) transactions in a separate fund are reported as part of a project; and/or
(e) a single transaction is a grant, that is within a separate fund, that is reported as a project.

The Venn diagram in Fig IB8.2 describes these relationships.

Fig IB8.2 – Relationship with funds, grants and projects



When does a requirement arising from equivalent means (to a legal requirement) exist?

IB8.10 Consistent with a legal requirement, a requirement arising from 'equivalent means' places obligations on at least one party to a transaction or arrangement. A requirement created through equivalent means can arise from various mechanisms. These mechanisms may be through alternative processes that have the same effect as a legal mechanism. A formal agreement that creates binding restrictions, even if not strictly legal restrictions, such as regulatory expectations or quasi-legal arrangements with enforceability linked to reputational damage, can create a requirement through equivalent means. Religious law can result in requirements that have the same effect as a legal requirement.

IB8.11 For a grant agreement, which may not automatically be a legal agreement, whether a requirement arises through equivalent means depends on the parties involved and the jurisdictions in which they are based. The practices and processes for establishing grant agreements, for example, vary across legal frameworks, jurisdictions, sectors and entities. In addition, they may vary within an NPO (for example, they may depend on the grantor or the nature of the requirements on the grant recipient).

IB8.12 For a grant agreement to have a requirement equivalent to a legal requirement, there must be an enforcement mechanism outside the legal system that is similar to the force of law without being legal in nature. This enforcement mechanism should establish the rights of the parties to complete their agreed obligations or be subject to remedies for non-completion.

IB8.13 In some jurisdictions, an NPO may be subject to a form of regulatory oversight which, regardless of the legal basis, requires the NPO to act in accordance with defined rules and directives or potentially face censure. This broader regulatory oversight, with an ability to appeal to the regulator, may provide an enforcement mechanism that is equivalent to a legal requirement, even if the specific agreement is not legally enforceable.

IB8.14 While regulators may act in this way in some jurisdictions, the existence of a regulator in itself may not lead to arrangements in these jurisdictions creating a mechanism equivalent to a legal mechanism. This will depend on its remit and how it acts.

IB8.15 In some jurisdictions, public sector entities are not legally able to enter into agreements in their own name, only that of the government. Alternative processes with equivalent effect to legal arrangements, such as executive orders or ministerial directives, are in place to ensure that agreed-upon obligations in an agreement are enforceable.

IB8.16 Public bodies may also have long-established policies and practices that create a legitimate expectation of how they will behave. These legitimate expectations will usually be enforceable through legal mechanisms, such as a court ruling that means a public body will be required to act in a certain way.

IB8.17 Oral agreements may arise from discussions between parties, such as where a grantor offers to transfer cash, goods, services, or another asset to a grant recipient, who has accepted the requirement to meet an obligation. Depending on the substance of the agreement, in some jurisdictions an oral agreement can be legally binding or be equivalent to a legal arrangement.

When might a stakeholder have 'reasonable expectations'?

IB8.18 A fund may exist where stakeholders have a reasonable expectation about how specific resources will be used. An external stakeholder will have a reasonable expectation that the use of resources will be separately accounted for where there is a requirement through legal or equivalent means, or where such an expectation can be derived from a specific public commitment.

IB8.19 An internal stakeholder (those with authority within the NPO such as the governing body) will have a reasonable expectation on the use of resources when decisions have been made to designate funds for a specific purpose. This may create a separate fund even though it is not a restricted fund.

IB8.20 Determining whether a fund should be presented as a restricted fund when there is no legal or equivalent arrangement will, in most cases, rest on management's view about whether stakeholders have a reasonable expectation that resources will be separately tracked and presented.

IB8.21 Factors to consider in assessing whether a stakeholder has a reasonable expectation to the carrying out of a specific activity or purpose, in relation to a grant or donation made, will include:

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

(g) financial dependency on a specific stakeholder (taking account of past practice or the nature of the relationship).

IB8.22 For example, in certain circumstances a grantor may express a form of non-binding preference as to the use of the funds. As these are preferences rather than requirements, they are not likely to create a reasonable expectation on the use of the resources by the stakeholder. In this case, the funds would be included as part of unrestricted funds. The NPO's governing body may internally designate the funds to reflect the donor's preferences if they choose. If, however, previous experience with this grantor is such that, in substance, the preferences are requirements, it may be appropriate to present the funds as part of a restricted fund and separately track the resources.

IB8.23 An NPO may use social media (and potentially other specific media channels) to promote its mission. An NPO will need to assess whether announcements or messages on social media create reasonable expectations by those using the social media channel. Whether a reasonable expectation is created will depend on how social media is used by the NPO and the reliance placed on it. Considerations will include: does social media form a connection to the majority of the NPO's key stakeholders; does the NPO normally use social media for making its announcements; and who has made the social media post and their position in the NPO. Social media activities are frequently used to amplify announcements made through other channels, but may not in all cases be sufficient on its own to create reasonable expectations. This will need to be assessed on a case-by-case basis.

IB8.24 The same is true of verbal commitments made in a public forum. It is the ability to rely on such announcements that is key. If an NPO regularly uses public forums to announce its intentions, but this frequently does not result in a follow up action, stakeholders are less likely to be able to rely on public forums. However, if a public forum is used to launch a campaign and this is followed up by additional activities, such as a 'sign up' page on a website, this may be sufficient to create reasonable expectations.

IB8.25 Whether stakeholders could have formed a reasonable expectation on the use of resources requires professional judgement. It needs to be assessed on a case-by-case basis reflecting the stakeholders involved and the specific context or fact pattern.

What information needs to be kept about a separate fund?

IB8.26 Although each fund is not a separate **reporting entity**, separate accounting records for each fund must be kept within an NPO's accounting system. An NPO must be able to present each fund separately, even if it chooses to aggregate the presentation of small funds, as set out in paragraph B8.27. An NPO will be able to demonstrate its tracking of the use of resources in a fund through regular management reporting.

IB8.27 Many grant agreements may meet the criteria to be a separate fund. Where a grant meets the criteria to be accounted for as a separate fund, it is expected that an NPO is able to identify non-financial assets, work in-progress and other grant-specific assets and liabilities associated with each grant.

IB8.28 Payables, receivables and cash associated with each fund should also be tracked where the information is available without undue cost or effort. Information may be available because it is legally required under the terms of a grant or other agreement. The undue cost or effort provisions cannot be used where there is a legal requirement.

IB8.29 An NPO will need to make an assessment about whether it can separate this information for each fund and the cost and effort of doing so. This is particularly relevant where at the end of the grant agreement any remaining cash or other assets needs to be identified and returned to the grantor or made available for other purposes.

Restricted funds

When does a restriction arise?

IB8.30 INPAS A2 introduces the concept of fund accounting. This recognises that an NPO may have restricted funds.

IB8.31 A restriction arises where resources must be applied to specific purposes, sets of activities, assets or resources as a consequence or a legal requirement or a requirement imposed by a grantor or donor. A restriction may be temporary or permanent.

IB8.32 These requirements limit, in varying degrees, the choices that an NPO can make about how to achieve its missional objectives. Grant agreements with delivery obligations generally impose such restrictions. Grant agreements without delivery obligations may or may not include constraints that reduce an NPO's operational choices.

IB8.33 Grant agreements without delivery obligations may or may not result in a separate fund that may or may not be assessed as being a restricted fund. It is the substance of a transaction rather than legal form that will determine whether it is presented as a restricted fund. The presentation requirements are independent of recognition and measurement, which is dependent on the existence of a present obligation.

IB8.34 Where an NPO makes an external public commitment about the use of resources at or before the time when fundraising commences, the campaign will be shown as a restricted fund. This is because the commitment creates a reasonable expectation and places a specific moral and/or ethical obligation on the NPO to treat the resources as part of restricted funds. In some jurisdictions it may also result in a regulatory obligation. Where an external public commitment is not made at, or before the time when fundraising commences, any fund created is not likely to be a restricted fund.

IB8.35 The existence of an external public commitment to use resources generated through a fundraising campaign for a specific purpose shall not on its own create a **contingent liability**. For a contingent liability to exist, the criteria for the creation of a contingent liability, as set out in D5 *Provisions and contingent liabilities*, must be met.

IB8.36 Non-current assets may be funded through a fundraising campaign, or through a grant or donation. An NPO will need to consider whether such assets are part of a restricted fund or an unrestricted fund, based on any terms attached to the acquisition of the asset. This includes whether the terms require an asset to be held on an on-going basis for a specific purpose, or whether the restrictions are met once the specified asset is acquired. Where the terms of a restricted grant or donation are met once the asset is acquired and it can subsequently be used for any purpose, the asset will be transferred from a restricted fund to an unrestricted fund, where legally allowed.

Does revenue from a contract with customers result in a restricted fund as meeting the obligation results from a legal requirement?

IB8.37 An NPO may get its resources from several sources. This includes revenue from sales that it makes. Such income will arise from a contract for the provision of goods or services rather than a grant agreement. The NPO usually has discretion about how it provides the goods or service and how to apply the income earned. Even though the contract is legally enforceable, this discretion means that revenue from this source would not create a restricted fund.

IB8.38 There may be occasions where revenue from a contract with a customer is applied to a restricted fund, because the restricted fund has multiple sources of funding (for example, revenue from the sale of merchandise). The allocation of this revenue to the restricted fund will generally be at the NPO's discretion rather than a requirement but having allocated it to a restricted fund it cannot be subsequently allocated to another fund.

What expenses can be recorded against an individual fund?

IB8.39 The costs recorded against each fund can include direct, shared and support costs associated with the activities undertaken. In determining the shared costs and support costs to be presented as part of the fund, the principles set out in D1 *Classification of expenses* are to be followed.

IB8.40 These costs can be included where they comprise the legitimate costs of the activities of the fund. Legitimate costs are those costs that have been properly (lawfully) and reasonably incurred in connection with a fund. Legitimate costs should also reflect the policies of the NPO, for example, policies for staff expenses and entertainment costs. Including all legitimate costs provides transparency about the total costs of the activities in a fund. It is not expected that costs resulting from fraud, fines (from the application of law) or other such costs arising from unlawful activity should be included in a restricted fund.

IB8.41 As set out in B8.7, legitimate costs should be allocated to a restricted fund. However, where restricted funds have been created as a consequence of a grant agreement or a similar type of funding arrangement, certain costs may have been defined as ineligible. Costs that are ineligible for the purposes of a grant agreement may nonetheless be a legitimate cost for presentation as part of a fund's costs, particularly where a fund is resourced from multiple sources. Ineligible costs that are not legitimate costs cannot be included in a restricted fund.

IB8.42 Where a fund comprises a single grant, an NPO may not be legally permitted to include ineligible costs, even where such costs are a legitimate cost associated with the purpose of the restricted fund. The use of INPAS Practice Guide 1 may be helpful in setting out how to present legitimate but ineligible costs in this situation.

IB8.43 A fund that has resources contributed from more than one source could include grants that limit the use of resources and grants that have no limitations on the use of resources as well as from a transfer from the NPO's own resources (unrestricted funds). Any fund that meets either of the criteria in paragraph B8.9 will be a restricted fund irrespective of the source of funds.

What are the procedures if there is a balance on a restricted fund at the financial reporting date?

IB8.44 There may be circumstances where there is a difference between the income and expenses recognised against a fund. A negative fund balance may arise at any point in time when cumulative expenditure charged to the fund exceeds cumulative recognised income. Where there is a realistic expectation that future income will be received to cover a negative balance (shortfall), the balance will be carried forward. This will need to be explained in the notes to the financial statements (see IB8.53).

IB8.45 If additional expenses beyond the original resources provided are required to complete the specific purpose for which the fund was established, these shall be charged to the fund, even if it may take several years to complete the activities for which the specific fund is established.

IB8.46 Where there is a positive balance on a fund, this is expected to be carried forward to the next financial reporting period.

Transfers between funds

What if there is a balance on a restricted fund when all the activities are complete?

IB8.47 If a grant covers all expenses and there is no shortfall or excess on a fund, this will enable a fund to be promptly closed when the activities are complete. Communication with the grantor will be important to enabling the prompt closing of funds where a balance remains.

IB8.48 Where there is an excess on a fund, an NPO will need to confirm with the grantor whether the balance can be used for another purpose. Where the grantor agrees that the NPO can use the excess for another purpose, the balance will be transferred to another restricted fund or an unrestricted fund depending on the agreement with the grantor.

IB8.49 Where there is a shortfall on a fund, an NPO will need to approach the grantor to ascertain whether it will provide additional funds to cover the shortfall. If the grantor declines to cover the shortfall, the NPO will need to determine whether it can find alternative funding from another grantor. If the NPO obtains an additional grant to cover the shortfall, it can assess the shortfall as temporary and carry forward the balance until the additional grant is paid and the shortfall removed (see IB8.44). However, if no alternative source of funding is likely, then the NPO will need to transfer funds from its unrestricted funds to make up the difference, where this is legally allowed.

IB8.50 In some jurisdictions, legislation or regulations may prevent the transfer of any surplus or deficit on a restricted fund to an unrestricted fund. Where this is the case, any balance on a restricted fund cannot be transferred until the NPO can legally make such a transfer.

Disclosures

How do the disclosures assist users of the financial statements?

IB8.51 The existence of a balance on a fund can provide important information to the users of the financial statements. An NPO can choose how to order the information to meet the needs of the users of its financial statements. For example, it might be more important to present unrestricted funds before restricted funds or the other way around.

IB8.52 Although explanations are not required of all restricted fund balances at the financial reporting date, providing explanations might be useful. Disclosures related to restricted funds will enable an explanation of **timing differences** between the recognition of income and expenses. An NPO is encouraged to use these disclosures to explain the NPO's **surplus or deficit** for the period.

IB8.53 Explanations of how an NPO plans to address a negative balance (shortfall) on a fund, including how additional funds might be sought or proposals to reallocate resources need to be provided. This can provide assurance to stakeholders such as donors that the NPO has good financial management processes in place.

IB8.54 An NPO is expected to have a policy in place that targets what it needs for financial resilience, including to unexpected events. Transparency over unrestricted funds is likely to play an important role in understanding the financial resilience of an NPO and may form part of published calculations carried out for these purposes. This can provide an important part of the narrative about an NPO's financial situation.

IB8.55 The disclosure requirements set out the minimum information that an NPO needs to provide in relation to funds, the movements on funds and the balances on funds at the financial reporting date. An NPO can go beyond these disclosures where this provides information that the NPO has assessed as being useful to the users of its general purpose financial report. Disclosures can be made in the financial statements or can form part of the narrative report. An NPO will need to consider how any additional information is presented to maximise its value to the users of its general purpose financial report.

Why should internally designated funds be disclosed if they aren't a restricted fund?

IB8.56 An NPO's governing body may decide to designate its unrestricted funds for specific purposes. Such designation may be helpful when explaining how unrestricted funds are intended to be used. It can also be useful to explain the levels of unrestricted funds held, particularly if funds are being accumulated for a specific purpose. It can also be useful to explain the policy for holding unrestricted funds and the degree to which they act as a buffer against, or are sensitive to, external factors.

Are there additional disclosures if a restricted fund relates to a grant agreement with delivery obligations?

IB8.57 Delivery obligations in a grant agreement that meet the criteria for a separate fund are expected to be presented as part of restricted funds because of the requirements in the grant agreement. Delivery obligations that are yet to be satisfied will be included within assets and liabilities, with income and expenses presented in a fund as each delivery obligation is met.

IB8.58 Disclosure of the income and expenses relating to delivery obligations in the movement on funds note provides transparency over the delivery obligations met in the reporting period. Information about material delivery obligations is required to be disclosed in accordance with CI Part I *Revenue from grants and donations*.

When should funds be aggregated for disclosure in the financial statements?

IB8.59 An NPO is permitted to aggregate small funds that are individually immaterial where they have a similar purpose.

IB8.60 Where an NPO only has small funds, a single aggregation may not provide useful information to the users of the financial statements, even if the funds have a similar purpose. An NPO needs to consider what information would be useful to the users of its financial statements when determining how to aggregate small funds.

IB8.61 An NPO needs also to consider whether any restrictions that relate to a small fund are individually significant and therefore need to be separately disclosed.

Examples B8 – Fund accounting

Classification of funds

Context: NPO A has averaged income and expenses of CU8 million over the last 5 years. Amounts vary by year but have never been lower than CU6 million or higher than CU10 million. NPO A provides support to impoverished communities including through education, food aid and water security.

The NPO has identified several transactions where a separate fund may be required. The NPO first assesses whether the transaction is material. For any transactions assessed as immaterial, there is no requirement to present a separate fund. The NPO assesses whether there is a requirement through legal or equivalent means or whether there are reasonable expectations for a separate fund to be established. Based on this assessment the NPO also determines whether the fund is restricted. The assessment may depend on other factors, which need to be considered before a final assessment is made. Consequently, the following examples do not provide a definitive position, but a less likely, possible, or probable outcome. Assessments need to be made on specific fact patterns.

	Scenario	**Material**	**Legal or equivalent requirement**	**Public commitment**	**Possible Presentation**
1	A grant agreement for CU250,000 with a requirement to deliver a distinct service. A report is required by the donor of expenses incurred.	Probable	Probable		Separately presented as a restricted fund
2	The NPO receives 10% of its income through zakat, mandatory funds provided annually by adult Muslims to help those less fortunate than themselves. Use of the funds is governed by Islamic law.	Probable	Yes		Separately presented as a restricted fund
3	The government has introduced a new law that all resources provided for water security must be separately tracked. This is an objective of the NPO.	Yes	Yes		Separately presented as a restricted fund
4	Grants from several stakeholders together with a contribution of the NPO's own resources are being used for a project to develop an education programme for mental health. This is one of many projects being carried out by the NPO.	Possible	Possible	Possible	Depends on the fact pattern
5	A grant agreement for CU30,000 with a requirement to achieve a specified outcome. A report is required by the donor of expenses incurred.	Less likely but needs to be assessed	Probable		Presented as part of restricted funds but not separately identified
6	The NPO's governing body decides to put aside CU3 million for the redevelopment of its estate over the next 5 years. The governing body has asked for quarterly updates on progress and the resources used.	Probable		Possible	Separately presented as an internally designated fund within unrestricted funds

	Scenario	Material	Legal or equivalent requirement	Public commitment	Possible Presentation
7	A donation of shares and cash by a donor that is actively involved in the NPO's network is estimated to be worth CU750,000. The donor expressed a preference for their donation to be used to renovate facilities owned by the NPO.	Probable	No	Possible	Present within unrestricted if there are no reasonable expectations
8	a) A fundraising campaign with the purpose of raising funds for natural disasters raised funds of CU2million. Funds not used for natural disasters can be used by the NPO for any of the NPO's purposes.	Probable	No	Possible	Present within unrestricted funds, but can be separately designated
	b) As above except the NPO has specified that the funds can only be used for the specified natural disaster.	Probable	No	Yes	Separately presented as a restricted fund

Presentation of funds

For the purpose of these examples, revenue is recognised when the asset is purchased and the amount of the grant received is equal to the amount spent.

Example 1 – A grantor funds the purchase of a truck (can be used by the NPO for any purpose after the specified programme)

NPO A enters into a grant agreement for a specific outreach programme. It is given a grant of CU10,000 to purchase a truck, which it does at the end of year 0. The grantor requires that the truck is used only on the specified programme that is due to last for five years. At the end of the programme, the NPO can use the truck on other activities. The truck is depreciated on a straight-line basis and has an expected life of ten years. The grantor's right to require the asset to be used on a specific outreach programme means that the truck is presented as with restrictions. This shows that the truck is not available for general usage.

The NPO has no other activity other than the outreach programme.

Accounting

	Asset	Depreciation	Revenue
On acquisition	10,000		(10,000)
Year 1	(1,000)	1,000	
Year 2	(1,000)	1,000	
Year 3	(1,000)	1,000	
Year 4	(1,000)	1,000	
Year 5	(1,000)	1,000	

Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Restricted funds – Outreach Programme Capital Asset Fund						
Year 0		10,000				10,000
Year 1	10,000		(1,000)			9,000
Year 2	9,000		(1,000)			8,000
Year 3	8,000		(1,000)			7,000
Year 4	7,000		(1,000)			6,000
Year 5	6,000		(1,000)		(5,000)	0
Unrestricted funds – General Fund						
Year 5	1,000,000				5,000	1,005,000

The asset is transferred from restricted funds to unrestricted funds at the end of the programme as permitted under the agreement.

The NPO may be able to group this truck with other non-current assets that have restrictions so that it has one fund for all non-current assets with restrictions. A decision to group assets needs to take account of external requirements.

The use of a single fund for non-current assets may be useful where, for example, the grantor is funding several programmes and the truck can be used on any of these. Where the grantor allows the truck to be used for other unrelated purposes, the NPO will need determine whether the truck is in substance part of a restricted fund (for example, if the alternative use is incidental, it may in substance be restricted).

Example 2 – A grantor part funds the purchase of a truck

The scenario is the same as example 1 except that the grantor only provides half of the value of the truck, that is, the grantor provides CU5,000 and the NPO makes up the balance.

The asset is shown as part of restricted funds, even though it has been part funded by the NPO. This is because of the grantor's right regarding how the asset is used during the programme. Similarly, all of the depreciation is charged to the restricted fund as the NPO is not freely able to use the truck and there may be no value in the truck at the end of the outreach programme.

The NPO's contribution is shown in year 1.

Accounting

	Asset	Depreciation	Revenue	Own resources
On acquisition	10,000		(5,000)	(5,000)
Year 1	(1,000)	1,000		
Year 2	(1,000)	1,000		
Year 3	(1,000)	1,000		
Year 4	(1,000)	1,000		
Year 5	(1,000)	1,000		

Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Restricted funds – Outreach Programme Capital Asset Fund						
Year 0		5,000			5,000	5,000
Year 1	10,000		(1,000)			9,000
Year 2	9,000		(1,000)			8,000
Year 3	8,000		(1,000)			7,000
Year 4	7,000		(1,000)			6,000
Year 5	6,000		(1,000)		(5,000)	0
Unrestricted funds – General Fund						
Year 0	1,000,000				(5,000)	995,000
Year 1	995,000					995,000
Year 2	995,000					995,000
Year 3	995,000					995,000
Year 4	995,000					995,000
Year 5	995,000				5,000	1,000,000

Example 3 – A grantor fully funds a truck with a right of return (NPO controls the truck)

The scenario is the same as example 1 except that the grantor is able to decide at the end of the programme whether the truck can be retained by the NPO for use on other programmes or if it must be disposed of, with the proceeds returned to the grantor. At the end of year 5 the grantor decides that the NPO can keep the truck.

The NPO has determined that it controls the truck and treats the truck as its own asset from the point at which it was acquired. The NPO depreciates the truck over the life of the agreement (five years), which is the period that the NPO is certain that it will control the truck, even if its working life might be expected to be longer. At the end of the agreement the truck is transferred to the NPO's General Fund at its remaining book value.

Accounting

	Asset	Depreciation	Revenue
On acquisition	10,000		(10,000)
Year 1	(2,000)	2,000	
Year 2	(2,000)	2,000	
Year 3	(2,000)	2,000	
Year 4	(2,000)	2,000	
Year 5	(2,000)	2,000	

Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Restricted funds – Outreach Programme Capital Asset Fund						
Year 0		10,000				10,000
Year 1	10,000		(2,000)			8,000
Year 2	8,000		(2,000)			6,000
Year 3	6,000		(2,000)			4,000
Year 4	4,000		(2,000)			2,000
Year 5	2,000		(2,000)		0*	0
Unrestricted funds – General Fund						
Year 5					0*	0

* Once the grantor has confirmed that the NPO can retain the truck, the NPO considers the remaining life of the truck and any residual value. If it determines that the life of the truck is longer, then there will be a lower depreciation charge in year 5. This results in a balance on the asset, which would be transferred out of the Outreach Programme Capital Asset Fund into the General Fund.

If the grantor had required the truck to be sold, any gain or loss would have been shown in other changes.

Example 4 – grantor fully funds a truck with a right of return (NPO <u>does not</u> control the truck)

The scenario is the same as example 3 except that the NPO determines that it does not control the truck. Where it does not control the asset, the asset does not appear on its Statement of Financial Position. It therefore treats it as a leased asset. The NPO records an expense and a revenue in each financial year such that the full cost of the truck is expensed over the period of the programme. At the end of the agreement the truck is transferred to the NPO at the fair value of the truck at that date. The fair value of the truck at the end of the agreement is CU4,000. The truck is treated as a donation at the date it is transferred.

Accounting

	Income (Donations in kind)	Expense (Lease expense)	Cash	Deferred revenue	Asset	Income
On acquisition			10,000	(10,000)		
Year 1	(2,000)	2,000		2,000		
Year 2	(2,000)	2,000		2,000		
Year 3	(2,000)	2,000		2,000		
Year 4	(2,000)	2,000		2,000		
Year 5	(2,000)	2,000		2,000	4,000	(4,000)

Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Restricted funds – Outreach Programme Capital Asset Fund						
Year 0						
Year 1		2,000	(2,000)			0
Year 2		2,000	(2,000)			0
Year 3		2,000	(2,000)			0
Year 4		2,000	(2,000)			0
Year 5		6,000	(2,000)		(4,000)	0
Unrestricted funds – General Fund						
Year 5	1,000,000				4,000	1,004,000

There are no fund balances for the truck if the NPO does not control the truck as the NPO does not have an asset.

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

NPO A enters into a grant agreement to provide an outreach programme. The NPO receives an operating grant of CU100,000 in each year to fund the programme. Expenses have a profile of CU50,000, CU80,000, CU125,000, CU135,000 and CU110,000 across the financial years. There are no donor-imposed conditions other than the funds are to be spent on the outreach programme. The funds are recognised in the year in which they are received. Unspent funds in one year are eligible to be spent in subsequent years. This is a grant agreement without a delivery obligation for the grant recipient.

Accounting

	Revenue	Expenses
Year 1	(100,000)	50,000
Year 2	(100,000)	80,000
Year 3	(100,000)	125,000
Year 4	(100,000)	135,000
Year 5	(100,000)	110,000

Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Restricted funds – Outreach Programme Fund						
Year 0						
Year 1		100,000	(50,000)			50,000
Year 2	50,000	100,000	(80,000)			70,000
Year 3	70,000	100,000	(125,000)			45,000
Year 4	45,000	100,000	(135,000)			10,000
Year 5	10,000	100,000	(110,000)			0

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

Example 6 – Operating grant for outreach programme (shortfall)

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

Accounting

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

Presentation

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

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

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

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

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Restricted funds – Outreach Programme Fund						
Year 0						
Year 1		100,000	(120,000)			(20,000)
Year 2	(20,000)	100,000	(80,000)			-
Year 3	-	100,000	(80,000)			20,000
Year 4	20,000	100,000	(110,000)			10,000
Year 5	10,000	100,000	(120,000)		10,000	(10,000)
Unrestricted funds – General Fund						
Year 5	1,000,000				(10,000)	990,000

Example 7 – Operating grant and truck for the outreach programme are presented together

The scenario is a combination of example 1 and example 5, where as part of the same grant agreement there is a truck and an operating grant, which the NPO decides to present as one restricted fund.

Accounting for the truck and operational grant

	Asset	Depreciation	Revenue	Expenses
On acquisition	10,000		(10,000)	
Year 1	(2,000)	2,000	(100,000)	50,000
Year 2	(2,000)	2,000	(100,000)	80,000
Year 3	(2,000)	2,000	(100,000)	125,000
Year 4	(2,000)	2,000	(100,000)	135,000
Year 5	(2,000)	2,000	(100,000)	110,000

Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Restricted funds – Outreach Programme Fund						
Year 0		10,000				10,000
Year 1	10,000	100,000	(51,000)			59,000
Year 2	59,000	100,000	(81,000)			78,000
Year 3	78,000	100,000	(126,000)			52,000
Year 4	52,000	100,000	(136,000)			16,000
Year 5	16,000	100,000	(111,000)		(5,000)	0
Unrestricted funds – General Fund						
Year 0	1,000,000					1,000,000
Year 1	1,000,000					1,000,000
Year 2	1,000,000					1,000,000
Year 3	1,000,000					1,000,000
Year 4	1,000,000					1,000,000
Year 5	1,000,000				5,000	1,005,000

The NPO can choose whether to present both parts of the grant together (operating grant and asset) or to separate out the truck so that it is in a separate fund. Separation of the truck from the operational activity may allow an NPO to explain what is happening in operational terms distinct from the related asset. Separating the asset may also allow the NPO to better show how much of its property, plant and equipment or other assets are subject to restrictions.

Group C

Revenue

IC1 – Revenue

Economic substance of transactions where the amounts given and received are not approximately equal

Which INPAS Section should I use to account for grants and donations?

IC1.1 When an NPO receives a grant or donation, the grantor or donor generally does not directly receive anything of approximately equal financial value in return, even though they intend the grant or donation to generate value for society. There are also other transactions where the amounts given and received are not of approximately equal value.

IC1.2 The following diagrams illustrate when an NPO should apply Part I and II of C1 based on the economic substance of the transaction:

(a) Figure IC1.1 shows which INPAS sections an NPO should use when it is receiving cash or a service, good or other asset from another entity or individual without directly providing cash or a service, good or other asset in return, or is directly providing a service, good or other asset to an entity or individual in exchange for an amount of cash or a service, good or other asset.

(b) Figure IC1.2 shows when an NPO should use C1 Part I when it acquires cash, goods or services and also the relationship with D2 *Expenses on grants and donations*.

Figure IC1.1: Receipt of cash, service, good or another asset

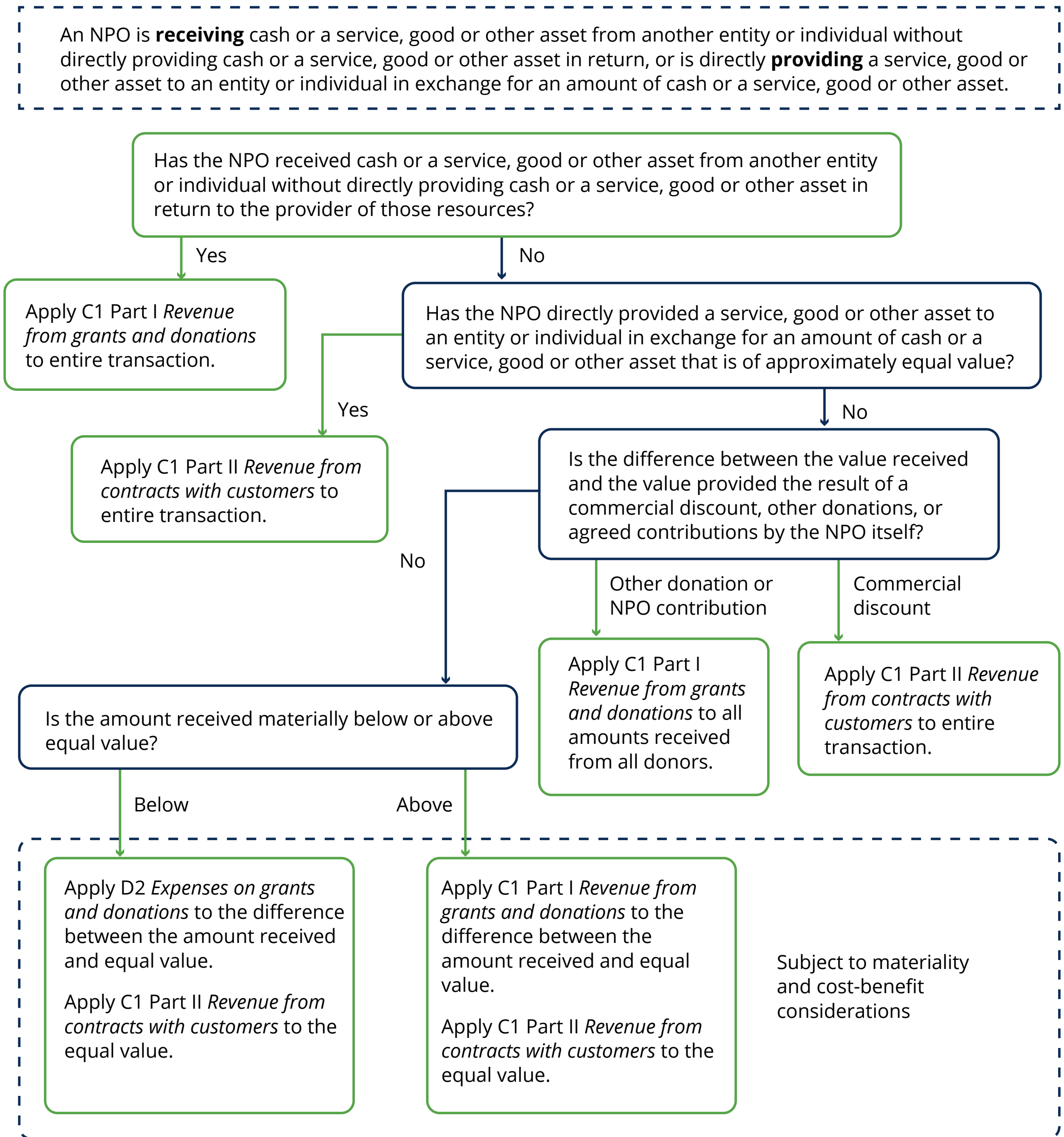
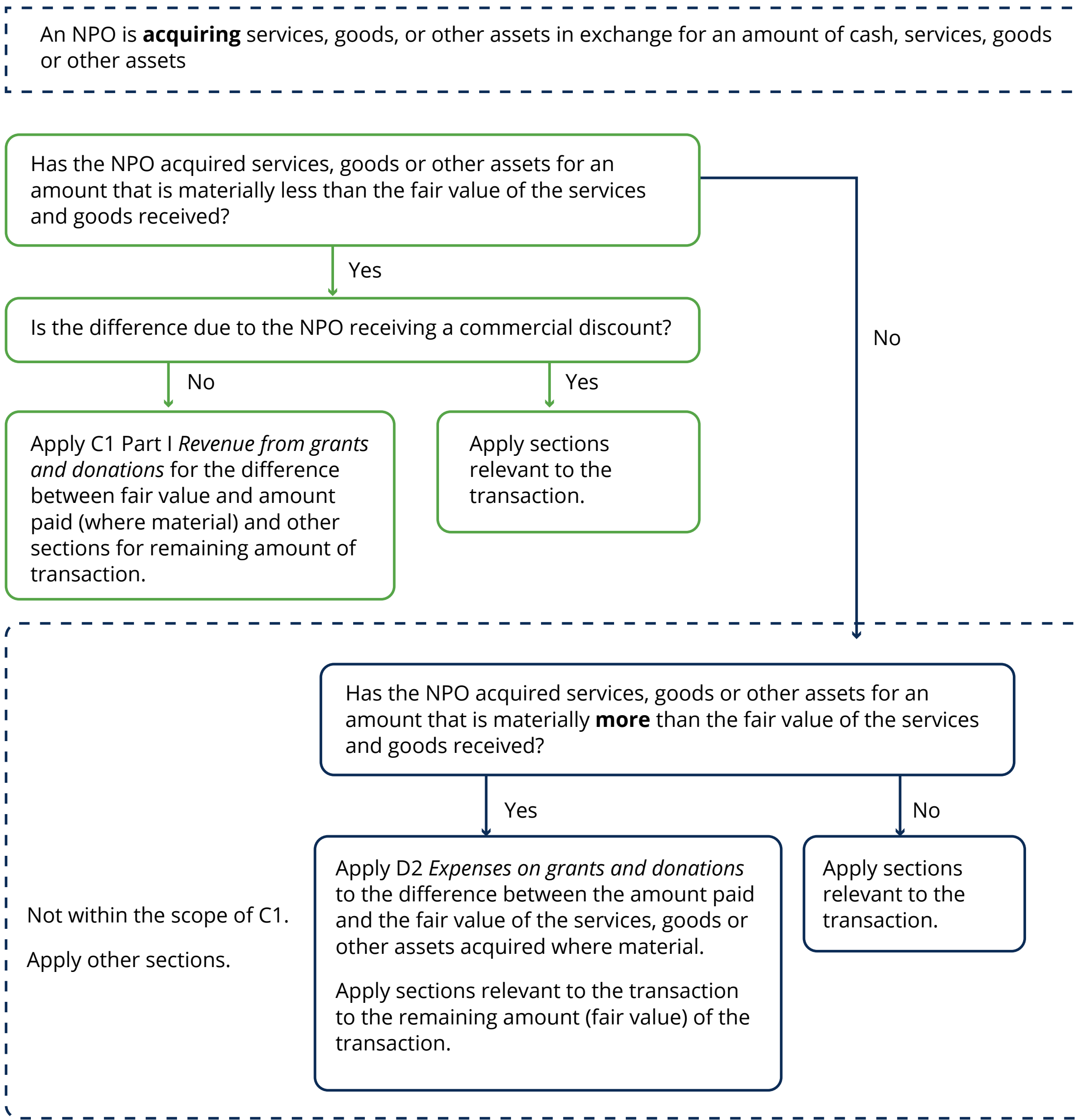


Figure IC1.2: Purchase of services, good or other asset



Accounting for grant agreements

Grant revenue from transactions without delivery obligations

When is revenue without a delivery obligation recognised?

IC1.3 An NPO recognises revenue from a grant agreement without a delivery obligation when it receives the resource or is entitled to it, whichever is earlier. In most cases, this will be when the NPO receives the resource, as the NPO will usually not have a right to the resource prior to that point.

IC1.4 However, it is possible that the NPO will have the right to the resource at an earlier point. This right may enable the NPO to recognise revenue and a corresponding receivable before the NPO receives the resource.

Donations in kind

When applying the permitted exceptions, how does an NPO determine what is a low value item?

IC1.5 Applying the permitted exceptions for low-value items results in an NPO deferring revenue recognition, rather than never recognising an item. It also results in the NPO's inventories being incomplete or understated. Determining whether items are material requires an NPO to exercise judgement.

IC1.6 Similar to the way in which a threshold may be set for the capitalisation of non-current assets, an NPO will need to set the threshold for low-value items. An NPO can set a threshold for all low-value items or for different categories of low-value items.

IC1.7 Donated items may be material based on their magnitude (that is, their financial amount) or their nature (for example, where information about the type of item, the donor(s) or any other relevant factors may affect the decisions that users of the financial statements may make).

IC1.8 An NPO typically makes an assessment about materiality with reference to the overall level of income of which revenue is a part. However, as income can fluctuate between years, it may be more appropriate to use expenses as a reference point. An NPO should discuss with their auditors its assessment of the overall level of materiality to be applied to the Statement of Income and Expenses.

IC1.9 When considering the potential impact on revenue in a financial reporting period, an NPO will need to estimate the difference between:

(a) the amount that would have been recognised had revenue been recognised when the donated items were received; and
(b) the revenue actually recognised as a result of applying the exception.

This difference reflects the donated items received but not sold, distributed or used by the reporting date.

IC1.10 Having established a total level of materiality, an NPO should assess whether the aggregation of donated items in individual categories might impact overall materiality. This is because items may be material individually or in aggregate. For example, the donation of a single laptop to an NPO may be immaterial, but the individual donation of 100 laptops (even if these occur at different times over the financial reporting period) may, in aggregate, be material.

IC1.11 If an NPO has used permitted exceptions in prior years, it will have historical information about the difference between revenue that would have been recognised when the donated item was received and the revenue actually recognised. This prior year information will be helpful in assessing the overall materiality of these items to revenue.

IC1.12 Materiality may also need to be assessed in the context of overall surplus or deficit. However, as the timing of grant revenue recognition results in fluctuations in surpluses and deficits, this may not be a significant factor.

IC1.13 For inventories, the impact on the financial statements is the amount of unrecognised donated items that have not been sold, distributed or used at the end of the reporting period. The amount not recognised could include items that were not recognised from previous financial reporting periods as well as items donated in the current financial reporting period. An assessment of the materiality of the cumulative items not recognised in the Statement of Financial Position should be made in the context of an NPO's total assets. As with revenue, an NPO should discuss with its auditors its assessment of the overall level of materiality to be applied to total assets.

IC1.14 An NPO may also need to consider impacts on fund balances. Users may expect an NPO to maintain positive balances on its funds, particularly its unrestricted general fund. Where the difference between revenue recognised and the value of items not recognised leads to a fund moving from a positive to a negative balance (or negative to positive), this may be important. Also, if applying a permitted exception for low-value items could result in one primary user group making a different decision (for example, about future grant funding that is significant to the organisation), that may impact materiality judgements.

IC1.15 An NPO may be able to identify groups of donated items where a detailed materiality analysis is not required. This is because the donated items are clearly trivial. The NPO can set a threshold for clearly trivial items, which would typically be a very small amount of an NPO's total materiality. The NPO may wish to discuss what is 'clearly trivial' with its auditor.

IC1.16 The nature of the items that an NPO receives for sale, distribution or use will rarely be controversial, and as a consequence the circumstances that could result in donated items being material because of their nature are likely to be infrequent. However, this might arise where low-value donated items for sale, distribution or own use create a conflict with the NPO's mission. It might also arise if there is an operational dependency on particular donated items, even if they do not have a high value. An NPO should satisfy itself that nothing in the nature of donated items would be sufficient for primary users to make different decisions, as in these situations a low-value donated item could be material.

Revenue from transactions with delivery obligations

Steps 1 and 2 – Identifying a grant agreement with delivery obligations and identifying each delivery obligation

How does an NPO determine the individual delivery obligations in a grant agreement to appropriately account for transactions with delivery obligations?

IC1.17 Delivery obligations in the non-profit sector vary substantially. Some delivery obligations may require the NPO, as the grant recipient, to achieve a specific holistic service objective, while other delivery obligations may impose requirements related to specific services and goods. An NPO must use judgement as it applies paragraphs C1.70–C1.74 to determine the individual delivery obligations in its grant agreement.

IC1.18 An NPO should first identify all the undertakings it has given in a grant agreement that require it to use resources in a specific manner. These may be explicit or implicit and may require the NPO to achieve a specific outcome, to carry out specific activities, to use resources internally for a good or service, or to transfer a good or service to a service recipient. A thorough assessment is necessary to identify all the obligations in the agreement (paragraphs C1.73–C1.74).

IC1.19 An NPO must then consider each identified obligation to determine if individually it creates a delivery obligation, or whether it should be grouped with other obligations, which might collectively make up a single delivery obligation. A delivery obligation is separate and distinct if both of the following criteria are met:

(a) an outcome or activity (which may be the transfer of goods or services to service recipients) is separate from other outcomes or activities or deliverables in the grant agreement; and
(b) the resources (including goods or services) required to complete the outcome or activity by the delivery obligation are separate from other resources required by the grant agreement.

IC1.20 Whether an obligation is capable of being distinct will be based on its characteristics and will require judgement. An NPO needs to make this judgement to ensure that the identification of individual delivery obligations will meaningfully represent the nature of the NPO's transaction with the grantor and provide a useful depiction of the NPO's performance. This judgement reflects the substance of the transaction.

IC1.21 Any distinct obligation, or distinct group of obligations, identified by the NPO through this analysis will be an individual delivery obligation. In many cases, an NPO will need to report progress on individual delivery obligations to the grantor. Grantors are likely to monitor delivery obligations to determine if, when and how the NPO has met the delivery obligation. This is because completing or fulfilling the delivery obligation creates the entitlement to the grant.

IC1.22 Generally, monitoring reports on their own are not sufficient to create a delivery obligation. Certain features of agreements such as not funding terrorism or money laundering that are not specific to a distinct outcome, activity, good, or service are not delivery obligations (see also paragraphs C1.96–C1.97 and IC1.17–IC1.19).

How should an NPO deal with a time restriction on a grant

IC1.23 A grant agreement may include restrictions on the period in which an NPO must use the grant. Implementation Guidance accompanying D2 *Expenses on grants and donations*, provides guidance on this issue.

Enforceability

What should an NPO consider in assessing enforceability?

IC1.24 Determining whether a grant agreement, and each party's rights and obligations in that agreement, are enforceable may be complex and requires judgement. This assessment is integral to identifying whether an NPO has:

(a) a grant agreement that includes both enforceable rights and enforceable obligations (in which case the grant recipient will usually have one or more delivery obligations and the grantor fulfilment rights);
(b) only enforceable rights (in which case the grant recipient may have revenue from a grant without a delivery obligation and the grantor a grant expense without a fulfilment right); or
(c) only enforceable obligations, through legal or equivalent means (in which case the grant recipient should consider whether it is required to recognise a provision in accordance with D5 *Provisions and contingencies*).

For more complex grant agreements, an NPO may need to make this assessment for each component of the agreement.

IC1.25 At inception, an NPO will need to use its judgement and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations. In other words, both the grantor and the grant recipient will need to determine what each can enforce. An NPO will need to consider the implicit or explicit consequences of not fulfilling the rights and/or not fulfilling the obligations. Relevant factors include, but are not limited to:

(a) the substance (practical effects) rather than the legal form of the arrangement;
(b) terms that are written, oral or implied by an NPO's customary practices;
(c) whether it is enforceable through legal means (for example, by the legal system, enforced through the courts, judicial rulings, and case law precedence), or compliance through equivalent means (for example, by arbitration, action taken by a regulator);
(d) implicit or explicit consequences of not fulfilling the obligations in the arrangement;
(e) the specific jurisdiction, sector and operating environment; and
(f) past experience with the other parties in the arrangement.

While these factors will often apply to a grant agreement as a whole, for more complex grant agreements an NPO may need to consider which factors apply to each component of the agreement.

IC1.26 Table IC1.3 summarises revenue recognition for grant agreements, which may or may not have obligations, because of the level of enforceability in the grant agreement. It also considers the implications of administrative requirements in a grant agreement.

Table IC1.3: Revenue recognition for different types of grant agreements

	Nature of the arrangement	Performance requirement	Administrative requirement
Grant agreements with delivery obligations	Both parties to the arrangement have both rights and obligations that are enforceable through legal or equivalent means, whether the parties choose to enforce the arrangement or not. There is at least one delivery obligation.	**Breach** – Sanctions are possible in line with the terms of the grant agreement. Sanctions may include repayment of funds received, or non-payment or lower payment of future amount than specified in the agreement. **Accounting** – Revenue is recognised when (or as) each delivery obligation is achieved.	**Breach** – Sanctions are possible in line with the terms of the grant agreement. Sanctions may include penalties, or the withholding of funds by the grantor. Breach of an administrative requirement that is not a delivery obligation has no effect on revenue recognition. **Accounting** – An expense and provision are recognised when there is a present obligation because of the breach.
Grant agreements without delivery obligations but with restrictions	The funder and the recipient may or may not have obligations and/or rights, but both parties will not have both rights and obligations. The agreement may or may not be enforceable through legal or equivalent means. There are no delivery obligations, but there may be restrictions on the use of resources.	**Breach** – In the event of a breach of the restrictions, a repayment may be required if the grant is paid in advance, or no payment or a lower payment may be received if the grant is paid in arrears. **Accounting –** Revenue is recognised when the NPO controls or is entitled to the resources. A requirement to make a refund would be recognised when a present obligation arises.	**Breach** – Sanctions may be possible in line with the terms of the grant agreement. Sanctions may include penalties, or the withholding of funds by the grantor. **Accounting** – An expense and provision are recognised when there is a present obligation because of the breach.

	Nature of the arrangement	Performance requirement	Administrative requirement
Grant agreement with no delivery obligations or restrictions	The funder and the recipient may or may not have obligations and/or rights. The agreement may or may not be enforceable through legal or equivalent means. There are no delivery obligations or restrictions on the use of resources.	**Breach** – Not relevant as there are no performance requirements or restrictions. **Accounting** – Revenue is recognised when the NPO controls or is entitled to the resources.	**Breach** – Sanctions may be possible in line with the terms of the agreement. Sanctions may include penalties or the withholding of funds by the grantor. **Accounting** – An expense and provision are recognised when there is a present obligation because of the breach.

What is meant by enforceability through legal or equivalent means?

IC1.27 In some jurisdictions, an NPO may be subject to a form of regulatory oversight which, regardless of the legal basis of an individual agreement, requires the NPO to act in accordance with defined rules and directives or potentially face censure. This broader regulatory oversight may provide the parties to a grant agreement with the effective means to enforce the arrangement through appeal to a regulator, even if the specific agreement is not legally enforceable.

IC1.28 In rare cases, where the grant recipient is presently entitled to future funding through another grant agreement, and the terms of this other agreement specifically allow the grant provider to reduce future funding if the NPO breaches other grant agreements, this could provide a valid enforcement mechanism. Such circumstances require the NPO to apply judgement based on the facts and circumstances, including any past history of funding being reduced where a grant provider had the right to do so.

IC1.29 Enforceability can arise from various mechanisms. An NPO should objectively assess all relevant factors at the transaction date to determine whether a grant agreement is enforceable. For example, in some jurisdictions public sector entities are not legally able to enter into agreements in their own name, only that of the government. Alternative processes with equivalent effect to legal arrangements such as executive orders or ministerial directives are in place to ensure that agreed-upon obligations in an arrangement are enforceable.

What should an NPO consider if it renegotiates deliverables in a grant agreement?

IC1.30 It may be common practice with some grantors to renegotiate the deliverables in a grant arrangement, for example because of changes in the local environment that has meant that the original deliverables cannot be met.

IC1.31 Where grantors re-purpose funds and, for example, do not withhold funds if the original deliverable cannot be met, the NPO will need to consider if the substance of the agreement is that it is not enforceable. In this case the NPO would consider that the deliverables in the grant agreement are not delivery obligations.

IC1.32 If the NPO concludes that the grant agreement is not enforceable at the commencement of the agreement, it should account for the agreement as a grant agreement without delivery obligations. If, however, it has previously accounted for the grant as a grant agreement with delivery obligations, it should reclassify the grant agreement as a grant agreement without delivery obligations and apply paragraphs B7.16–B7.27 to determine whether to account for the reclassification as a change in accounting estimates (which will usually be the case) or the correction of a prior period error.

IC1.33 A grant provider might, however, agree to re-purpose funds and in renegotiating the deliverables, maintain its right to withhold funds if the NPO does not meet the revised delivery obligation(s). This scenario would be a modification of the grant agreement that would not meet the criteria to be accounted for as a separate grant agreement. The NPO would therefore apply paragraph AC1.8 in accounting for the revised agreement.

Are administrative tasks relevant for enforceability?

IC1.34 Delivery obligations can be thought of as the specific purposes for which grants are given. Generally, delivery obligations are not administrative tasks, such as monthly monitoring reports, as these are not the purposes for which the grant is given. Instead, administrative tasks are typically those tasks that an NPO carries out to satisfy a donor that it has met (or is meeting) the terms of a grant, or those tasks that allow the NPO to comply with legislative requirements but are not the specific purpose of the grant itself.

IC1.35 In some cases, a delivery obligation may include a task that appears to be administrative. An NPO will need to consider the substance of the task to determine whether completion of the task forms part of the purpose for which the grant has been given.

IC1.36 The following table identifies a number of tasks and illustrates the issues an NPO should consider in determining if the task is part of a delivery obligation or purely administrative:

Description of task	**Issues to be considered**
Production of monthly monitoring reports that are sent to the donor	The purpose of a grant is unlikely to include the production of monitoring reports. Instead, the monitoring reports are likely to be a mechanism by which the donor ensures that the NPO is complying with the grant terms. As such, the production of monthly monitoring reports is likely to be an administrative task.
Production of annual financial statements	The production of annual financial statements is usually a legal requirement and would therefore not be a delivery obligation. If the NPO is not required by law to produce annual financial statements but is required to do so by the terms of the grant agreement, it is likely that this is a mechanism by which the donor ensures that the NPO is complying with the grant terms. Where this is the case, the production of annual financial statements is likely to be an administrative task.

Description of task	Issues to be considered
Implementation of a financial system and production of financial statements	An NPO receives a grant to replace its financial system. One of the grant conditions requires the NPO to produce financial statements using the replacement system. The overall purpose of the grant is to ensure the NPO has a fully functioning replacement financial system. Whether the production of the financial statements is an administrative task or a delivery obligation will depend on whether the production of the financial statements is required solely for compliance purposes or is part of the implementation process. If, for example, the replacement system has pre-specified elements such as a chart of accounts and reports, the production of the financial statements may not affect the implementation of the system and may be a compliance task. The production of the financial statements can, however, contribute to the purpose by confirming that the NPO has correctly configured the system, and production of the financial statements could be a part of the final testing. Therefore, where the production of the financial statements contributes to the implementation or testing of the system it is likely to be part of a delivery obligation.
Production and publication of a research report	An NPO will need to consider the purpose for which the grant was given. If the purpose was to carry out the research and publish the results as a way of increasing public knowledge in the area, then both the production and publication of the report may be a delivery obligation. This is because increasing public knowledge can only be achieved by publishing the report externally. If the report is not published externally, or is only sent to the donor, it is more likely that the publication task is an administrative task, demonstrating compliance with the terms of the grant.
Applying for / obtaining a patent	A grant that requires an NPO to apply for or obtain a patent as part of a research grant is likely to be a delivery obligation. Although the process of applying for the patent may be administrative in nature, the purpose of the grant is likely to be to ensure that the research is carried out and that the NPO benefits from the results of the research. However, if the grant agreement does not require the NPO to apply for or obtain a patent, any application may be outside the scope of the grant, and expenses incurred in applying for the patent may not be eligible to be funded from the grant. In this case, applying for or obtaining the patent would not be a delivery obligation.
Delivering training to volunteers	A grant requires an NPO to provide health and safety training to its volunteers. The NPO uses its own staff to deliver the training. In this case, one of the purposes of the grant is to ensure volunteers are appropriately trained for the tasks they perform. This type of activity will usually be a delivery obligation, as the training is required to meet the purpose for which the grant was given. Using the NPO's own staff does not automatically make the activity an administrative activity.

Step 4 – Allocating the transaction amount to delivery obligations

How should an NPO determine the most suitable method for estimating the stand-alone value of a delivery obligation?

IC1.37 An NPO is required to allocate the transaction amount to each delivery obligation on a relative stand-alone value basis. However, stand-alone value is not always directly observable and must then be estimated.

IC1.38 The stand-alone value is the cost (including costs such as employee costs) the NPO expects to incur to satisfy a delivery obligation.

IC1.39 In some cases, a grant provider may contribute towards part of the costs of a delivery obligation. In such cases, the stand-alone value should reflect the proportion of the delivery obligation covered by the grant provider's contribution.

IC1.40 The stand-alone value of a delivery obligation may differ from the amount of grant the NPO expects to receive for that obligation. Consequently, the NPO should not assume that the amounts of grant specified in the grant agreement are a reliable measure of the stand-alone values.

IC1.41 Where the preparation of the grant agreement has involved the preparation of a budget for each delivery obligation, these budgets will generally be a reliable measure of the stand-alone value of each delivery obligation. This assumes that no changes have taken place between the preparation of the budgets and the making of the agreement. Where changes have taken place, the stand-alone value should be reassessed as at the date the agreement was made.

IC1.42 The estimated costs used in determining the stand-alone value of a delivery obligation should be based on observable information wherever possible. Observable information will include the market price of any goods or services that are to be purchased and known staffing costs where the NPO's staff will carry out the activities needed to satisfy the delivery obligation.

IC1.43 Based on the reasonably available information, the NPO will then determine which method to use for estimating the stand-alone value. The method chosen should most faithfully represent the value of the outcomes, outputs, activities, goods or services promised in the grant arrangement.

IC1.44 The stand-alone values of delivery obligations are determined at the inception of the grant agreement and, unless the agreement is subsequently modified, the stand-alone values are not changed to reflect changes in circumstances.

IC1.45 The transaction amount (the total amount of the grant) is allocated to delivery obligations based on their relative stand-alone amounts. For example, if the stand-alone value of one delivery obligation is CU60,000 and the stand-alone value of another obligation is CU40,000, 60% of the transaction amount is allocated to the first delivery obligation, and 40% to the second delivery obligation. The amount allocated to each delivery obligation will only be the same as the stand-alone value if the transaction amount is exactly CU100,000.

Step 5 – Recognising grant revenue when (or as) the NPO fulfils a delivery obligation

How does an NPO determine a measure of progress that depicts the NPO's performance to fulfil its delivery obligation, when an NPO fulfils a delivery obligation over time?

IC1.46 After the NPO identifies its delivery obligations, the NPO will need to consider the nature of what it is required to do and the specific terms of the grant agreement to determine the appropriate method of measuring progress. Methods of measuring progress include output methods and input methods (see paragraphs C1.89–C1.95).

IC1.47 Firstly, all observable and available information associated with fulfilling the delivery obligation should be considered. This information will be useful for all parties in the grant agreement to confirm whether its terms are being met. Observable and available information may be explicitly required in the grant agreement and includes, but is not limited to:

(a) the achievement of specified outcomes;
(b) the performance of specified activities;
(c) incurring eligible expenditures;
(d) the requirement to track progress towards achieving outlined milestones;
(e) the production or delivery of specific quantities of goods or services; and
(f) the volume of resources consumed (for example, labour, materials, machine hours, etc).

IC1.48 Some types of information are considered output methods. Output methods are based on the outputs and outcomes achieved in fulfilling the delivery obligation. Other types of information are considered input methods. Input methods are based on the NPO's efforts or inputs into the fulfilment of the delivery obligation.

IC1.49 The NPO should use professional judgement to determine what information most faithfully depicts the NPO's performance towards complete fulfilment of the delivery obligation. In making this assessment, the NPO should also consider which method of measuring progress:

(a) better reflects the nature and intent of the NPO's promise in the grant agreement;
(b) more clearly captures the relationship with, and communicates the progress toward, the fulfilment of the delivery obligation;
(c) uses information that is more reliable and directly observable;
(d) reflects all relevant performance associated with fulfilling the delivery obligation; and
(e) provides benefits that outweigh the costs of obtaining and tracking the necessary information.

IC1.50 There may be situations where resources are passed through a series of NPOs or other entities before outcomes are achieved, activities are carried out or services and goods are received by the ultimate service recipients. Where the NPO is one of multiple parties involved in the arrangement, the NPO will need to consider the nature of its obligations and whether fulfilment of its delivery obligation depends on other parties in the grant agreement. This might mean that an NPO is a principal in the transaction or an agent and will inform revenue recognition. For example, where an NPO is primarily responsible for fulfilling the delivery obligation, for example by selecting partner organisations that deliver services to service recipients and ensuring that these services meet the agreed specification it will be the principal. The NPO will be an agent if the partner organisations have been selected by the grantor and the NPO does not control the services provided by those organisations.

Examples C1 – Revenue

The following examples illustrate the application of the principles for accounting for revenue from grants and donations. They show how an NPO could consider requirements of the model for recognising grant revenue, such as determining whether an agreement with delivery obligations exists, accounting for grants over multiple reporting periods and capital grants.

The circumstances in relation to an individual NPO and its transactions will vary significantly. These examples are illustrations only. An NPO will need to use its professional judgement to apply the guidance to its own circumstances.

Structure of C1 – determining which Part of C1 applies

Revenue transactions are classified as either revenue from grants or donations (covered in C1 Part I) or revenue from contracts with customers (C1 Part II). The different economic substance of revenue transactions is illustrated by the example below.

Example 1 – Economic substance of the transaction (use of Part I and Part II of C1)

NPO A (a non-profit school) has a primary objective of providing free education to disadvantaged children. It also provides some training courses to companies on a commercial basis. A company (the Company) enters into an agreement with NPO A where the Company will pay NPO A CU500,000 to both provide a training course for its employees and to fund additional places at the school. The usual price of the training course is CU300,000.

NPO A considers the economic substance of the transaction to determine the appropriate accounting treatment.

NPO A is required to use some of the cash to provide additional places at the school and to give the Company information on the number of additional places provided. NPO A has control of the economic resources transferred because it has discretion over how the cash is used without requiring further authorisation from the Company. As the Company does not directly receive cash, a service, good or other asset in return from NPO A, the economic substance of this component of the agreement means that NPO A should apply Part I for accounting for revenue from grants, donations and similar transfers.

As part of the agreement, the Company has responsibility for approving the training agenda to ensure it achieves its aim. NPO A is not required to provide the Company with any further information on how that fee is being used to deliver the training. The economic substance of this component of the agreement involves NPO A directly providing a service to the Company in exchange for consideration and therefore means that NPO A should apply Part II for accounting for revenue from contracts with customers.

NPO A concludes that the agreement with the Company includes two transactions – a contract with a customer for the provision of the training course and a grant to provide additional places for disadvantaged children at the school.

NPO A will need to allocate the total amount payable under the agreement to the two transactions. As there is a known price for the training course, NPO A uses this to determine the allocation of the total amount.

NPO A accounts for a grant of CU200,000 (under Part I of C1) and a contract with a customer of CU300,000 for the training course (under Part II of C1).

Types of grants revenue

Identifying a grant agreement with delivery obligations

Examples 2–3 illustrate the requirements in paragraphs C1.49–C1.57 on the determination of whether an NPO has entered into a grant agreement with a delivery obligation.

Example 2 – Existence of rights and obligations

Case A – No obligations, no specified time period and no reporting to the grantor

NPO B (an environmental organisation) receives funding of CU10,000 from a grantor (Donor A) to fund environmental programmes. The agreement requires NPO B to spend the funding on programmes with the goal of improving biodiversity in the region. If NPO B incurs expenses to improve biodiversity in the region, it can enforce its right to receive funding from Donor A. The agreement does not specify the period in which NPO B must spend the funds, any requirement to fund specific biodiversity programmes, or how Donor A will receive or verify information on how the funds were spent.

Analysis

Enforceable right – NPO B has an enforceable right to resources from Donor A if it incurs eligible expenses.

Delivery obligation – NPO B does not have a delivery obligation because Donor A does not have the ability to enforce how NPO B uses funds in a specific way (for example, specific programmes) or within a specific period.

Conclusion

NPO B concludes that the grant agreement is a grant without a delivery obligation. Although NPO B has an enforceable right to resources, Donor A has no realistic way to enforce the requirement to spend all of the funds.

Case B – Specified time period to spend funds

The same facts as in Case A apply to Case B, except the agreement specifies that NPO B must spend the funds within a five-year period.

Analysis

Enforceable right – NPO B has an enforceable right to resources from Donor A if it incurs eligible expenses and this is not changed by the requirements to spend the funding within five years.

Delivery obligation – The requirement to spend the CU10,000 within five years does not change NPO B’s conclusion that it has a grant agreement without a delivery obligation. This is because Donor A is not able to confirm if and when NPO B spends the funds as stated in the agreement.

Conclusion

NPO B concludes that the grant agreement does not include a delivery obligation. Although NPO B has an enforceable right to resources, Donor A has no realistic way to enforce the requirement to spend all of the funds.

Case C – Specified time period to spend funds and specific reporting to the donor is required

The same facts as in Case B apply to Case C, except the agreement also specifies how NPO B is to report its spending to Donor A, and that NPO B must return any misused or unused funds to Donor A. NPO B continues to have full discretion over how to use the funds, as long as the funds are spent within five years on activities that reasonably relate to improving biodiversity in the region, which NPO B considers could apply to almost all its activities.

Analysis

Enforceable right – NPO B has an enforceable right to resources from Donor A if it incurs eligible expenses, and this is not changed by the additional requirements in the grant agreement.

Delivery obligation – NPO B does not have a delivery obligation. In accordance with paragraphs C1.96–C1.97, the reporting requirements are a formality and not a separate delivery obligation. The wording of the grant agreement does not identify specific outcomes, activities, or resources to be used internally, and therefore does not give rise to delivery obligations. This is because the requirement is not specific. Given its mandate, almost all NPO B's activities would meet the definition and NPO B will always be able to identify relevant spending.

Conclusion

NPO B concludes that the grant agreement does not include a delivery obligation. Although NPO B has an enforceable right to resources and is required to report its spending to Donor A, no specific objectives, activities or resources are identified and Donor A has no realistic way to identify the resources spent separately from any other expenses of NPO B. If NPO B did not use all the resources at the end of the 5-year period, then NPO B would recognise a liability for its obligation to refund the unused amounts at that time.

Case D – Specified time period to spend funds, specific reporting to the donor and donor final approval is required

The same facts as in Case C apply to Case D, except that the agreement also specifies that NPO B is to report its activities including a series of metrics measuring the changes in biodiversity in the region. Donor A is entitled to a full or partial refund if it does not receive this report or if it considers that the report shows that NPO B has not employed best endeavours to carry out activities that have had an impact on biodiversity. In accordance with paragraphs C1.96–C1.97, NPO B concludes that the reporting requirements have substance because fulfilment of its obligations cannot be certain until confirmation has been received from Donor A that it considers best endeavours have been employed.

Conclusion

NPO B concludes that it has a grant with a delivery obligation because both the donor and the grant recipient have an enforceable right and enforceable obligation. As Donor A does not specify individual programmes, it is probable that NPO B has a single delivery obligation.

Case E – Specific milestones to be achieved

The same facts as in Case D apply to Case E, except that, instead of the series of metrics measuring the changes in biodiversity, the agreement contains specific and measurable milestones that NPO B must meet. If these milestones are not met, NPO B is required to return all, or a portion, of the funds to Donor A.

Conclusion

Based on these terms, NPO B concludes that it has a delivery obligation to carry out environmental projects to achieve the specified milestones in order to retain the funds and an enforceable right to payment of the grant for carrying out those projects.

Example 3 – Online donations

NPO C, an aid organisation that provides emergency aid internationally, issues an online appeal to raise funds to provide support to those affected by a natural disaster. NPO C separately considers the guidance in B8 *Fund Accounting* in deciding whether to account for the appeal as a separate fund.

Case A – No promises in the appeal

Although the appeal refers to the specific natural disaster and the work of NPO C in supporting those affected, the appeal does not specify that all donations will be directed to this work, which is permitted by the applicable legislation.

Analysis

Resources – NPO C gains control of the resources when it receives the online donations.

Delivery obligation – NPO C does not have a delivery obligation because the wording of the appeal does not require it to use the funds in support of any particular activities.

Conclusion

NPO C concludes that the appeal does not give rise to a delivery obligation. As a result, NPO C accounts for the revenue as revenue from a transaction without a delivery obligation.

Case B – The appeal includes specific promises

The appeal includes a promise that the NPO will use all donations to support those affected by the specific natural disaster.

Analysis

Resources – NPO C gains control of the resources when it receives online donations.

Delivery obligation – NPO C does not have a delivery obligation. Although the appeal includes a statement that the NPO will use all donations to support those affected by the specific natural disaster, the individual online donors have no way of enforcing this and cannot tell if their specific funding has been used as promised.

Conclusion

NPO C concludes that the appeal does not give rise to a delivery obligation. As a result, NPO C accounts for the revenue as revenue from a transaction without a delivery obligation.

Grant revenue from transactions without delivery obligations – donations in kind

Example 4 – Gifts in kind (permitted exceptions)

A business (Business A) is relocating and donates office furniture and office supplies to NPO D (a community centre).

NPO D has no use for the office furniture but has agreed with Business A that it can sell the furniture and use the proceeds for its general purposes. It arranges to sell the furniture by auction and receives the proceeds of CU2,000 one month later.

NPO D uses the office supplies in running its day-to-day operations. The office supplies are the type of consumables that it would normally purchase. NPO D considers the principles set out in A4 *Fair value measurement* and estimates it would have paid CU500 to purchase the supplies received from Business A.

NPO D decides to apply a permitted exception to both items donated for resale and for use (see paragraphs C1.64(a) and C1.64(b)). Consequently, NPO D:

(a) does not recognise revenue or inventory when it receives the office furniture and office supplies;
(b) recognises cash and revenue of CU2,000 when it sells the office furniture; and
(c) recognises revenue and an expense of CU500 as it uses the office supplies.

NPO D may not recognise a revenue and expense in respect of the office supplies if it is not able to reliably measure the gifts in kind (for example, because the goods are not readily available on the market and are not regularly used by NPO D) (see paragraph C1.68) or if the amounts are not material.

Example 5 – Services in kind (permitted exception)

NPO E's overall mission is to provide support to vulnerable members of the public in its locality. To meet its mission, NPO E provides a range of services, including a telephone support line, offering counselling and advice, respite residential care and home visits.

Volunteers help NPO E deliver some of these services:

(a) The NPO operates telephone support line on a shift pattern. Each shift has one manager (a staff member) and up to ten call handlers (all volunteers).
(b) NPO E operates its own residential facility to provide the respite residential care. The facility has a staff to provide all medical and personal care, catering and cleaning. Volunteers talk with and read to residents and assist with various activities.
(c) A local accountant also volunteers to assist the finance staff with the preparation of the budget, monthly reports and the financial statements. This helps NPO E to comply with legal requirements.

NPO E is determining which services in kind it should recognise. NPO E will apply A4 in measuring the services.

Analysis

Telephone support service: The services in kind provided by the call handlers involves directly delivering a significant part of NPO E's mission. As all the call handlers are volunteers, the NPO could not deliver this part of the mission without the services in kind. The services in kind provided by the volunteers are therefore critical to NPO E's mission and, subject to NPO E being able to measure the services reliably, the NPO recognises revenue in the Statement of Income and Expenses.

Respite residential care: The services in kind provided by the volunteers in the residential facility relates directly to a significant part of NPO E's mission. However, NPO E's staff provide the actual respite care. While the volunteers' services in kind enhance the service and improve the experience for those in respite residential care, NPO E could provide the respite residential care service without the volunteers if necessary. Consequently, although the services in kind provided by the volunteers are important and valuable to the residents, NPO E does not consider these services as critical to NPO E's mission for the purposes of revenue recognition.

NPO E may elect to use the permitted exception in paragraph C1.64(c) and not recognise revenue in the Statement of Income and Expenses, although it may choose to do so if it can reliably measure the services provided by the volunteers. NPO E is required to make disclosures to describe the nature of these services, using both quantitative and qualitative data available, if NPO E does not recognise these services.

Accountancy: The service in kind provided by the accountant does not involve direct delivery of part of NPO E's mission, but it does help NPO E to comply with its legal requirements. If NPO E were not able to comply with its legal requirements, NPO E would arguably not be able to operate and fulfil its mission.

NPO E will need to use judgement in determining if the service provided by the accountant is critical to its mission. The key factor to consider is whether NPO E could comply with its legal requirements without the assistance of the accountant (that is, whether the finance staff have the capacity to comply with the legal requirements without the service provided by the accountant).

NPO E will need to decide whether it is appropriate to use the permitted exception in paragraph C1.64(c) based on its specific fact pattern. If NPO E recognises the time provided by the accountant, it will usually be possible to reliably measure professional services in kind, as market rates for these services would be available. If NPO E does not recognise the service in kind, NPO E will need to disclose the nature of the service along with available quantitative and qualitative information.

Revenue from transactions with delivery obligations

Example 6 – NPO simultaneously receives and consumes the economic benefits or service potential (delivery obligations fulfilled over time)

Case A – Use resources for goods or services internally

An international organisation (the Organisation) enters into a grant agreement to provide CU1.2m to NPO F (a hospital) that requires NPO F to use the CU1.2m to ensure at least two x-ray machines are available at all times within its x-ray department.

The use of funds in the x-ray department is a single delivery obligation. NPO F fulfils the delivery obligation over time because NPO F becomes entitled to the resources received as it ensures that at least two machines are available continuously over time. NPO F recognises revenue over time by measuring its progress towards complete fulfilment of that delivery obligation in accordance with paragraphs C1.89–C1.95.

Case B – Transfer goods or services to service recipient

NPO G enters into a grant agreement with a delivery obligation with a grantor (Donor B) to provide monthly training to a group of newly-established NPOs (the Service Recipients) for one year. NPO G accounts for the training services as a single delivery obligation.

NPO G fulfils the delivery obligation over time in accordance with paragraph with C1.165(a) because the service recipients simultaneously receive and consume the economic benefits or service potential of NPO G's performance in delivering each training session as and when it delivers each session.

The fact that another entity would not need to re-perform training for the sessions that NPO G has provided to date also demonstrates that the service recipients simultaneously receive and consume the economic benefits or service potential as NPO G performs.

NPO G recognizes revenue over time by measuring its progress towards complete fulfilment of that delivery obligation in accordance with paragraphs C1. 89–C1.95.

Example 7 – Multi-year grants

NPO H has signed an agreement with a regional government (the Region) to expand a number of programmes that aim to protect environmental habitats while also providing employment opportunities to indigenous communities. The agreement between NPO H and the Region provides NPO H with CU2m of budget support each year for five years (CU 10m in total) provided that NPO H funds the agreed programmes over five years.

The budget support NPO H receives from the Region helps it meet essential administrative costs. By receiving budget support, NPO H is then able to direct the resources it receives from other sources towards costs associated with programmes, projects and activities rather than administration.

NPO H subsequently approves a five-year budget that dedicates CU10m to these projects based on receiving the same amount in budget support over that period. NPO H has concluded that the agreement between NPO H and the Region is a grant agreement with a delivery obligation, with the agreement enforceable under the laws of the jurisdiction in which the regional government is based.

Although the arrangement spans five years, with the transfer of CU2m due each year, NPO H must consider the recognition of revenue independently from the timing of when the Region transfers resources to it. For the recognition of revenue, NPO H must consider whether it has performed under the terms of the grant agreement and met its delivery obligation(s). Two scenarios are discussed below.

Case A – NPO H has a single delivery obligation (the agreement of the five-year budget).

If NPO H's Board approves the five-year budget, NPO H will have fulfilled the entire delivery obligation. NPO H recognises as revenue the entire amount that the Region is obliged to transfer and a matching delivery obligation asset of CU10m.

NPO H will reduce the delivery obligation asset by CU2m each year as the Region transfers resources to it. NPO H will recognise any amounts that become due prior to the Region transferring those amounts to it as a receivable, with an equivalent reduction in the delivery obligation asset.

Case B – the grant agreement contains multiple delivery obligations.

If NPO H's procedures require it to reconfirm the budget agreement every year, it will have a series of obligations (to reconfirm the budget annually) and the Region has a series of obligations (to pay CU2m annually). NPO H considers paragraphs C1.100–C1.101 in determining whether parts of the grant agreement remain equally unfulfilled and whether NPO H should recognise or not any asset, liability or revenue for the equally unperformed parts of the grant agreement.

NPO H concludes that each year of the grant agreement is a separate delivery obligation. As NPO H will not have reconfirmed the budget for those years and the Region will not have made payment for those years, NPO H does not recognise any revenue for future years but recognises CU2m at the inception of the arrangement. NPO H will subsequently recognise CU2m for each future year as it reconfirms the budget.

Example 8 – Capital grant

A Fund set up to support local sports organisations (the Fund) has signed an agreement with NPO I (a community athletics organisation) to upgrade its facilities. Both organisations are subject to oversight by a regulator that the entities can appeal to if either party does not uphold the agreements. The agreement provides NPO I with CU5m of upfront funding for major building work including a new changing facility, a small grandstand for spectators and the installation of an all-weather running track. Under the agreement, NPO I must provide a final report to the Fund of the amount it has spent and NPO I must return any unspent funds to the Fund.

The agreement between NPO I and the Fund is a grant agreement with a delivery obligation involving a capital grant. The terms of the grant agreement require NPO I to construct a number of specified non-current assets, namely the changing facility, the grandstand and the all-weather running track in exchange for the transfer of resources. If NPO I does not construct all the assets, NPO I is entitled to payment for the work that has been undertaken.

As NPO I is entitled to payment for work completed to date, it recognises revenue as it builds the assets. NPO I measures its performance based on percentage of completion. This measures progress based on costs incurred against the overall projected costs of the building work.

The Fund has provided the full expected cost of the project as a transfer to NPO I at the commencement of the grant agreement. NPO I therefore recognises a delivery obligation liability for the amount received, which represents the value of its obligations under the grant agreement. NPO I will recognise revenue and derecognise the delivery obligation liability over time based on the percentage of costs incurred to date.

NPO I will fully derecognise the delivery obligation liability once it completes the project. If overall costs are lower than the initial transfer of resources received by NPO I, NPO I will recognise a payable for the amount of the unused grant. NPO I will derecognise the payable once it has reimbursed the unspent funds.

Example 9 – Requirement to raise match funding

NPO J (a heritage organisation) is seeking funding to permit it to restore a local historic building. NPO J enters into a grant agreement with a foundation (the Foundation) where the Foundation will provide half of the funding required, provided that NPO J is able to raise the balance of the funding required by an agreed date. If NPO J fails to raise the balance of the funding required by the agreed date, the Foundation will provide no funding. The Foundation requires periodic reports on the match funding raised by NPO J.

The agreement also requires NPO J to use the funding provided by the Foundation to restore the local building within three years of the funding being provided. The agreement specifies the various stages of restoration that NPO J must complete, based on the technical report provided by NPO J. If the work is incomplete after three years, the Foundation is entitled to reclaim an amount of the grant proportional to the amount of work that is incomplete and requires NPO J to submit periodic reports on progress.

Analysis

NPO J accounts for the revenue as revenue from a transaction with a delivery obligation (see Example 7 for details). NPO J has identified at least one delivery obligation, as the grant agreement has specified distinct, measurable, outputs that it must fulfil to be entitled to the grant.

NPO J has concluded that the obligation to raise match funding is not itself a delivery obligation as without the match funding NPO J is not entitled to any grant revenue. Therefore, NPO J only recognises revenue from a grant agreement with a delivery obligation if it is probable that it will collect the grant amount to which it will be entitled for satisfying its delivery obligations. Prior to NPO J receiving the match funding, NPO J will only recognise revenue if it is probable that it will receive the match funding (see paragraph C1.118(e)).

Example 10 – Allocating the transaction consideration to delivery obligations (obligations are fulfilled over time)

The facts are the same as in Example 9. NPO J is now required to allocate the transaction amount to its various delivery obligations and determine whether its delivery obligations are fulfilled over time or at a point in time.

NPO J considers all the circumstances to determine if it has a single delivery obligation for the whole restoration work, or a series of delivery obligations for each stage of the work. In this example, it is assumed there are a number of delivery obligations.

NPO J uses the estimates of work required (set out in its technical report) to allocate the grant between the delivery obligations for the various stages of restoration work required.

Assuming the match funding has been raised, NPO J is entitled to payment for work done to date (as any refund is based on the work that has not been carried out). It therefore concludes that its obligation or obligations are satisfied over time and that the transaction amount should be allocated to the various stages of restoration work.

Example 11 – Estimating variable consideration

The facts are the same as in Example 9, except that the Foundation will adjust the amount of the grant depending on the timing of completion of the construction work as the grant agreement includes a penalty for delayed completion and an incentive for early completion. Specifically, for each week after 31 March 20X7 that the work is incomplete, the promised consideration from the Foundation reduces by CU10,000 and for each week before 31 March 20X7 that the construction work is complete, the promised consideration increases by CU10,000.

In addition, upon completion of the construction work, a third party will inspect the facilities and assign a quality rating based on metrics that are defined in the grant agreement. If the facilities receive an 'excellent' rating, NPO J will be entitled to an incentive bonus of CU50,000.

In accounting for the variable amount, NPO J applies paragraphs C1.138–C1.143, reading the references to:

(a) consideration as grant amount;
(b) contract with a customer as a grant agreement with a delivery obligation; and
(c) transaction price as transaction amount.

NPO J determines that the consideration promised in the grant agreement includes a variable amount and estimates the amount of consideration to which it is entitled. In determining the transaction consideration, NPO J prepares a separate estimate for each element of variable consideration to which NPO J will be entitled using an estimation method:

(a) NPO J decides to use the expected value method to estimate the variable consideration associated with the weekly penalty or incentive. This is because it is the method that NPO J expects to better predict the amount of consideration to which it will be entitled.
(b) NPO J decides to use the most likely amount to estimate the variable consideration associated with the quality incentive. This is because there are only two possible outcomes (CU50,000 or CU0) and it is the method that NPO J expects to better predict the amount of consideration to which it will be entitled.

Group D

Expenses and liabilities

ID1 – Classification of expenses

Determining which analysis of expenses is reliable and most relevant

When should the classification by nature be rebutted?

ID1.1 Paragraph D1.7 describes the indicators that should be considered when an NPO decides whether to rebut the presumption that an analysis by nature is reliable and most relevant. An NPO will need to use professional judgement when it reviews these indicators and will also need to take into account other factors specific to an NPO's context.

ID1.2 For example, for an NPO that primarily generates revenue through retail activities before distributing surpluses to local good causes, a key component of surplus or deficit could be cost of sales. Presenting a cost of sales line item as part of a functional analysis can provide relevant information about whether the revenue generated from the sale of goods covers direct costs associated with those sales and by what margin. However, presenting a cost of sales line item is unlikely to provide relevant information when the link between revenue and costs is less direct. For example, if the same NPO instead primarily generated revenue through returns on financial assets, information about the expenses presented using a by nature of expense analysis, such as investment costs, may be more relevant to users.

ID1.3 How an NPO reports internally may also provide reliable and more relevant information. For example, an international humanitarian NPO managed on the basis of major functions such as emergency response, long-term humanitarian programmes, governmental lobbying and legal activities, might use a function of expense method for internal reporting. However, an NPO that has a single predominant function such as medical research related to an individual disease, may find a more detailed analysis of expenses by nature of expense provides more useful information for its internal reporting.

ID1.4 There may be occasions where a mixed presentation can provide more relevant information to users. For example, an NPO with two or more distinct types of activities with one predominant activity, providing medical research related to a disease and another providing several operational activities to support individuals living with the disease. Where this is the case the NPO may decide to present some of its expenses by function and others by nature, to provide information about the key components of surplus or deficit.

ID1.5 An NPO also needs to have regard to the information that it has available to support an analysis other than by nature. If an NPO does not have sufficient information, such that any allocation of expenses to functions would be arbitrary, then it would not be possible to produce a functional or mixed presentation that provided a faithful representation of the NPO's expenses.

Allocation and aggregation of expenses

What are support costs and how should they be reported?

ID1.6 Support costs are essential to enable the NPO to carry out its activities and are typically organisation wide. Support costs might also be described as indirect costs or overheads. They are costs which cannot be allocated to individual functions that include specific activities because they support the overall operations of the NPO rather than a specific function or activity. They can include costs such as management supervision, human resources, information technology, governance, finance and legal services costs etc (note that this is not an exhaustive list). However, what is included in support costs will need to be determined by each NPO based on its operating model. For example, where an NPO has finance roles that support specific functions such as an accountant dedicated to a specific project their costs may be capable of being allocated to that project rather than being part of support costs.

ID1.7 A key difference between support costs and costs that can be allocated to a function (direct costs and shared costs) is that an NPO will need to carry out an additional process or processes to be able to apportion costs to functions (see paragraphs ID1.9-ID1.12). The need for an additional process differentiates those costs that are allocated from those that are apportioned.

ID1.8 Paragraph D1.10(c) includes an accounting policy choice for support costs. This permits that where a by function analysis of expenses is used, support costs can either be presented as a separate function in the Statement of Income and Expenses or they can be apportioned across functions. An NPO will need to decide which accounting policy to apply based on the needs of the users of the financial statements, taking into consideration which presentation is most relevant and faithfully represents the performance of functions of the NPO. This can include donors, who may have a preference for disclosure of support costs as a separate function.

How should support costs be apportioned?

ID1.9 Paragraph D1.9 requires that an NPO ensures that the methods of allocating, apportioning and aggregating expenses are reasonable and consistently applied and consistent between reporting periods unless circumstances change. In all cases an NPO will need to consider the most appropriate methods and bases.

ID1.10 When selecting methods for apportioning support costs, an NPO needs to balance the benefits of greater accuracy with the costs involved. A method should be reflective of the likely use of resources and made with reference to a quantifiable base. When an NPO apportions support costs, it allows the full cost of a function shown on the Statement of Income and Expenses, or of any activity on which an NPO reports to be estimated.

ID1.11 Examples of bases for apportioning support costs include:

(a) use of a resource or activity levels in terms of time taken by support staff for a function, the capacity of the support activity used on a function, or requests made to support a function.
(b) the budget for a function.
(c) per capita, based on the number of people employed within a function.
(d) floor area occupied by an activity.

ID1.12 A measurement basis that takes account of floor area might be suitable for the apportionment of utilities, whereas a measurement basis that takes account of the number of people employed within a function might be more useful for certain IT costs.

Disclosures

What are volunteer benefits and how should these expenses be reported?

ID1.13 Volunteer benefits are free or subsidised goods, assets or services received by volunteers from an NPO, where these are not provided on the same terms as employees of the NPO. Such benefits include for example, specialist training or gifts from a commercial trading arm as a token or reward for the volunteer for providing their support or services. Alternatively, volunteers might benefit from some of the services provided by the NPO, for example, this might be support or guidance provided to other service recipients (though if it is provided on the same basis as to other service recipients then it is not considered to be a volunteer benefit).

ID1.14 An NPO may incur costs to support volunteers in their work. This might be costs for travel expenses and subsistence, or it may be the costs of training individual volunteers to support service recipients. Where such costs are reimbursed or paid on the same terms as to the employees of the NPO they are not likely to be volunteer benefits. However, if an allowance is paid irrespective of the costs actually incurred, this might be considered a form of remuneration. It is less likely that receipted expenses are volunteer benefits, but if the expense incurred exceeds that required for the activity (and it doesn't represent value for money), an NPO would need to consider if this is a volunteer benefit requiring disclosure. For example, if a volunteer stays in a luxury hotel when an alternative is available that would be sufficient for the activity being undertaken, then this would require disclosure. An NPO should also consider whether any benefits provided would be considered a taxable benefit in the jurisdiction that it operates.

ID1.15 An NPO will need to consider materiality when recognising expenses related to volunteer benefits, including whether they are material by nature (for example, a specific expense although not material quantitatively could be reputationally damaging to an NPO). The NPO will need to find a mechanism for capturing the relevant information and measuring the related expenses.

ID1.16 Costs relating to volunteer benefits will need to be disclosed in accordance with paragraph D1.15(a). An NPO will need to consider the types of cost incurred and how these should be aggregated or disaggregated.

Examples D1 – Classification of expenses

Example 1 – Cost allocation and apportionment (Lease costs for office accommodation)

Background

NPO B occupies an office building on a long-term lease. The lease generates an expense of CU1,000 per month. As a shared cost, monthly lease costs are allocated, based on square metres occupied, to NPO B's activities as follows:

- **Direct costs:** The costs of floor space occupied by staff whose salaries are allocated directly to an activity are charged directly to that activity.
- **Support costs:**The costs of floor space occupied by support staff are apportioned to activities based on the percentage of the NPO's operational budget those activities comprise.

Twenty-five percent of the floor space is occupied by staff whose salaries are charged to Activity A, twenty-five percent of the floor space is occupied by staff whose salaries are charged to Activity B and the remaining 50% of the floor space is occupied by support staff. Activity A is 20% of the NPO A's operational budget and Activity B is 80%.

Analysis

Activity A is allocated CU350 of the monthly lease expense.

Source	**Amount**	**Workings**
	CU	
Direct costs	250	25% of the floor space at CU1,000 per month.
Support costs	100	50% floor space at CU1,000 month (CU500), allocated based on the operational budget (20% of CU500).
Total cost	350	

Activity B is allocated CU650 of the monthly lease expense.

Source	**Amount**	**Workings**
	CU	
Direct costs	250	25% of the floor space at CU1,000 per month.
Support costs	400	50% floor space at CU1,000 month (CU500), allocated based on the operational budget (80% of CU500).
Total cost	650	

Example 2 – Cost allocation and aggregation of the employee benefits and related costs of a Chief Finance Officer

Background

NPO B supports community outreach programmes to facilitate employment opportunities for young people across a jurisdiction.

The Chief Finance Officer (CFO) of NPO B is responsible for its finance function, including financial reporting, financial management and treasury management of the NPO's cash. The CFO is also responsible for investment management of the financial assets it holds that have been donated by several organisations. This includes having direct responsibility for the investment decisions of a large endowment fund, the income from which is directly used to support the programme activities:

- 60% of the CFO's time is spent on managing the finance function.
- 20% of the CFO's time is spent on financial management and supervision directly managing two of the programme activities.
- 10% of the CFO's time is spent on portfolio management and administrative activities relating to the financial assets and the endowment fund.
- 10% of the CFO's time is spent on regulatory and supervisory functions related to treasury and cash management functions.

NPO B presents a by function analysis on the face of the Statement of Income and Expenses. The by function analysis includes each of the four different programme activities to support young people and a separate function for administration costs (fundraising costs are aggregated into this function).

Fundraising costs are separately reported in a note to the Statement of Income and Expenses in accordance with paragraph D3.19. NPO B has opted to apportion support costs to functions.

Analysis

60% of the CFO's employee benefits and related expenses are support costs which are apportioned across the four programme functions as support costs to the functions. This includes apportionment for the administration cost function (and an apportionment to fundraising costs). NPO B considers that the apportionment base which is both relevant to users and faithfully represents the full cost of the functions is the budget for each of the functions.

The 10% of the CFO time spent managing the treasury and cash management funds does not result in a fundraising cost but is part of the treasury management function. These expenses are therefore deemed by NPO B to be a part of the finance function as support costs. This is also apportioned to the functions based on the budget for each of the functions.

The CFO's time spent on managing the two programme activities is a shared cost and the employee benefits and other related expenses for the CFO are allocated based on time spent on each activity.

The CFO's time spent on portfolio management is a fundraising cost and is separately included in the disclosure on fundraising costs as an investment management cost. The fundraising costs are aggregated into the administration costs function on the face of the Statement of Income and Expenses.

In accordance with paragraph D1.13, NPO B labels the administration cost line as 'administration costs other than those costs included in programme activities'.

Fundraising costs can come from the direct allocation of costs and/or the apportionment of costs.

In summary:

	Allocated	**Apportioned**	**Fundraising**
60% of the CFO's time is spent on managing the finance function		Yes – based on budget	Yes – based on budget
20% of the CFO's time is spent on financial management and supervision directly managing two of the programme activities.	Yes – based on time spent		
10% of the CFO's time is spent on portfolio management and administrative activities relating to the financial assets and the endowment fund	Yes – based on time spent	Yes – based on budget	Yes – based on time spent
10% of the CFO's time is spent on regulatory and supervisory functions related to treasury and cash management functions	Yes – based on time spent	Yes – based on budget	

Example 3 – losses, write offs and unusual payments

Background

NPO C receives a CU50,000 bequest from the estate of a supporter who has passed away. It is aware, however, from written records that the supporter was amending their will at the time of their death, to reduce the payment to CU10,000 so that they could direct the remaining funds to a family member who requires the money for medical treatment.

Analysis

Although the will had not been amended at the time of death, the board of NPO C has determined that NPO C should uphold the supporter's wishes. NPO C decides to make a payment of CU40,000 (that is, the amount the supporter intended to give to their family member). NPO B discloses the unusual payment in accordance with paragraph D1.15(b).

ID2 – Expenses on grants and donations

Scope

How should an NPO distinguish between a grant expense and the purchase of a good or service?

ID2.1 A grant expense for an NPO making grants (a grantor) may arise not only from items commonly described as grants but also items otherwise described as donations, gifts and similar transfers of resources. A grant expense exists when a grantor does not directly receive any cash, services, goods or other assets from a grant recipient as a consequence of the transfer of cash, service, good or other asset that the grantor has made to a grant recipient. These transactions can be referred to as non-exchange, non-reciprocal or non-requited transfers and expenses.

ID2.2 Where a grantor directly receives cash, services, goods or other assets because it has made a transfer of resources, then this may indicate a procurement relationship and that the grantor has made a purchase.

ID2.3 There may be situations where the services, goods or other assets directly received by the grantor are not of equal value to the resources it transferred to the grant recipient. This could range from a nominal amount to an amount that is only just below equal value. Where this is the case, the grantor will need to determine how best to reflect the substance of the transaction. Where material, this may involve recognising part of the transaction as a grant expense and part as the procurement of services, goods, or other assets. C1 *Revenue* paragraphs C1.19–C1.28 and Figure IC1.2 provide additional guidance.

Expenses on grants and donations

Types of grant expenses

What are the key considerations for deciding whether a grant agreement is with or without fulfilment rights?

ID2.4 NPOs transact in many different ways. These transactions may involve multiple entities and individuals, different types of rights and obligations and varying degrees of enforceability. An NPO will need to consider how the NPO transacts to determine the overall economic substance of the transaction.

ID2.5 Identifying whether or not a grant expense transaction has a fulfilment right attached to it is key to correctly applying D2. A grantor is required to determine what type of agreement it has entered into by considering the terms for making a grant and all relevant facts and circumstances so as to apply the appropriate accounting principles to reflect the economic substance of the transaction (see paragraphs D2.4–D2.34).

ID2.6 A grant agreement may include no specific requirements, or a grantor may make a donation (or possibly a grant) without a formal written, oral or similar agreement.

ID2.7 A grant agreement may include requirements of a general nature. These requirements will provide some indication of how the grant recipient is expected to use resources to support the grantor's overall purpose. For example, a grant agreement may constrain the use of a grant to the overall purpose of the grant recipient or to a general geographic area in which it operates rather than require the grant to be used on individual programmes, projects and activities. In these circumstances, it may not be possible to identify specific outcomes and activities or the distinct services, goods or other assets for which the resources will be used.

ID2.8 Such grants are likely to provide the grant recipient with a greater degree of freedom as to how it uses the resources transferred or to be transferred. The grantor is unlikely to require monitoring arrangements to determine the detailed outcomes of the grant provided, although monitoring arrangements may be in place to monitor compliance with administrative aspects of the grant agreement, including financial monitoring reports. In these types of grant agreements, a fulfilment right and delivery obligation will not exist.

ID2.9 By contrast, a grant agreement may include requirements of a specific nature that impose obligations on the grant recipient (delivery obligation) for it to be entitled to the grant. A grantor will require reports to monitor the grant agreement to determine if, when and how the grant recipient has met the delivery obligation. The specific terms of the grant agreement should make these monitoring requirements clear.

ID2.10 As a consequence, generally the existence of monitoring arrangements or administrative tasks on their own is not sufficient to create a delivery obligation for the grant recipient because there is no substantive fulfilment right for the grantor. The features of agreements such as not funding terrorism or not facilitating money laundering that are not specific to a distinct outcome, activity, good or service are not fulfilment rights.

ID2.11 Where a grant agreement has multiple deliverables, consideration needs to be given to the separately identifiable components in a grant agreement.

Grant expenses transactions without fulfilment rights

Does a grant agreement without fulfilment rights have other obligations?

ID2.12 A grantor may create an obligation because of its customary practices, published policies or specific statements. If a grantor has no practical ability to act in a manner inconsistent with those practices, policies, or statements (see paragraph A2.61 in A2 *Concepts and pervasive principles*) it will have a constructive obligation. As constructive obligations do not create an obligation that is enforceable on both parties that also gives rise to rights to both parties, constructive obligations are categorised as grant expense transactions without fulfilment rights.

Grant expenses transactions with fulfilment rights

How does a grantor determine the distinct fulfilment rights in a grant agreement?

ID2.13 A fulfilment right is a distinct component (unit of account) within a grant agreement. A fulfilment right reflects the requirement for the grant recipient to satisfy its obligations (delivery obligations) in the grant agreement to be entitled to the grant. A fulfilment right arises when the grantor has transferred resources to the grant recipient before the grant recipient has satisfied the delivery obligations in the grant agreement.

ID2.14 Identifying a meaningful unit of account is fundamental to the recognition and measurement of grant expenses. In practice, since grant agreements with fulfilment rights can vary substantially by NPO, jurisdiction, sector and operating environment, the grantor will need to use judgement to determine the individual fulfilment rights in its grant agreement.

ID2.15 A grantor should first identify all the rights it has to require the grant recipient to satisfy its delivery obligations in a manner as specified in the grant agreement. Fulfilment rights include the ability to require the grant recipient to use resources for a specific outcome, or activity, for the provision of distinct services or goods internally or to transfer cash, a service, good or other asset to a third party or third parties. A thorough assessment is necessary for the grantor to identify all its fulfilment rights in the grant agreement. However, as noted in ID2.21, where the grantor has considered its intentions/objectives in the development of the grant agreement this will assist the assessment.

ID2.16 A grantor then considers each of the rights it has identified to determine if it is a distinct fulfilment right, or whether the grantor should group it with other rights to be a single distinct fulfilment right. In this way, a fulfilment right is a unit of account that represents a distinct right or group of rights to which recognition and measurement concepts are applied.

ID2.17 A fulfilment right in a grant agreement is distinct if it can be enforced separately from other rights in the grant agreement. A grantor can consider the following factors when assessing whether a fulfilment right is distinct:

(a) the fulfilment right relates to the grantor's ability to require the grant recipient to achieve a specific external outcome, carry out an activity or provide cash, a service, good or other asset to third parties that can be separated from other outcomes, activities or cash, services, goods or other assets to be undertaken or provided under the grant agreement;
(b) the fulfilment right relates to the grantor's ability to require the grant recipient to achieve a specific internal outcome, carry out an activity or use cash, a service, good or other asset internally in a specific manner separate from other specific internal outcomes, activities or the use of other cash, services, goods or other assets to be used under the grant agreement; and
(c) the outcome to be achieved or activity to be carried out or the cash, service, good or other asset that the grant recipient is required to provide to third parties or use internally, is not highly dependent or highly interrelated with other activities to be undertaken or cash, services, goods or other assets to be provided or used under the grant agreement.

ID2.18 Any distinct fulfilment right, or distinct group of fulfilment rights, identified by the grantor through this analysis is an individual fulfilment right.

Enforceability

What should an NPO consider in assessing enforceability?

ID2.19 Grantors should consider all facts and circumstances objectively, within the context of their jurisdiction, sector and operating environment, in making this assessment. General guidance on assessing the enforceability of a grant agreement is in paragraphs IC1.24-IC1.29.

ID2.20 The grantor should consider its overall objectives and the risk of the grant recipient not meeting its requirements. Where the grantor is intending to create a grant expense transaction with fulfilment rights, the grantor needs to consider what the grant recipient is required to do to be entitled to the grant. Specific, distinct requirements are likely to create a delivery obligation for the grant recipient and a fulfilment right for the grantor. The grantor should consider its ability to monitor if and when its fulfilment rights have been extinguished and its ability to enforce them. It is important that the grantor has the ability to enforce the terms of the agreement and hold the parties accountable for meeting their obligations in accordance with the terms of the agreement.

ID2.21 An assessment needs to be made at the inception of the grant agreement. This will be easier if the grantor has considered the enforceable rights and obligations it intended to create and the associated consequences of not meeting them in developing the agreement. The relevant factors to consider are examined in paragraph IC1.25. Grantors should consider all facts and circumstances objectively, within the context of their jurisdiction, sector and operating environment, in making this assessment.

ID2.22 Oral agreements may be sufficient to create a fulfilment right, particularly in those jurisdictions where oral agreements can be legally binding. A general statement of intent differs from an oral agreement. A general statement of intent may, however, create a constructive obligation (see paragraph ID2.12).

Does the existence of a regulator mean that there are equivalent means to enforce a grant agreement?

ID2.23 In some jurisdictions, an NPO may be subject to a form of regulatory oversight which, regardless of the legal basis of an individual agreement, requires the NPO to act in accordance with defined rules and directives or potentially face censure. This form of regulatory oversight means that parties to a grant agreement have an additional mechanism available to enforce the outputs or outcomes in the grant agreement even if the specific agreement is not legally enforceable.

ID2.24 While regulators may act in this way in some jurisdictions, the existence of a regulator in itself does not provide an equivalent means to the enforcement of grant agreements. Whether the regulator provides an equivalent means of grant enforcement will depend on its remit and how it acts.

Are there any differences where the grant agreement is with a part of the public sector?

ID2.25 It is also the case that in some jurisdictions public sector entities are not permitted to contract in their own name, but alternative processes with equivalent effect to legal arrangements such as executive orders or ministerial directives are in place to ensure that agreed-upon obligations in a grant agreement are enforceable.

Are there additional considerations if there are other grant agreements with the same grant recipient?

ID2.26 Certain mechanisms (for example, reductions of future funding, where they relate to other grant agreements already in existence between the two parties) may constitute a valid mechanism of enforcement. A key issue for a grantor is whether it can consider the ability to reduce or withhold future funding from a grant recipient as an enforcement mechanism. Generally, the ability to reduce or withhold future funding will not on its own be a valid enforcement mechanism for a grant agreement with fulfilment rights because there is no present obligation on the grantor to provide this future funding.

ID2.27 However, if there is interdependency with other grant agreements held by the grant recipient, the potential for the grantor to reduce future funding could be a valid enforcement mechanism. For example, a grant agreement may currently entitle a grant recipient to funding in the future through another grant agreement between the parties. This could be an enforcement mechanism if the terms of the other grant agreement specifically allow for a reduction in funding if the terms of the first agreement are breached. This will require the grantor to apply judgement based on the facts and circumstances, including any history of reducing funding where it has had the right to do so.

Accounting for grant expense transactions

Grant expenses without grant fulfilment rights

When does a grantor recognise a grant expense transaction?

ID2.28 The grantor should consider at the inception of the grant agreement whether it can realistically avoid the transfer of resources. If it concludes that it cannot realistically avoid the transfer of resources to the grant recipient, it should follow the recognition and measurement requirements of paragraph D2.31.

What are the implications if there are time or purpose constraints in a grant agreement?

ID2.29 There may be requirements in a grant agreement that place constraints on the grant recipient's ability to use resources that the grantor provides. Certain constraints will be specific and be part of a grant agreement that creates rights and obligations for both the grantor and the grant recipient. Constraints that do not meet these requirements will not give rise to a present obligation for the grant recipient when the grantor transfers resources to it. If the grant recipient does not subsequently satisfy a requirement that places constraints on the use of resources, this may give rise to an obligation to the grant recipient and a potential asset for the grantor at a future date.

ID2.30 A grant agreement may require that a grant provided to a grant recipient is used within a specified time period. Where the grant recipient has a track record of using the resources the grantor is more likely to be able to recognise the grant expense when the resources are transferred or the grant recipient is owed the resources. If the grant recipient subsequently fails to use the resources within the specified period, the guidance in paragraph D2.24 should be followed.

Grant expenses from transactions with fulfilment rights

What should a grantor consider when determining whether there are grant expense transactions with fulfilment rights?

ID2.31 The grantor must be able to determine whether the grant recipient has complied with its obligations in a grant expense transaction with fulfilment rights. If the obligations imposed on the grant recipient are not sufficiently specific, the grantor will not be able to assess whether its requirements have been satisfied and the grantor will not have a fulfilment right.

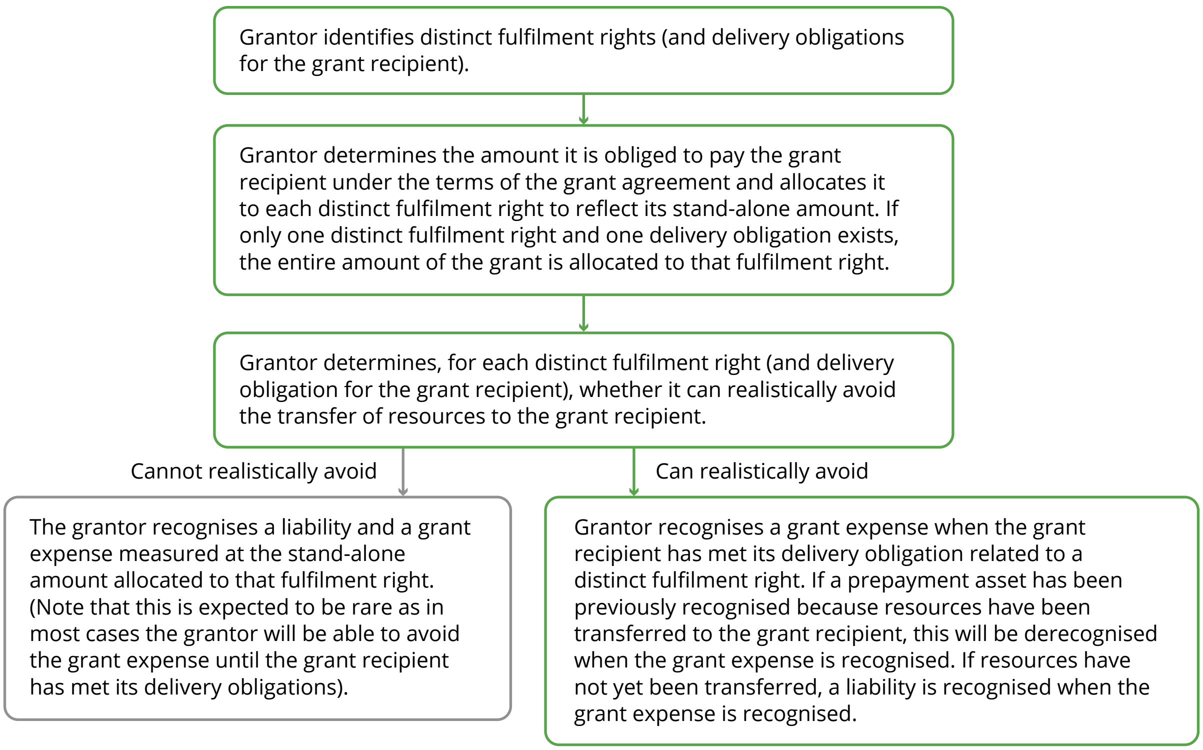
When does a grantor recognise grant expenses where there are transactions with fulfilment rights?

ID2.32 When a grant agreement includes grant expense transactions with fulfilment rights the timing of recognition will be dependent on the timing of the satisfaction of the delivery obligation to which the right relates. A grant expense cannot be recognised until the grant recipient has met its obligation in the grant agreement and the grantor is able to confirm that the grant recipient has satisfied the delivery obligation. The grantor will need to have appropriate monitoring arrangements to be able to confirm the obligation has been met.

ID2.33 The amount that is recognised will depend on the stand-alone amount that the grantor has determined for satisfying that delivery obligation. Where a grant recipient has partially satisfied its delivery obligation, the grantor will need to recognise a grant expense for part of the obligation that has been satisfied.

ID2.34 Figure ID2.1 provides an overview of the recognition and measurement principles for grant expenses from grant agreements with fulfilment rights.

Figure ID2.1: The recognition and measurement of grant expenses from grant expense agreements with fulfilment rights



Can a fulfilment right be met over time, or is it only met when all the requirements are complete?

ID2.35 In general, a fulfilment right is extinguished and a grant expense recognised when the grant recipient has met its delivery obligations in the grant agreement. Each fulfilment right may, however, be extinguished over time. The appropriate method of measuring progress and the amount to be recognised depends on the specific nature of the grantor's fulfilment rights and the specific terms of the grant agreement.

ID2.36 In situations where the grant agreement consists of one fulfilment right that requires the grant recipient to satisfy various interrelated activities, the fulfilment right may be partially met as the grant recipient performs individual activities. Common considerations which inform when a grant recipient has partially met a fulfilment right include:

(a) the grant recipient has performed some of the activities specified in the grant agreement;
(b) the grant recipient has incurred eligible expenses as outlined in the grant agreement; and
(c) the grant recipient has achieved some of the milestones in the grant agreement.

ID2.37 In cases where the grant agreement involves multiple parties, the grantor will need to consider whether a fulfilment right relates to the right to require another party in the agreement to meet a delivery obligation. There could be situations where resources are passed through a series of entities before being transferred to the ultimate grant recipient. In these situations, the grantor will need to consider whether the fulfilment right being extinguished depends on the satisfaction of the ultimate grant recipient's delivery obligations as specified in the grant agreement.

ID2.38 In other cases, a grant recipient may be unable or unwilling to satisfy its delivery obligations in the grant agreement following the transfer of resources to it from the grantor. When this occurs, the grantor considers if the terms of the grant agreement, along with the legal framework in the relevant jurisdiction, give it the unconditional right to receive cash or return of resources (for example, a refund of the transferred resources). Such an unconditional right results in the derecognition of the prepayment asset and the recognition of a financial asset (see paragraph D2.35). If the grant agreement and relevant legal framework do not support the recognition of a financial asset, the grantor then considers if the prepayment asset has been impaired (see paragraph D2.36).

How does a grantor determine the suitable method for estimating the stand-alone amount of a fulfilment right?

ID2.39 A grantor may explicitly specify in a grant agreement the amount of resources it is willing to transfer for each fulfilment right (that is, the stand-alone amount is specified for each fulfilment right). In situations where a grant agreement does not state the stand-alone amount, the grantor must determine the best estimate of the amounts that would compensate the grant recipient for meeting its delivery obligation. Where there is only one fulfilment right in the grant agreement, the stand-alone amount will be the total amount of the grant provided by the grant agreement.

ID2.40 The most suitable method to estimate the stand-alone amount of a fulfilment right will depend on the quality and type of information that is available to the grantor. For example, the individuals negotiating a grant agreement with fulfilment rights may have records detailing how they estimated the stand-alone amount of each fulfilment right included in the grant agreement. A grantor may have detailed budget information documenting the resources needed or that it is willing to transfer in order to achieve each fulfilment right. In other cases, the individuals negotiating a grant agreement with fulfilment rights may be using observable information, such as pricing lists to estimate the total resources to be transferred. In this situation, the standard prices for each individual deliverable can be used to estimate the stand-alone consideration of each fulfilment right.

Does a change in internal or external factors after the inception of a grant expense transaction with fulfilment rights have accounting implications?

ID2.41 Having assessed its grant agreement at inception, a grantor will need to assess whether any changes in internal or external factors that happen after the grant agreement has commenced, affect the enforceability of the grant agreement (that is, the substance of the agreement) or the likelihood of enforcing the agreement.

ID2.42 Any material changes may impact on the subsequent measurement of any prepayment assets or liabilities associated with the grantor's right(s) and obligation(s) in the agreement. A grantor should assess this as a minimum at each reporting date. Examples of such factors include, but are not limited to:

(a) changes in the legal framework that impact the ability of the grantor, or other party or parties in the grant agreement, to enforce their respective rights through legal or equivalent means; and

(b) changes in the grantor's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the grant expense transaction with fulfilment rights.

ID2.43 Where the impact is likely to be permanent, any change to prepayment assets or liabilities will need to be accounted for in accordance with D5 *Provisions and contingencies* in relation to the need for or a change to a provision, or F1 *Financial instruments* for changes to payables and receivables. If the change is likely to be temporary, the grantor should disclose the factors affecting the grant assets and liabilities.

Are different principles required to account for and recognise grant expenses in grant agreements which cross multiple reporting periods?

ID2.44 Grant agreements which cross reporting periods may mean that resources are provided over a longer period for a specific purpose (for example, supporting medical research on a particular disease). The grantor may provide resources at multiple dates throughout reporting periods and/or across multiple reporting periods.

ID2.45 While these grant agreements span a longer period, the accounting principles for grant expense transactions still apply. A grantor is required to consider whether a grant agreement which crosses multiple reporting periods includes fulfilment rights and is required to apply the principles in paragraphs D2.19–D2.25 for grant expenses arising from agreements without fulfilment rights or paragraphs D2.26–D2.34 for grant expenses arising from transactions with fulfilment rights. The period in which a grantor recognises a grant expense must be assessed independently from the timing of when the grantor transfers the resources.

ID2.46 As a consequence, if a grantor transfers resources for multiple reporting periods in advance and cannot currently, realistically withdraw those resources because there are no present obligations for the grant recipient, then the grantor will recognise the full amount as a grant expense when the resources are transferred or owed to the grant recipient.

ID2.47 If the grant agreement requires, for example, an annual revalidation of the grant commitment, this will likely mean that the grantor recognises an annual amount in the relevant reporting period. This is because the grantor does not have a present obligation to transfer all the resources at the reporting date.

Are there any differences in the accounting treatment for grant expenses if the grant is for a capital purpose?

ID2.48 As set out in paragraph D2.48, grantors are required to follow the same approach for all types of grant expenses, whether or not the purpose is to support operating costs or to fund the acquisition or construction of a non-current asset.

ID2.49 Where the grant recipient constructs a non-current asset, it will extinguish the fulfilment right as it builds the asset, with a grant expense recognised by the grantor based on an agreed methodology for the measurement of progress made by the grant recipient.

Principal versus agent considerations

When is a grantor acting as a principal and when is it acting as an agent?

ID2.50 A grant agreement between the grantor and another entity or entities will usually provide clarity as to whether the grantor is acting as a principal or as an agent on behalf of another entity. This may be more difficult to determine in the absence of a grant agreement, or in more complex arrangements such as partnerships, consortia, or sub-contractor relationships.

ID2.51 A consortium or similar arrangement involves a grantor cooperating with other entities. Such arrangements may include:

(a) formal joint venture arrangements;
(b) the creation of a formal joint venture vehicle;
(c) a grantor that is a principal entering into contracting arrangements and then sub-contracting with other parties to deliver parts of the contract;
(d) a grantor acting as an agent for the consortium members by administering contractual arrangements on behalf of all other members.

ID2.52 A grantor that acts as an agent for members of a consortium by administering contractual arrangements on behalf of all other members (such as invoicing and making payments) does not take over the contractual obligations and rights of other members.

ID2.53 A grantor that is subcontracting work to third parties, including other NPOs, to satisfy its contractual obligations is likely to be the principal because of the contract arrangements rather than an agent of other members.

Disclosures

What disclosures from other sections of INPAS might be required for grant expenses?

ID2.54 Where a grantor recognises grant expenses in its general purpose financial statements, the nature of these transactions is such that additional disclosures may be required by other INPAS sections. Paragraphs ID2.55–ID2.58 include disclosures a grantor will be required to make where the relevant transactions exist. These paragraphs do not provide an exhaustive list of the possible transactions which might arise.

ID2.55 The grantor is required to disclose information that enables users to understand significant judgements and changes in those significant judgements that it has made regarding the recognition of prepayment assets related to grants and any significant risks and uncertainties relating to their realisation.

ID2.56 When a grant prepayment asset has been reclassified to a financial asset in accordance with paragraph D2.35, the grantor is required to provide disclosures in accordance with paragraphs F1.42–F1.43.

ID2.57 If variable consideration in a grant expense transaction with fulfilment rights has resulted in the recognition of a provision in accordance with paragraph D2.38, or there is a grant expense transaction without fulfilment rights and a grant payment provision recognised for a constructive obligation in accordance with paragraphs D2.20–D2.22, then the disclosure requirements of paragraph D5.17 are applicable.

ID2.58 A grantor is required to disclose the existence of commitments to provide grant funding that are not recognised as liabilities or provisions when it is sufficiently clear that a payment is possible but not **probable**. These grant funding commitments will be disclosed as a **contingent liabilit**y in accordance with the requirements of paragraph D5.18.

What should an NPO do if it considers information required to be reported on grant expenses is sensitive information?

ID2.59 Sensitive information will arise when the disclosure requirements of D2 *Expenses on grants and donations* would compromise commercial, operational or personal (for example, relating to data protection issues) confidence. Therefore, the disclosure of sensitive information could prejudice the ability of the NPO to deliver its mission. Operational confidence is needed to protect the safety or wellbeing of individuals working/volunteering for the NPO, or those to whom it provides services and goods. Grantors should not disclose information on grant expenses that would have the effect of highlighting the nature or substance of sensitive information. The aggregation of information as permitted by B1 *Presentation and compliance* may mitigate the risk of providing sensitive information.

ID2.60 It is not possible to provide an exhaustive list of sensitive information or circumstances that could prejudice the ability of a grantor to deliver its mission. Illustrations of the circumstances in which sensitive information might arise, examples and further guidance on sensitive information and any forms of reporting can be found in paragraph IA3.1– IA3.6.

ID2.61 Examples of sensitive or mission-prejudicial information that a grantor might not disclose could include, but are not limited to:

(a) information that identifies the nature of sensitive activities being undertaken by a grantor or entities and individuals that engage with it;
(b) information that discloses the scope of geographic activities in sensitive regions being undertaken by a grantor or entities and individuals that engage with it;
(c) information that identifies the individuals, communities or groups that benefit from the services and goods provided by the grantor or entities that engage with it.

ID2.62 The non-disclosure of grant expenses because of sensitive information must not be used as a way of hiding poor governance, poor performance or financial problems. It is to be reserved solely for situations where disclosure would significantly disrupt operations and/or jeopardise the safety and security of staff, volunteers, the public that benefit from the services and goods provided by the grantor and other entities and individuals that engage with the grantor.

Examples D2 – Grant expenses

The following examples illustrate the application of the principles for accounting for grant expenses. They show how a grantor could consider features of the model for recognising grant expenses, such as determining whether an agreement with fulfilment rights exists, grant payments over multiple reporting periods and capital grants.

The circumstances in relation to an individual NPOs and its transactions will vary significantly. These examples are illustrations only. An individual NPO will need to use its judgement to apply the guidance to its own circumstances.

Types of grant expenses

Example 1 – Grant agreement with a "termination for convenience" clause

Background

NPO A is a donor organisation (the grantor) that relies on investment income to finance its funding of other entities and individuals. Restrictions on the use of its investments mean that it can only use investment returns in the year in which they are received. This results in significant fluctuations in the income available to the grantor.

As a result, NPO A includes a 'termination for convenience' clause in all its grant agreements with other entities and individuals. This allows NPO A to terminate a grant agreement at any time without there being a breach of the agreement. It has just signed a grant agreement with NPO B, an international humanitarian organisation, to provide CU1m for NPO B to purchase emergency ration packs for distribution to refugees. The terms of the grant agreement are that NPO B will be reimbursed once it has purchased and distributed the ration packs.

Analysis

A grant expense transaction with fulfilment rights confers both rights and obligations, enforceable through legal or equivalent means, to the parties to the grant agreement. In determining whether there is a grant expense transaction with fulfilment rights, a grantor must consider its substance and not just its legal form.

The grantor has a right under the grant agreement with NPO B for NPO B to purchase and distribute ration packs to refugees – this is also NPO B's delivery obligation. In return, the grant agreement obliges the grantor to provide CU1m to NPO B.

The legal form of the grant agreement does, however, provide the grantor with the ability to terminate it at any time without there being a breach of the agreement. This means that even after NPO B has fulfilled its obligations, the grantor would be able to terminate the grant agreement and not be required to transfer the resources.

Conclusion

Whether a grant expense transaction with fulfilment rights exists depends on enforceability and the substance of the grant agreement. If it is unlikely that the grantor would use the 'termination for convenience' clause because it has no history of doing so, then this clause may be less important in deciding the accounting treatment. Also, if the grantor deems that there are customary practices that are legally or otherwise enforceable, then the grantor may deem that it has fulfilment rights and NPO B has delivery obligations. If it reaches this conclusion, the grantor would recognise a grant expense and liability once NPO B has met its specific delivery obligation.

If, however, the grantor has a history of using the 'termination for convenience' clauses in the grant agreement and they are seen to override any customary practices, this may mean that NPO B could not enforce the obligation for NPO A to transfer the resources once it has purchased and distributed the ration packs. In this situation, the existence of a termination for convenience clause would result in a grant agreement without fulfilment rights. As a consequence, the grantor would recognise a grant expense only when it has transferred the resources to NPO B, measured at the value of the transferred resources.

Grant expense transactions without fulfilment rights

Example 2 – Grant agreements with a purpose constraint

Background

NPO C (the grantor) is a foundation that has the primary objective of supporting the welfare of working animals that have been retired. It specialises in fundraising from the general public and then providing financial support to other NPOs that operate animal sanctuaries.

NPO C signs a written grant agreement with NPO D. NPO D is a donkey sanctuary that NPO C has supported in the past. The terms of this grant agreement are that NPO C will provide NPO D with a grant of CU1m that must subsequently be spent on its overall purpose of supporting the welfare of donkeys in NPO D's care. As NPO C has provided grants without any issues arising as to eligibility of expenditure to NPO D in the past, the grant agreement only requires a high-level report on how NPO D used the transferred resources.

Analysis

The grant agreement constrains NPO D to spend transferred resources in line with its overall mission of supporting the welfare of donkeys in its care. The agreement does not mention any specific outcomes or activities. It also does not require NPO D to use internally or transfer externally any distinct services, goods, or other assets.

Conclusion

Although there is a written grant agreement, this is not a grant expense transaction with fulfilment rights. NPO C should account for the transaction as a grant expense transaction without fulfilment rights.

If NPO C deems that a legal or constructive obligation exists because of the written grant agreement, it should recognise a grant expense for the full CU1m value of the grant when the agreement is executed and a related provision until it transfers the resources to NPO D. If not, it will recognise a grant expense when it transfers the resources to NPO D.

Example 3 – Grant agreement with a time constraint

Background

NPO E (the grantor) provides grants to other NPOs to support areas subject to disasters and the outcomes of war.

NPO F has the primary objective of supporting children in disaster areas or war zones. It specialises in ensuring that appropriate resources are provided to children in times of acute deprivation or danger.

Following an earthquake in region 1, the grantor has awarded a grant to NPO F to support children in the area, initially providing food, shelter and medical resources. It has provided resources for subsequent periods to allow NPO F to put in place infrastructure that will allow for the development of educational and recreational facilities for children in the area.

The priorities for the use of the resources are to be decided by NPO F in accordance with its mission and the needs of the children. The grantor has awarded CU10m that can be spent over two financial reporting periods.

To allow support to be mobilised quickly, the grantor has transferred all the funds to NPO F immediately. The grant agreement requires that any amounts of the grant unspent at the end of the two-year period must be returned to the grantor.

Accessibility to the area has meant that NPO F has only been able to spend of CU7m by the end of the two-year period.

Analysis

The grant agreement requires NPO F to spend transferred resources in line with its overall mission and specifies the type of resources provided over the two years. However, the spend priorities are to be decided by NPO F. The grant agreement constrains the time period for the grant to be spent.

NPO E has not specified exactly how resources are to be spent and NPO F does not have to complete specific programmes or activities to be entitled to the grant. As a consequence, both parties do not have the rights and obligations that would result in this grant agreement being a grant expense transaction with fulfilment rights.

Conclusion

Although the grant agreement specifies that the money is to be spent over two reporting periods the grantor recognises the grant expense of CU10m when it transfers the resources to NPO F because it no longer controls the resources in the transaction. This is because the grant agreement is a grant agreement without fulfilment rights. The requirement to spend the grant within a two-year period does not change this conclusion.

As NPO F has not spent the full CU10m provided by the grantor, in line with the terms of the grant agreement this may give the grantor the right to a refund. This refund may meet the definition of an asset (a receivable) for the grantor in accordance with A2 *Concepts and pervasive principles*. Alternatively, if, for example, there are problems with the verification of the expenses incurred by NPO F, the grantor might also need to consider whether there is a possible asset whose existence is yet to be confirmed.

Example 4 – Constructive obligation

Background

NPO G (the grantor) has been set up to support children in a rural community to access education. Parents must register their children with NPO G in advance of the school year. As part of this registration, the parents sign an agreement that commits them to signing up their child to attend school in exchange for the grantor committing to transfer cash for school fees directly to the school on behalf of the parents. The agreement notes that if NPO G does not transfer the cash to the school the parents can appeal to the local education ministry, which has the executive power to require NPO G to make payment. If the child subsequently does not attend school, the grant agreement requires that the parents reimburse NPO G for fees that it has paid with NPO G having the ability to appeal to a local court to enforce repayment.

The children live across a wide geographical area. In outreach to promote the school fee scheme, the grantor has told the community that to support access to the school it intends to provide free transportation to all registered children for the upcoming school year.

NPO G has not provided a detailed explanation of how it will do this but has noted it is most likely to involve providing parents with additional funds so that they can pay for the cost of using local minibus taxis. Without this free transportation, most children would not be able to attend school as private means of transportation are unavailable. This offer of free transportation is not, however, included in the agreement between parents and grantor and there is no agreement in place between grantor and any other entity to provide this service.

Analysis

The grant agreement between NPO G and the parents for the payment of school fees (paid to the school by NPO G) is a grant agreement that has a fulfilment right that is, that the parents are obligated to send the children to the school.

However, NPO G has only made a general statement of intent to provide free transportation. This does not create a second fulfilment right for the parents. This is because the grantor and the parents (or any other entity) do not have enforceable rights and obligations in relation to the free transportation.

Conclusion

While provision of free transportation does not give rise to a fulfilment right for NPO G and a delivery obligation for another party, the grantor may still have an obligation. This is because through its statements of intent at outreach events the grantor may have created a valid expectation that it will ensure that free transportation is available. This is a constructive obligation linked to the school fee agreement. While the written agreement between parents and grantor does not explicitly include the availability of free transportation, it plays a crucial role. Without the grantor ensuring that this transportation is available, most children would be unable to attend school. For these parents, it is unlikely that they would sign an agreement obligating them to reimburse the fees paid by the grantor if they didn't believe free transport was available.

If the grantor considers that it has a constructive obligation, it will recognise a provision and the grant expense. The grantor will need to estimate the amount of the obligation at the point where the constructive obligation exists in accordance with D5 *Provisions and contingencies* paragraphs D5.7 to D5.9.

Grant expense transactions with fulfilment rights

Example 5 – Grant agreement with multiple fulfilment rights

Background

NPO H (the grantor) is a global centre of excellence in the study and treatment of infectious childhood diseases. In addition to its own research activities, it supports governments in several other jurisdictions by providing funding, staff resources and vaccines to them.

NPO H has signed an agreement that is enforceable under local law with the government in jurisdiction 2. The grant agreement covers support for several programmes, projects and activities that the government is promoting around infectious childhood diseases but the most significant are:

- The government must spend CU10m in cash for the training costs of the jurisdiction's medical graduates in methods for identifying and treating infectious childhood diseases. The amount is based on a grant of CU10,000 to cover the costs of tuition of each of 1,000 graduates in the jurisdiction's medical school. To be eligible for reimbursement of the training costs each graduate must complete the training and pass an exam.
- NPO H holds CU50m in vaccines for the most common infectious childhood diseases in the jurisdiction. NPO H provides the vaccines according to the principle that jurisdiction 2 must first use its own supplies of vaccines before NPO H will transfer its vaccines to replenish the jurisdiction's available supply.

NPO H reimburses expenses based on a quarterly activity report.

Analysis

The agreement between NPO H and the government is a grant expense transaction with fulfilment rights. There are two distinct fulfilment rights arising from the delivery obligations for the government of jurisdiction 2. These have named activities and distinct services, goods, or other assets that the grantor requires the government as the grant recipient to use internally or transfer externally. The first is to train 1,000 graduates in identifying and treating infectious childhood diseases and ensure that they complete the training and pass a final exam. The second is to use its own vaccines. If the grant recipient meets these delivery obligations, the grantor will provide CU10,000 for each graduate who has completed the training course and passed the exam and transfer CU50m of vaccines that are currently held by the grantor to replenish jurisdiction 2's use of its own supply.

Conclusion

For both obligations, the grantor may realistically be able to avoid the transfer of resources until the government satisfies its delivery obligations. It will provide grants only for those graduates who complete the training course and pass the exam and transfer vaccines only when the government has used its own supply. In this example NPO H will recognise grant expenses when:

- it receives confirmation of the number of graduates who have completed the course and passed the exam, with a grant expense of CU10,000 recognised for each successful graduate; and
- it receives confirmation that the government has used its own supply of vaccines, with a grant expense recognised at the measurement of the vaccines held by the NPO H that are transferred to the government.

NPO H will recognise a liability based on the activity completed. This will be derecognised when the resources are subsequently transferred.

Example 6 – Grant agreement with payments of grant over multiple reporting periods

Background

NPO J (the grantor) has signed an agreement with regional government 3 that is expanding several programmes that aim to protect environmental habitats. The agreement between NPO J and regional government 3, which is enforceable under the laws of the jurisdiction, provides regional government 3 with CU2m of financial support each year for five years, as long as a long-term budget envelope is passed by regional government 3 to fund the environmental habitat programmes and additionally that CU10m is transferred by regional government 3 to an independent fund for the indigenous communities. Regional government 3 has subsequently passed a long-term budget envelope to fund these programmes. This includes an additional CU10m of expenses for indigenous communities based on receiving the same amount in support from NPO J over that period.

Analysis

The grant agreement between NPO J and regional government 3 is a grant expense transaction with fulfilment rights. NPO J has a fulfilment right because of the obligation that it places on regional government 3 to transfer CU10m to an independent fund for the indigenous communities and the passing of the budget envelope to fund the programmes. The grant agreement is enforceable under the laws of the jurisdiction in which regional government 3 is based.

Conclusion

Where regional government 3 has passed the long-term budget envelope and transferred the full CU10m to the independent fund, regional government 3 has met the delivery obligation in the grant agreement.

Although the grant agreement spans five years, with the transfer of CU2m due each year, NPO J must consider the recognition of the grant expense independently from the timing of when it transfers the resources.

For the recognition of a grant expense, NPO J must consider whether the regional government has performed under the terms of the grant agreement and met its delivery obligations. The key consideration is that regional government 3 has performed for the entire amount that grant agreement obliges the grantor to transfer. The grantor therefore recognises a grant expense and matching liability of CU10m. This liability will be reduced by CU2m each year as the grantor transfers the resources to regional government 3.

If the transfer of the CU2m was dependent each year on regional government 3 making its own transfer to the independent fund, then the delivery obligations would not have been met and the grantor may realistically be able to avoid the transfer in future reporting periods; it would therefore recognise a grant expense of CU2m each year instead.

Example 7 – Grant agreement with a capital grant

Background

NPO K (the grantor) is the Fund identified in Example 8 of the C1 illustrative examples. NPO K has signed an agreement with a community athletics organisation to upgrade its sporting facilities.

Analysis

As the community athletics organisation is constructing the non-current assets, the grantor's fulfilment rights are extinguished over time as the assets are built. The grantor and the community athletics organisation have agreed a payment methodology based on percentage of completion. This measures progress based on costs incurred against the overall projected costs of the building work.

Conclusion

As NPO K has provided the full expected cost of the project to the community athletics organisation upfront, it has recognised a grant prepayment asset for this amount. NPO K will recognise grant expenses and derecognise the prepayment asset over time based on the percentage of costs incurred to date by the community athletics organisation. The prepayment asset will be fully derecognised once the community athletics organisation completes the project.

If overall costs are lower than the initial transfer of resources from the grantor to the community athletics organisation, the grant agreement entitles the grantor to reimbursement and the grantor will reclassify part of the prepayment asset to a financial asset. The grantor will derecognise the financial asset once the community athletics organisation reimburses the unused funds.

ID3 – Fundraising costs

Fundraising activities

What activities are fundraising activities?

ID3.1 INPAS identifies three categories of fundraising activities. Activities to secure donations, gifts, grants and similar types of resources is the most common type of fundraising activity and is well understood.

ID3.2 INPAS also identifies two other potential types of fundraising activity. Some NPOs will raise funds through commercial or trading activity. The commercial (for-profit) sale, predominantly of goods, is used to generate funds that are applied to the NPO's mission. Where this activity takes place, an NPO is required to disclose the costs of carrying out these activities. An NPO can voluntarily disclose the income raised from these fundraising activities, but the income must be shown separately and not netted off from the fundraising costs.

ID3.3 The third type of fundraising activity is through investment management, with income earned from financial assets. An NPO may be donated financial assets, where the donor does not allow for them to be liquidated but allows the income from those assets to be used for the NPO's missional purpose. In these instances, the costs of managing such financial assets are costs of raising funds. As with commercial or trading income, an NPO can voluntarily disclose the income raised from these fundraising activities, but the income must be shown separately and not netted off from the fundraising costs.

ID3.4 Not all NPOs will have all categories of fundraising activity and an NPO will only need to make disclosures for the types of fundraising activity taking place. As these types of fundraising activity are so dissimilar, an NPO is required to separate the disclosures for each type of fundraising activity.

Calculating fundraising costs

Investment management

Are treasury management costs part of investment management fundraising costs?

ID3.5 An NPO may carry out treasury management activities across a portfolio of investments that include donated financial assets as well as its day to day management of its cash and cash equivalents.

ID3.6 Financial assets can be donated with the objective and often restriction that the returns from the investment of the financial assets are used for the missional purposes of the NPO. Treasury management functions that relate to such donated financial assets that generate returns are within the scope of investment management costs.

ID3.7 Where treasury management costs are not solely related to such financial assets, an NPO will need to allocate or apportion these costs (as appropriate) between fundraising activities and the NPO's general operating activities, unless this results in undue cost or effort. Paragraphs D1.9-D1.11 set out the principles to be followed. Illustrative example 2 in D1 *Classification of expenses* addresses issues related to treasury management.

Activities that have more than one purpose

How should the undue cost or effort exemption apply to activities that have more than one purpose?

ID3.8 An NPO is allowed to apply the undue cost or effort exemption for expenses that are incurred for more than one purpose, such as raising funds while also raising awareness of the activities of the NPO, in accordance with paragraph D3.17. A2 *Concepts and pervasive* paragraphs A2.38-A2.41 and the associated Implementation Guidance describe how to apply the exemption.

ID3.9 The undue cost or effort exemption requires the NPO to exercise professional judgement. This judgement requires consideration of the impact on the users of the NPO's general purpose financial report. It requires consideration of how the economic and other decisions of users could be affected by not having that information. This exemption is predicated on the cost of splitting costs between those that are for the purpose of fundraising and those incurred for other purposes and the effort required to separately identify different categories of expenses. The management of the NPO will need to decide whether the cost or effort carries more weight than the benefits to the users of the general purpose financial report.

ID3.10 The exemption is most likely to be used when the amounts involved are small, or the allocation between fundraising activities and other activities involves amounts that are immaterial.

ID3.11 Where the exemption is used this will need to be disclosed, with an explanation of how this impacts fundraising costs. The nature of the disclosure will need to take account of whether the full amount has been allocated to fundraising costs as this was the primary purpose of the activity or campaign, or whether none has been allocated.

ID5 – Provisions and contingencies

Onerous contracts and grant agreements

ID5.1 Where an NPO has a present obligation that arises from past events, then it may need to recognise a provision. Provisions may be required for a number of reasons. This includes the consequences of decisions made by an NPO that have not yet been implemented, such as staff redundancies or onerous contracts and grant agreements.

ID5.2 An onerous contract/grant agreement is one in which the unavoidable costs of meeting the obligations under the contract/grant agreement exceed the economic benefits expected to be received under it. The unavoidable costs under a contract/grant agreement reflect the least net cost of exiting from the contract/grant agreement, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

ID5.3 Where an NPO has an onerous contract/grant agreement, a provision will need to be recognised for the unavoidable costs as outlined in ID5.1. This may exist where an NPO has a grant agreement paid in a currency other than the NPO's functional currency and the operation of currency movements over the period of the grant agreement require the NPO to provide services that cost in excess of the amount payable under the grant agreement. In such circumstances a provision for an onerous grant agreement will need to be recognised.

Examples D5 – Provisions and contingencies

All of the NPOs in the examples have 31 December as their reporting date. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. In some examples the circumstances described may have resulted in impairment of the assets; this aspect is not dealt with in the examples. References to 'best estimate' are to the present value amount, when the effect of the time value of money is material.

Example 1 – Future operating losses

An NPO determines that it is probable that a segment of its operations will incur future operating losses for several years.

There is no present obligation as a result of past events – there is no past event that obliges the NPO to pay out resources.

Conclusion

The NPO does not recognise a provision for future operating losses. Expected future losses do not meet the definition of a liability. The expectation of future operating losses may be an indicator that one or more assets are impaired – see E5 *Impairment of assets*.

Example 2 – Onerous contracts

An NPO may be contractually required under an operating lease to make payments to lease an asset for which it no longer has any use. This is an onerous contract because the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

There is a present obligation as a result of past events – the NPO is contractually required to pay out resources for which it will not receive commensurate benefits.

Conclusion

If an NPO has a contract that is onerous, the NPO recognises and measures the present obligation under the contract as a provision.

Example 3 – Onerous grant agreement

An NPO is required under a grant agreement to construct ten new community facilities for local communities in a designated jurisdiction. This agreement resulted in a present obligation for the NPO as the grant recipient to build the facilities. The funds for the construction costs are provided by the grantor using the exchange rate at the date that the agreement was signed. The exchange rate changed between the date of signing the agreement and the date of commencement of the construction work. The amount provided is 20% lower than the NPO expected to receive in local currency. The amount in the local currency is no longer sufficient to cover the costs of construction.

There is a present obligation as a result of past events – the NPO is required by the grant agreement to pay out resources for which it will not receive commensurate benefits.

Conclusion

The grant agreement is onerous, as the NPO's unavoidable present obligation to construct the new community facilities now exceeds the revenue that the NPO will receive under the grant agreement and this loss was not anticipated when the NPO entered into the grant agreement. The NPO recognises a separate provision and an expense, measured as the difference between the present obligation to construct the community facilities and its right to revenue.

Example 4 – Warranties

A commercial subsidiary of an NPO (manufacturer) gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale, the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On the basis of experience, it is probable (that is, more likely than not) that there will be some claims under the warranties.

There is a present obligation as a result of past events – the obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits in settlement – probable for the warranties as a whole.

Conclusion

The NPO recognises a provision for the best estimate of the costs of making good under the warranty products sold before the reporting date.

Illustration of calculations:

In 20X0, goods are sold for CU1,000,000. Experience indicates that 90 per cent of products sold require no warranty repairs; 6 per cent of products sold require minor repairs costing 30 per cent of the sale price; and 4 per cent of products sold require major repairs or replacement costing 70 per cent of sale price. Consequently, estimated warranty costs are:

CU1,000,000 × 90% × 0	= CU0
CU1,000,000 × 6% × 30%	= CU18,000
CU1,000,000 × 4% × 70%	= CU28,000
Total	= CU46,000

The expenditures for warranty repairs and replacements for products sold in 20X0 are expected to be made 60 per cent in 20X1, 30 per cent in 20X2 and 10 per cent in 20X3, in each case at the end of the period. Because the estimated cash flows already reflect the probabilities of the cash outflows and assuming there are no other risks or uncertainties that must be reflected, to determine the present value of those cash flows the entity uses a 'risk-free' discount rate based on government bonds with the same term as the expected cash outflows (6 per cent for one-year bonds and 7 per cent for two-year and three-year bonds). Calculation of the present value, at the end of 20X0, of the estimated cash flows related to the warranties for products sold in 20X0 is as follows:

Year		Expected cash payments (CU)	Discount rate	Discount factor	Present value (CU)
1	60% × CU46,000	27,600	6%	0.9434 (at 6% for 1 year)	26,038
2	30% × CU46,000	13,800	7%	0.8734 (at 7% for 2 years)	12,053
3	10% × CU46,000	4,600	7%	0.8163 (at 7% for 3 years)	3,755
Total					41,846

Example 5 – Closure of a division (no implementation before end of reporting period)

On 12 December 20X0 the governing body of an NPO decided to close down its operations in a specific geographic area. Before the end of the reporting period (31 December 20X0) the decision was not communicated to any of those affected and no other steps were taken to implement the decision.

Present obligation as a result of past events – there has been no obligating event and so there is no obligation.

Conclusion

The NPO does not recognise a provision.

Example 6 – Closure of a division (communication and implementation before end of reporting period)

On 12 December 20X0 the governing body of an NPO decided to close its operations in a specific geographic area. On 20 December 20X0 a detailed plan for closing the operations was agreed by the governing body, letters were sent to service beneficiaries warning them that services would cease and they should seek alternatives and redundancy notices were sent to the staff of the operations.

Present obligation as a result of past events – the obligating event is the communication of the decision to the service recipients and employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the operations will be closed.

An outflow of resources embodying economic benefits in settlement – probable.

Conclusion

The NPO recognises a provision at 31 December 20X0 for the best estimate of the costs that would be incurred to close the operations.

Example 7 – Staff retraining as a result of changes in regulations

The government introduces changes to the regulation of NPOs. As a result of those changes, an NPO will need to retrain a large proportion of its workforce in order to ensure continued compliance with regulations. At the end of the reporting period, no retraining of staff has taken place.

Present obligation as a result of past events – the regulatory change does not impose an obligation on an NPO to do any retraining. An obligating event for recognising a provision (the retraining itself) has not taken place.

Conclusion

The NPO does not recognise a provision.

Example 8 – A court case

A service beneficiary has sued NPO X, seeking damages for injury the service beneficiary allegedly sustained from a service provided by NPO X. NPO X disputes liability on grounds that the service beneficiary did not declare required information relating to the provision of the services. Up to the date the governing body authorised the financial statements for the year to 31 December 20X1 for issue, the NPO's lawyers advise that it is probable that the NPO will not be found liable. However, when the NPO prepares the financial statements for the year to 31 December 20X2, its lawyers advise that, owing to developments in the case, it is now probable that the NPO will be found liable:

(a) at 31 December 20X1

Present obligation as a result of past events – on the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion – no provision is recognised. The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

(b) at 31 December 20X2

Present obligation as a result of past events – on the basis of the evidence available, there is a present obligation. The obligating event is the provision of services to the service beneficiary.

An outflow of resources embodying economic benefits in settlement – probable.

Conclusion – a provision is recognised at the best estimate of the amount to settle the obligation, and the expense is recognised in surplus or deficit. It is not a correction of an error in 20X1 because, on the basis of the evidence available when the 20X1 financial statements were approved, a provision should not have been recognised at that time.

ID6 – Leases

Examples D6 – Leases

Example of applying paragraph D6.15(b):

NPO X operates in a jurisdiction in which the consensus forecast by local banks is that the general price level index, as published by the government, will increase by an average of 10% annually over the next five years. NPO X leases some office space from entity Y for five years under an operating lease. The lease payments are structured to reflect the expected 10% annual general inflation over the five-year term of the lease as follows:

Year 1	CU100,000
Year 2	CU110,000
Year 3	CU121,000
Year 4	CU133,000
Year 5	CU146,000

NPO X recognises annual rent expense equal to the amounts owed to the lessor.

If the escalating payments are not clearly structured to compensate the lessor for expected inflationary cost increases based on published indexes or statistics, then NPO X recognises annual rent expense on a straight-line basis: CU122,000 each year (sum of the amounts payable under the lease divided by five years).

Group E

Non-financial assets

IE1 – Inventories

Recognition of inventories

Low-value items

IE1.1 Paragraphs E1.5(a) and (b) allow an NPO not to recognise low-value donated items as inventories when they are received. Guidance on determining whether a donated item is a low-value item can be found in the Implementation Guidance to C1 *Revenue* (see paragraphs IC1.6–IC1.16).

Examples E1 – Inventories

Classes of inventories

Example 1 – donated perishable inventories

NPO A operates a medical clinic. Its inventories include flu vaccines. Some vaccines are purchased and have a typical shelf life of one year. Other vaccines are donated by health providers when these providers are unable to use the vaccines prior to their expiry date. These vaccines have a typical shelf life of two weeks.

NPO A has chosen not to apply the permitted exception in respect of donated items for distribution and therefore recognises inventories for both the purchased and donated vaccines.

NPO A concludes that, because of their short-term use requirements, the nature of the donated vaccines is different to that of the purchased vaccines. Consequently, it identifies two classes of inventories – purchased flu vaccines and donated flu vaccines.

The purchased vaccines are initially recognised at cost. The donated vaccines are initially recognised at fair value. The fair value of the vaccines reflects their expiry date and is significantly lower than the cost of the purchased vaccines. An analysis of market prices for the vaccine indicates that once a vaccine has a shelf life of 16 weeks or less, the price the market is willing to pay decreases to zero on a straight-line basis, reflecting the increasing likelihood that the vaccine will be unused. The fair value of a vaccine with a two-week shelf life would therefore be 12.5% (2/16 weeks) of the price for a vaccine with a one-year shelf life. NPO A has stock control processes in place to ensure that short-dated vaccines are used first.

The purchase price of the vaccines is volatile. NPO A applies the weighted average cost model in accounting for the purchased inventories as it considers this provides the most representative information on the value of its purchased vaccines.

NPO A applies the first-in, first-out cost model in accounting for the donated inventories. This reflects the short-term nature of the vaccines and therefore provides the most representative information on the value of its donated vaccines.

Assessing loss of service potential

Example 2 – loss of service potential due to physical obsolescence

NPO B operates a food bank. NPO B purchases items of food to be included in food parcels and receives donations of food from supermarkets and individuals. Because the donations it receives are unpredictable, it can have a surplus of certain food items.

These food items may become limited in their use and so suffer a loss of service potential due to their age as they approach their expiry date. If NPO B has more items than are required for the food parcels, NPO B may have to either sell the items at a discount or dispose of them once the expiry date has passed.

At the reporting date, NPO B will assess whether any inventories that it has purchased have suffered a loss of service potential. This will not include the food that was donated as NPO B elected not to recognise these donations. For those inventories that have been recognised because they were purchased, NPO B estimates the amount of the inventories that it will not be able to use in the food parcels and adjusts the carrying amount of the inventories by this amount, adjusted for any expected sales proceeds and recognises a corresponding expense.

Example 3 – loss of service potential due to functional obsolescence

NPO C operates a medical clinic. Its inventories include a stock of a drug that is used to treat a respiratory disease. Several doses of the drug are required to successfully treat the disease.

A new drug has been developed that will successfully treat the disease with a single dose. The inventories of the drug held by NPO C may suffer a loss of service potential due to functional obsolescence. This will be the case if the cost of treating patients with the new drug is less than the cost of treating patients with the existing drug.

At the reporting date, NPO C will assess whether any inventories have suffered a loss of service potential. NPO C estimates the amount it would cost to replace its inventories of the existing drug with the amount of the new drug required to treat the same number of patients. If this is less than the carrying amount of the inventories of the existing drug, NPO C adjusts the carrying amount of the inventories downward to the estimated cost of the amount of the new drug required to treat the same number of patients and recognises a corresponding expense.

Example 4 – loss of service potential due to economic obsolescence

NPO D has the objective of helping long-term unemployed people find work and runs courses on interview preparation. NPO D has prepared course materials that are provided to all participants and has sufficient stock for the expected life of the current course.

The courses are subsidised by the government and as a result the NPO can offer the courses for no charge.

As a result of a change of government policy, the courses are no longer subsidised by the government. NPO D has insufficient resources to cover all the costs itself and introduces a small charge for the courses to cover the cost of hiring the venue and providing lunch.

Because of the introduction of the small charge, the number of participants decreases and NPO D runs the courses less frequently. As a result, it is likely that NPO D may not be able to use all the course materials. At the reporting date, NPO D will assess whether any inventories have suffered a loss of service potential. NPO D estimates the amount of the course materials that it will not be able to use before the course needs to be redeveloped. NPO D adjusts the carrying amount of the inventories of course materials in proportion to the amount it estimates will be unused and recognises a corresponding expense.

Group F

Financial assets and liabilities

IF1 – Financial instruments

Basic financial instruments

What factors should an NPO consider in determining an interest rate to be used where the time value of money needs to be calculated?

IF1.1 An NPO may need to calculate the time value of money, including where there is a financial liability to be settled over a period of more than 12 months. F1.10 requires that the time value of money should be calculated at the reporting date, using the effective interest rate determined at initial recognition.

IF1.2 The NPO will need to determine an appropriate interest rate for such calculations. This is expected to be the market rate of interest on a similar instrument. Many NPOs fund themselves through grant and donation income and do not take on external debt. Where an NPO does not borrow, it may not have the information to perform such calculations.

IF1.3 In these circumstances the NPO will need to look at information available to provide a rate. This might involve a review of typical borrowing rates based on the bank base rate in a jurisdiction. Other factors will include the rate at which the NPO invests its funds.

Examples F1 – Financial instruments

Example 1 – financial assets

For a long-term loan made to another entity, a receivable is recognised at the present value of cash receivable (including interest payments and repayment of principal) from that entity.

For goods sold to a customer on short-term credit, a receivable is recognised at the undiscounted amount of cash receivable from that entity, which is normally the invoice price.

For an item sold to a customer on two-year interest-free credit, a receivable is recognised at the current cash sale price for that item. If the current cash sale price is not known, it may be estimated as the present value of the cash receivable discounted using the prevailing market rate(s) of interest for a similar receivable.

For a cash purchase of another entity's ordinary shares, the investment is recognised at the amount of cash paid to acquire the shares.

For the unconditional right to a refund or a return of previously transferred resources where a compliance obligation has not been met, a receivable is recognised at the undiscounted amount of cash receivable, or value of resources to be transferred, from the grant recipient.

Example 2 – financial liabilities

For a loan received from a bank, a payable is recognised initially at the present value of cash payable to the bank (for example, including interest payments and repayment of principal).

For goods purchased from a supplier on short-term credit, a payable is recognised at the undiscounted amount owed to the supplier, which is normally the invoice price.

For cash amounts owed to grant recipients because a compliance obligation has been met, a grant payment liability is recognised at amortised cost.

For a financial guarantee contract issued, for example, to a third party on behalf of a related party of the entity, a liability is recognised initially at the premium received plus the present value of any future premium payments receivable, if any.

Example 3 – determining amortised cost for a five-year loan using the effective interest method

On 1 January 20X0, an NPO acquires a bond for CU900, incurring transaction costs of CU50(a). Interest of CU40 is receivable annually, in arrears, over the next five years (31 December 20X0–31 December 20X4). The bond has a mandatory redemption of CU1100 on 31 December 20X4.

Year	Carrying amount at beginning of period**	Interest income at 6.9584%*	Cash inflow	Carrying amount at end of period**
	CU	CU	CU	CU
20X0	950.00	66.11	(40.00)	976.11
20X1	976.11	67.92	(40.00)	1,004.03
20X2	1,004.03	69.86	(40.00)	1,033.89
20X3	1,033.89	71.94	(40.00)	1,065.83
20X4	1,065.83	74.17	(40.00)	1,100.00
			(1,100.00)	–

* The effective interest rate of 6.9584% is the rate that discounts the expected cash flows on the bond to the initial carrying amount: 40 ÷ (1.069584)1 + 40 ÷ (1.069584)2 + 40 ÷ (1.069584)3 + 40 ÷ (1.069584)4 + 1,140 ÷ (1.069584)5 = 950

**The carrying amount is shown before the allowance for expected credit losses.

Example 4 – transfer that qualifies for derecognition

An NPO sells a group of its accounts receivable to a bank at less than their face amount. The NPO continues to handle collections from the debtors on behalf of the bank, including sending monthly statements and the bank pays the NPO a market-rate fee for servicing the receivables. The NPO is obliged to remit promptly to the bank any and all amounts collected, but it has no obligation to the bank for slow payment or non-payment by the debtors. In this case, the NPO has transferred to the bank substantially all of the risks and rewards of ownership of the receivables. Accordingly, it removes the receivables from its Statement of Financial Position (that is, derecognises them) and it shows no liability in respect of the proceeds received from the bank. The NPO recognises a loss calculated as the difference between the carrying amount of the receivables at the time of sale and the proceeds received from the bank. The NPO recognises a liability to the extent that it has collected funds from the debtors but has not yet remitted them to the bank.

Example 5 – transfer that does not qualify for derecognition

The facts are the same as the preceding example except that the NPO has agreed to buy back from the bank any receivables for which the debtor is in arrears as to principal or interest for more than 120 days. In this case, the NPO has retained the risk of slow payment or non-payment by the debtors – a significant risk with respect to receivables. Accordingly, the NPO does not treat the receivables as having been sold to the bank and it does not derecognise them. Instead, it treats the proceeds from the bank as a loan secured by the receivables. The NPO continues to recognise the receivables as an asset until they are collected or written off as uncollectable.

Group G

Consolidation and reporting boundaries

IG1 – Consolidated and separate financial statements

Examples G1 – Consolidated and separate financial statements

Example 1 – Control not relating to voting rights

NPO A, was established to increase the fitness of a region by operating through sport centres in local parks. This fitness programme is approved and agreed by NPO A. Eight separate smaller incorporated associations of NPOs have been established for each of the localities in its region. The only activities of these separate associations are to manage the sport centres within their parks. The associations have no ownership instruments, but a governing body (local management committee) has been established by each comprising members of the community that are dedicated to increasing fitness and members interested in the local parks. For each location, the establishment of the management body and its terms of reference are overseen by NPO A, which also oversees ongoing operations. There is a small team of sports instructors and a sports centre director managing each association. People under the age of 18 do not pay, while other participants pay a significantly subsidised price for using the amenities. The activities of the eight associations are:

(a) the day-to-day operation of the sport centres;
(b) managing the groups of individuals that have been recommended by their medical practitioners to join the sports centres;
(c) deciding the numbers of other members that can join at a subsidised fee; and
(d) maintenance and upkeep of the sport centres facilities and improving where necessary.

To ensure the eight associations promote the improvements in fitness using the sports centres NPO A specifies:

(a) the types of facilities and classes that must be made available;
(b) the length of each activity for each group using the facilities; and
(c) the groups prioritised for membership because of their medical needs.

Performance reports are sent monthly to NPO A setting out the activities that have taken place and the fees earned. NPO A also sets the subsidised price for the associations. All the income is sent to NPO A, which redistributes it in accordance with its priorities.

Analysis

NPO A has the power to control the activities and the operation of each of the associations by specifying its activities, the individuals using the centres and gains the benefits of delivering on its purposes and the subsidised fees including their redistribution.

Example 2 – Control and voting rights

Three NPOs (NPO B, NPO C and NPO D) have agreed to work collaboratively and have entered into an agreement giving each NPO the right to nominate Board members to sit on the other NPO's Boards. The other Board members have no relationship with the other NPOs. There are no agreements between the NPOs regarding the exercise of their votes and the composition of the various Boards mean that in the absence of such an agreement, there is no joint control.

The Board of NPO B is chaired by its founder, who is considered to exert greater influence over the decisions of the Board than their one vote would suggest. This influence does not extend to the Boards of NPO C and NPO D.

In preparing their financial statements, each NPO will need to assess whether it controls one or more of the other NPOs by assessing whether its share of the votes on the relative Board(s) (through being able to nominate members) gives it power over the key activities of the other NPO(s). If so, it will also assess whether it also has the other elements of control (exposure to variable returns and ability to use its power to affect the returns).

If the NPO's share of the vote does not give it control over the other NPO(s), the NPO also considers whether its share of the vote gives it significant influence over the other NPO(s).

In doing so, it will need to consider whether the influence of the founder of NPO B needs to be taken into account and if so, how.

Analysis

NPO A assesses whether it has control or significant influence over NPO B and NPO C. The influence of its founder need not be taken into account, as that influence only extends to the decisions taken by the Board of NPO B. There is no influence over the decisions taken by the Boards of NPO C and NPO D.

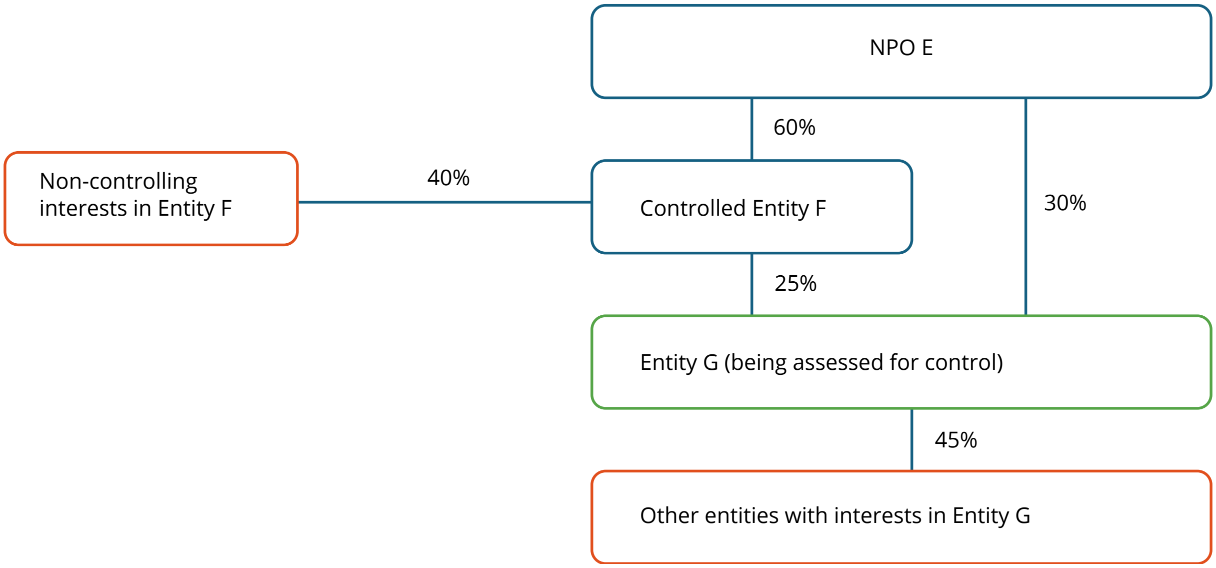
NPO B and NPO C each assesses whether it has control or significant influence over NPO A. In assessing its share of the vote, NPO C and NPO D may need to consider the influence of the founder of NPO B. This is unlikely to be an issue if NPO C or NPO D has a majority of the voting rights, as they could each address any question of influence by nominating different Board members. However, when considering significant influence, each NPO may need to consider whether, even if its voting share would normally be sufficient to give it significant influence, this is negated by the influence of the founder. In doing so, each NPO will consider whether the founder's influence has the same effect as an agreement between Board members to always vote together.

Example 3 – Interest indirectly held through a controlled entity

NPO E has interests in Entity F and needs to determine whether these interests give it control of Entity F. Entity F is a for-profit entity established by a number of NPOs to generate financial returns to support their missions.

NPO E directly owns 30% of the shares in Entity F. The remaining 70% of the shares in Entity F are owned by other entities, including Entity G, a for-profit entity in which NPO E has a majority shareholding (60%). Entity G owns 25% of the shares in Entity F. The remaining 45% of shares are owned by other entities that are not related to NPO E.

The ownership interests in Entity F are shown below:



Analysis

Paragraph G1.12 states that "control is presumed to exist when the NPO owns, directly or indirectly through controlled entities, the majority of the voting rights of an entity." NPO E therefore needs to determine whether its interests in both Entity F and Entity G give it control of Entity G.

NPO E owns 60% of the voting rights in Entity F and there is no evidence that NPO E does not have one or more of the elements of control (power, exposure to variable returns and ability to use its power to affect the returns). NPO E therefore controls Entity F. As a consequence of this control, NPO E includes Entity F's interest in Entity G when assessing whether it controls Entity G.

Including this interest means that NPO E controls 55% of the voting rights in Entity G (30% directly owned and 25% controlled through its control of Entity F). Unless it can be clearly demonstrated that NPO E does not have one or more of the elements of control, NPO E controls Entity G and should include Entity G in its consolidated financial statements.

It should be noted that, because NPO E controls (and therefore consolidates) entities that it does not wholly own, its consolidated financial statements will include non-controlling interests. For example, INPAS requires the surplus or deficit for the year to be allocated between an NPO and any non-controlling interest.

Although control of Entity G is determined by looking at how many shares are effectively controlled, when accounting for any surplus or deficit it is the actual amount of shares that are owned that determine the amount to be recognised as a non-controlling interest. Therefore, NPO E needs to recognise the other shareholdings in Entity F and Entity G. This will give NPO E a lower share of the surplus or deficit than the amount of shares its controls.

For example, because NPO E controls Entity F, 100% of Entity F's interests in Entity G are taken into account when assessing its control of Entity G. However, NPO E only owns 60% of the shares in Entity F and is therefore only entitled to 60% of Entity F's share of Entity G's surplus or deficit.

In the case of Entity G, NPO E will allocate 55% of the surplus or deficit for the year to non-controlling interest. This 55% comprises 45% in respect of the non-controlling interests in Entity G and 10% in respect of the non-controlling interests in Entity F (calculated as 40% non-controlling interest x 25% share of Entity G).

Example 4 – Differing reporting dates

NPO H is based in Country X but also has operations in country Y. Due to the regulations in Country Y, the operations are carried out by NPO J, which is a separate legal entity in accordance with the regulations in Country Y. NPO J is a wholly owned by NPO H and is therefore a controlled entity.

NPO H's financial reporting period ends on 31 December. NPO J's financial reporting period ends on 30 September; this is a legal requirement for NPOs in Country Y.

Paragraph G1.30 requires the financial statements of NPO H and its controlled entity (NPO J) used in the preparation of the consolidated financial statements to be prepared as of the same reporting date (31 December, NPO H's reporting date) unless it is impracticable to do so.

Analysis

NPO J cannot change its financial reporting period to match that of NPO H because of the legal requirements in Country Y. It is, therefore, impracticable for NPO H to use financial statements prepared at the same date. NPO H will need to consolidate the financial information of NPO J using its most recent financial statements, adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

Case 1: NPO J's systems allow accounting information for 1 January to 31 December to be produced

Where NPO J's financial systems allow it to prepare information for the period 1 January to 31 December, NPO H should require NPO J to provide this additional information. This may be in the form of an internal reporting package and will be additional to NPO J's annual financial statements as at 30 September.

Case 2 NPO J's systems do not allow accounting information for 1 January to 31 December to be produced

Where NPO J's financial systems do not allow it to prepare information for the period 1 January to 31 December, NPO H should prepare the consolidated financial statements using NPO J's most recent financial statements, as adjusted for the effects of significant transactions or events that occur between the date of those financial statements (30 September) and the date of the consolidated financial statements (31 December). Examples of significant transactions or events include:

(a) the purchase or sale of a significant item of property, plant and equipment;
(b) a significant impairment loss for a significant asset or receivable;
(c) significant new revenue or expenses from new grant agreements; and
(d) assumption of (or amendments to) liabilities.

Group H

Restatements and additional information

IH1 – Related party disclosures

Are members of a governing body such as trustees or board members related parties?

IH1.1 Yes. It is a common feature of NPOs in many jurisdictions that oversight and control of the NPO is ultimately exercised not by executive officers who are members of staff of the NPO, but by a separate governing body that is formed of individuals, often volunteers, who are not employed by the NPO. These can be known as trustees, board members, or similar.

IH1.2 Whether an individual is employed by the NPO or not is irrelevant for the purpose of deciding whether they are a related party under H1 *Related party disclosures*. If those individuals are providing oversight and have the ability to control or exert significant influence over the NPO, then they are related parties and the disclosure requirements of H1 apply to them.

Is a Director of an NPO a related party?

IH1.3 Yes. Related parties include all governing body members and key management personnel. These individuals have authority and responsibility for planning, directing and controlling the activities of the NPO, directly or indirectly and given the positions they hold this will include trustees or any director (whether executive or otherwise) of the NPO.

Are transactions between NPOs with connected governing body members considered related party transactions?

IH1.4 Yes. NPOs often have a separate governing body exercising authority, separately from the executive officers. Such members of governing bodies may be connected to counterparts, for example, with funders or other NPOs, which is common in the sector to leverage co-operation. Transactions between NPOs with connected governing body members are related party transactions. This is because these connections can influence decision-making and it is important for users of financial statements to be aware of such relationships to understand their potential impact.

What are the disclosure requirements for governing body member compensation?

IH1.5 While in some jurisdictions it is not legal to compensate the governing body members, in others it may be customary practice to do so. In all cases, such disclosures are necessary to demonstrate transparency and avoid potential conflicts of interest. Disclosures should include details of personnel compensation, other benefits or employment and expenses claimed by governing body members. For members of the governing body who are also employees, the disclosure requirements in H1.10 align with the approach for short-term employee benefits outlined in D4.39. Governing body members who are non-employees are recommended to follow a similar disclosure format.

IH1.6 The disclosure format should clearly outline the compensation details for governing body members, distinguishing between the nature of their work and their governance role. It should include the requirements outlined in H1.10 or D4.39, ensuring clarity in how compensation is structured and paid.

Why are related party transactions with government entities exempt from disclosure?

IH1.7 Paragraph H1.16 provides exemptions from reporting related party transactions with government entities. This exemption has been provided to reduce the potential burden of reporting such transactions. NPO’s may report such transactions where this is important to the understanding of the NPO’s financial position.

Do all transactions between an NPO and a governing body member need to be disclosed under related party disclosure requirements?

IH1.8 An NPO should assess whether a transaction with a governing body member is material to the financial statements and whether it provides relevant information for users of their financial statements. If the transaction is material and impacts the understanding of the NPO's financial position, it should be disclosed—regardless of whether it is conducted at arms' length. An arms'-length transaction is a transaction conducted under normal commercial terms without undue influence from the related party.

IH1.9 As a result, if a governing body member makes a grant or donation, it must be disclosed if it is material. This is the case even if the grant is at arms' length and does not require changes to the NPO's usual operations.

IH1.10 Exceptionally, an NPO does not have to disclose the transactions between a governing body member and the NPO where the governing body member is in receipt of services on the same terms as other eligible recipients. Disclosure is, however, required of the governing body members in receipt of such services. Transactions arising from services provided to governing body members that are not on the same terms as other eligible recipients must be disclosed where material.

IH1.11 Where a governing body member that receives services on the same terms as other eligible recipients has amounts owing at the financial reporting date these need to be disclosed if the amount owed is not within the terms provided to other eligible service recipients.

IH1.12 While not mandated, an NPO is encouraged to voluntarily disclose smaller or non-material transactions where they add value to user understanding or help illustrate robust governance practices. For instance, detailing that governing body members do not receive preferential treatment compared to other eligible service recipients can strengthen stakeholder confidence.

Examples H1 – Related party disclosures

Example 1 – Social housing NPO

If a governing body member of an NPO that provides social housing is also a tenant; the following shall be disclosed:

(a) the name of the governing body member;
(b) that the governing body member is a tenant of the NPO; and
(c) any arrears in rental payments (that is, amounts outside of standard terms as a related party balance.

Example 2 – Educational grants

If a board member's immediate family member receives an educational grant from the NPO under the same terms as other applicants, no disclosure needs to be made unless the grant is on different terms to those provided to other eligible recipients. The name of the governing body member and that a member of the governing body member's family has received an education grant must be disclosed.

Example 3 – Consultancy services

If a governing body member provides consultancy services to the NPO, even at a discounted rate, the transaction must be disclosed if it is material. The name of the governing body member and the value of the consultancy work must be disclosed.

IH4 – Supplementary information

Scope of this Section

*Should H4 **Supplementary information** be used where Supplementary statements haven't been issued, but an NPO intends to do so?*

IH4.1 When an NPO is expected to prepare and distribute Supplementary statements in accordance with INPAS Practice Guide 1 – *Harmonised grant reporting* (INPAS Practice Guide 1), because it has routinely produced such statements in the past, it applies H4 *Supplementary information*. This recognises that an NPO may produce and/or publish its general purpose financial report before it issues Supplementary statements.

IH4.2 When an NPO has not yet routinely started to prepare and distribute Supplementary statements, but it plans to do so it would benefit from using H4. In these circumstances an NPO should consider using H4 for the financial period for which it plans to prepare and distribute its first Supplementary statements.

Why should all the information be presented together in the same format as the Supplementary statement?

IH4.3 H4 permits an NPO to rely on disclosures already reported in the general purpose financial statements as long as the category from the Supplementary statement is identified in the disclosure. An NPO will, however, need to make additional disclosures for any information that is not already in the financial statements and that is required to comply with the information in the Supplementary statement format. This approach, while reducing duplication, will result in the disclosures being distributed across the financial statements.

IH4.4 Alternatively, an NPO can bring the information together using the format prescribed for a Supplementary statement in INPAS Practice Guide 1. This will provide benefits including:

(a) **enhanced transparency and accountability**, providing a comprehensive financial overview of the activities of the NPO in one location, which more clearly links general purpose financial statements to project-specific or donor-driven reporting;

(b) **streamlined reporting for users**, reducing fragmented reporting by consolidating key financial information in a structured and accessible format,

(c) **reliability**, removing the need for users to identify each piece of information to create their own equivalent statement, which may risk misunderstanding or error;

(d) **improved opportunities for assurance**, bringing the information together makes it easier to reconcile between general purpose financial statements and donor-specific reports, supporting audit verification and financial integrity;

(e) **improved comparability**, aligning reporting across multiple grants, projects and restricted funds, allowing stakeholders to easily compare financial information across different funding sources.

Disclosure of supplementary information

Where does the information for a whole-of-NPO Supplementary statement come from?

IH4.5 Figure IH4.1 provides an illustration of the sources of information to meet the disclosure requirements.

Figure IH4.1: Illustration of the sources of Information to meet the disclosure requirements

	Source
Income	
Grants and donations	C1.106
Other income (*by type*)	All other income. Specific disclosures required by C1.196, F1.51(a) and F1.51(b) (for income items) and D6.23(b), D6.23(e), D6.25, may encompass all other sources of income.
Total income	B3.5
Expenses	
Direct expenses	
Employment	D4.39 provides total employment expenses, but these will need to be split between direct and support.
Travel and subsistence	H1.11(b) for governing body members but otherwise not required to be disclosed other than for H4.
Supplies and materials	Supplies and materials purchased to directly deliver activities. This will include inventory expense required to be disclosed by E1.27(c), except for inventories used for administrative purposes.
Other direct expenses including external services	All other expenses, other than the direct employment expenses, travel expenses, supplies and materials, grants payable, support costs and services and gifts in kind specified in this table. Specific disclosures required by B3.7(b), B3.7(d), D3.19, D4.40, D4.44(e)(ii), D5.17(a)(ii),(iii) and(iv), D6.16 b), D6.26, E2.36 e) vii) E2.36 e) viii), E3.13, E4.28e) iv), E4.30, E5.34, F1.51 (for expense items), H1.7 and H1.10(b), may assist.
Services in kind and gifts in kind	Services in kind as per the amount recognised in revenue from grants and donations C1.106(c), plus services in kind or gifts in kind provided by the NPO to other organisations.
Grants and donations to others	D2.60
Support costs	Not required other than for H4
Total expenses	B3.11, D1.2
Foreign currency translation gains/losses	A5.28(a)
Transfers	B8.26(b)
Other financial movements	Total other changes that affect the overall surplus or deficit for the period. Specific disclosures required by B3.7(e), B3.7(g), D4.44d), E2.36(e)(vi), E3.13(d)(ii), E4.28(e)(vi), E6.9(b), F1.51(a) (for changes in fair value), F1.78(d) and H2.15 may assist.

	Source
Income	
Change in grant [fund] balance	
Opening balance	B8.26(b)
Closing balance	B8.26(b)
[Optional] Adjustment for capital and inventory costs (note: only required when used by an NPO in its Supplementary statements)	
Total expenses	Per total expenses above
Minus: depreciation and/or amortisation charged in total expenses above	E3.13(d), E2.36(e)(vii), E2.36(e)(viii), E4.28(e)(iv)
Plus: cost of capital items purchased or produced	B5.5(a)
Minus: inventory expenses reported in total expenses above	E1.27(c) for inventory acquired to directly deliver activities
Plus: cost of inventory purchased or produced	Not required other than for H4
Expenses including [optional] adjustment for capital and inventory costs	Sum of the rows above (total expenses and adjustments for inventory and capital items, including depreciation and/or amortisation charged for the period).
Opening balance including [optional] adjustment for capital and inventory costs	Opening balance from prior period.
Closing balance including [optional] adjustment for capital and inventory costs	Opening balance, plus movement in the grant/fund balance for the period, adjusted for inventory expenses and depreciation and/or amortisation and cash used to purchase or produce inventory and capital items (as used to calculate expenses, inventory and capital costs).

Annex – Illustrative financial statements

Annex – Illustrative financial statements

NPO A – Single entity financial statements

Year ended 31 December 20X2

These financial statements have been prepared to illustrate common INPAS requirements for the primary financial statements and accompanying notes.

They do not illustrate all the requirements of INPAS and do not cover all transactions or all types of NPO.

The complexity of an NPO's financial statements will depend on the complexity of its transactions. A range of possible NPO transactions has been included in this illustrative example to demonstrate how different requirements could be applied.

The example illustrates the financial statements only and does not include a narrative report.

They should not be used as a checklist but as reference material to understand how the requirements of INPAS might be presented.

The following financial statements are single entity financial statements for the reporting period ending 31 December 20X2.'

Statement of Income and Expenses

	Note	Year ended 31 December 20X2	Year ended 31 December 20X1	INPAS Reference
		CU000s	CU000s	B1.10(d), (e)
Income				
Revenue from grants and donations				C1.106
Grants with delivery obligations	4, 5	124	0	C1.106(a)
Grants without delivery obligations with restrictions	4, 6	380	300	C1.106(a)
Grants without delivery obligations or restrictions	6	990	1,385	C1.106(a)
Donations in-kind	7	142	225	C1.106(b), (c)
		1,636	1,910	
Revenue from goods and services	8	542	580	C1.193
Other income				
Interest income		10	15	F1.51(b)
Total income		**2,188**	**2,505**	B3.7(a)
Expenses				B3.11, D1, D1.3
Operating expenses				
Staff costs	9	1,216	1,103	B3.11, D1.4
Value of services provided by volunteers	7	80	75	B3.11, D1.4
Rent, rates and utilities		165	131	B3.11, D1.4
Medical supplies and services		315	335	B3.11, D1.4
Research and development		96	25	B3.11, D1.4
Depreciation and amortisation	12	77	45	B3.11, D1.4
Impairment of property, plant and equipment	12	15	–	B3.11, D1.4
Impairment of inventories	13	–	5	B3.11, D1.4
Other expenses		179	178	B3.11, D1.4
		2,143	1,897	
Grants and donations given	10	100	200	D2.60
Other expenses				
Interest expense	16, 17, 18	13	16	B3.7(b), D7.2, F1.51(b)
Tax expense		–	20	B3.7(d)
Total expenses	11	**2,256**	**2,133**	
Operating (deficit)/surplus		**(68)**	**372**	B3.7(f)

	Note	Year ended 31 December 20X2	Year ended 31 December 20X1	INPAS Reference
		CU000s	CU000s	B1.10(d), (e)
(Loss)/gain on disposal of property, plant and equipment	12	(4)	2	B3.7(g)
Foreign exchange gain	5	5	–	B3.7(g)
Total (deficit)/surplus		**(67)**	**374**	B3.7(i)

Statement of Financial Position

	Note	As at 31 December 20X2 CU000s	As at 31 December 20X1 CU000s	INPAS Reference B1.10(d), (e)
Non-current assets				
Property, plant and equipment	12	1,013	1,080	B2.2(e)
Intangible assets	12	50	45	B2.2(h)
		1,063	1,125	
Current assets				
Inventory	13	57	50	B2.2(d)
Work in progress: grants with delivery obligations	5	150	–	C1.110
Prepayment: grant fulfilment assets	10	50	–	D2.62
Other receivables	14	64	32	B2.2(b)
Cash	15	337	729	B2.2(a)
		658	811	
Total assets		1,721	1,936	
Current liabilities				
Liabilities: grants with delivery obligations	5	18	70	C1.110
Receipts in advance	8	48	–	B2.2(n)
Other liabilities	16,17	86	243	B2.2(m), (n)
		152	313	
Non-current liabilities				
Members' shares	18	45	40	B2.2(n)
Long-term loan	18	250	250	B2.2(n)
		295	290	
Total liabilities		447	603	
Net assets		**1,274**	**1,333**	
Funds				
Unrestricted funds	4	652	948	B2.2(v)
Restricted funds	4	614	385	B2.2(u)
Revaluation reserve		8	–	B2.2(t)
Net assets		**1,274**	**1,333**	

Statement of Changes in Net Assets

	Note	Unrestricted funds	Restricted funds	Total restricted and unrestricted funds	Revaluation reserve	Total Net Assets	INPAS Reference
		CU000s	CU000s	CU000s	CU000s	CU000s	**B1.10(d),(e)**
Opening balance at 1 January 20X1	4	**874**	**85**	**959**	**–**	**959**	**B4.4**
Total surplus/(deficit) in the year	4	74	300	374	–	374	**B4.3(a)**
Closing balance at 31 December 20X1	4	948	385	1,333	–	1,333	**B4.4**
Opening balance at 1 January 20X2	4	**948**	**385**	**1,333**	**–**	**1,333**	**B4.4**
Total surplus/(deficit) in the year	4	(301)	234	(67)	–	(67)	**B4.3(a)**
Revaluation gains and (losses)	12	–	–	–	8	8	**B4.3(c)**
Movements from all income and expenses		(301)	234	(67)	8	(59)	**B4.3(d)**
Transfers between funds	4	5	(5)	–	–	–	**B4.3(e)**
Closing balance at 31 December 20X2	4	**652**	**614**	**1,266**	**8**	**1,274**	**B4.4**

There were no transfers between funds in 20X1.

Statement of Cash Flows – direct method option

	Note	Year ended 31 December 20X2	Year ended 31 December 20X1	INPAS Reference
				B5.7 (b)
		CU000s	CU000s	B1.10(d), (e)
Operating activities				
Receipts from grants and donations	5,6	1,442	1,605	B5.4(a)
Receipt of grants for PPE[3]	6	–	150	B5.4(a)
Receipts from goods and services	8	558	560	B5.4(b)
Receipt of interest income		10	15	B5.16
Staff costs	9	(1,323)	(1,055)	B5.4(e)
Rent, rates and utilities		(170)	(101)	B5.4(d)
Medical supplies		(272)	(230)	B5.4(d)
Research and development		(96)	(25)	B5.4(d)
Grants given	10	(150)	(200)	
Interest payments	16	(16)	(16)	B5.16
Tax payments		(20)	–	B5.4(f)
Other payments		(236)	(171)	
Net cash inflow/(outflow) from operating activities		(273)	532	B5.3
Investing activities				
Payments for property, plant and equipment (PPE)	12	(65)	(235)	B5.5(a)
Payments for intangible assets	12	(10)	–	B5.5(a)
Receipts from disposals	12	46	52	B5.5(b)
Net cash outflow from investing activities		(29)	(183)	B5.3
Financing activities				
Repayment of borrowings	16,17	(100)	–	B5.6(d)
Member shares redeemed	18	–	(5)	B5.6(c)
Member shares issued	18	5	15	B5.6(c)
Net cash (outflow)/inflow from financing activities		(95)	10	B5.3
Movement in cash		**(397)**	**359**	B5.24
Opening cash and cash equivalents		729	370	B5.24
Movement in cash and cash equivalents		(397)	359	B5.24
Foreign exchange differences		5	–	B5.24
Closing cash and cash equivalents	15	**337**	**729**	B5.24

[3] INPAS does not specify the location of this item; an NPO may choose to present this item as part of operating activities or investing activities.

Statement of Cash Flows – indirect method option

	Note	Year ended 31 December 20X2	Year ended 31 December 20X1	INPAS Reference
				B5.7(a)
		CU000s	CU000s	B1.10(d),(e)
Operating activities				
Total (deficit)/surplus		(67)	374	B5.8
Non-cash income and expenses				
Depreciation and amortisation		92	45	B5.8(b)
(Gain) on foreign exchange		(5)	–	B5.8(b)
Donations of property, plant and equipment (PPE)		(12)	(80)	B5.8(b)
Gain/(loss) on disposal of PPE		4	(2)	B5.8(c)
(Increase)/decrease in inventories	13	(7)	40	B5.8(a)
(Increase)/decrease in work in progress	5	(150)	32	B5.8(a)
(Increase)/decrease in other current assets		(82)	(32)	B5.8(a)
Increase/(decrease) in other current liabilities		(46)	155	B5.8(a)
Net cash inflow/(outflow) from operating activities		(273)	532	B5.3
Investing activities				
Payments for property, plant and equipment (PPE)	12	(65)	(235)	B5.5(a)
Payments for intangible assets	12	(10)	–	B5.5(a)
Receipts from disposals	12	46	52	B5.5(b)
Net cash outflow from investing activities		(29)	(183)	B5.3
Financing activities				
Repayment of borrowings	16,17	(100)	–	B5.6(d)
Member shares redeemed	18	–	(5)	B5.6(c)
Member shares issued	18	5	15	B5.6(c)
Net cash inflow/(outflow) from financing activities		(95)	10	B5.3
Movement in cash		**(397)**	**359**	B5.24
Opening cash and cash equivalents		729	370	B5.24
Movement in cash and cash equivalents		(397)	359	B5.24
Foreign exchange differences		5	–	B5.24
Closing cash and cash equivalents	15	**337**	**729**	B5.24

Notes to the financial statements

Note 1: General Information

INPAS Reference

NPO A is established to carry out research into respiratory diseases and to support individuals and families who suffer from these diseases. Most of our activities are carried out in Country Z but we also have operations in Country Y and Country X. Our registered office is at 100 Main Street, Capital City, Country Z. We have been established in accordance with the legal requirements in Country Z.

B1.11

Our financial reporting year is from 1 January to 31 December.

Note 2: Material accounting policy information (B6.2(a))

Basis of preparation

These financial statements have been prepared in accordance with the International Non-Profit Accounting Standard (INPAS) as directed by Country Z's regulator. They are presented in the currency units (CU) of Country Z.

B6.4

All amounts are rounded to the nearest one thousand CU. Use of a '0' represents amounts rounded down to zero. Use of '–' represents nil amounts. Tables may not add in all instances due to rounding.

B1.10 (e)

Going concern

B1.4

The financial statements are prepared on a going concern basis. See Note 3 for details of the judgement made in determining that going concern is the appropriate basis.

Revenue recognition

Revenue from grants and donations is recognised in accordance with the nature of the grant or donation.

C1.56

Where we are required to satisfy one or more delivery obligations in a grant agreement, revenue is recognised as each obligation is satisfied, which may be over time or at a point in time. Amounts received prior to the delivery obligations being satisfied are reported as a liability until each obligation is satisfied. Costs incurred in satisfying each delivery obligation prior to amounts being received are reported as work in progress and recognised as an expense when the revenue is recognised.

C1.69–C1.105

Revenue from grants and donations without delivery obligations is recognised when we have control of the revenue which is when the amounts are received or receivable.

C1.58–C1.68

Revenue from the sale of goods and services to customers is recognised when control of the good or service passes to the customer. Revenue is measured at the fair value of the consideration received or receivable.

C1.115–C1.192

Services received from volunteers (services in-kind)

Services are received from volunteers to run the telephone counselling service. These services are critical to our mission. Mission critical services are recognised as revenue and an expense at the point they are received. The volunteer's time is valued at fair value by reference to the market salary of a junior counsellor.

C1.66

Where voluntary services are received that are not critical to our mission, these are not recognised as revenue and an expense but are disclosed in the notes to financial statements.

C1.64(c)

Note 2: Material accounting policy information (continued)

	INPAS Reference
Recognition of grants given to others	
Grants given to others are recognised in accordance with the nature of the grant provided.	D2.4
Grants given where the recipient has to satisfy delivery obligations in the grant agreement are recognised as each obligation is satisfied, which may be over time or at a point in time. Amounts paid prior to the delivery obligation being satisfied are reported as a prepayment until each obligation is satisfied. A liability is recognised for delivery obligations that have been satisfied, in whole or in part, prior to payment being made.	D2.26–D2.52
Grants given where the grantee does not have to satisfy specific delivery obligations before being entitled to the grant are recognised when the amounts are paid.	D2.19–D2.25
Taxation	
NPOs registered with the regulator in Country Z are subject to income tax on the surplus generated in the financial year. Deficits in previous years are not carried forward and do not reduce the tax liability. Where a surplus is recorded for the year, a tax expense and a payable are recognised and the tax is paid within three months after the end of the reporting period in accordance with the relevant legislation.	D8.5
Borrowing costs	
All borrowing costs are recognised in surplus or deficit in the period in which they are incurred.	D7.2
Property, plant and equipment	
All items of property, plant and equipment except vacant land are measured at cost less accumulated depreciation and any accumulated impairment losses. Vacant land is revalued annually by a professional property valuer.	E2.16, E2.36(a)
Other than land, depreciation is charged to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. Assets are depreciated over the following periods:	E2.21–E2.28, E2.36(b), (c)
Buildings: 40–60 years Vehicles: 1–10 years Equipment: 3–6 years	E2.29
If there is an indication that there has been a significant change in useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.	
Intangible assets	
Intangible assets are comprised of specialised software and are recognised at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over their useful life where they have a finite life using the straight-line method or assessed for impairment where they have an indefinite life. The lives of our intangible assets are 3–10 years.	E4.9, E4.21–E4.25

Note 2: Material accounting policy information (continued)

INPAS Reference

Impairment of long-life assets

At each reporting date, property, plant and equipment and intangible assets are reviewed for indications that those assets have suffered an impairment loss. If any such indication exists, the value in use of any affected asset is estimated and compared with its carrying amount. This takes account of the service potential of the asset. If the estimated value in use is lower than the current carrying amount, it is reduced to its estimated value in use and an impairment loss is recognised immediately in surplus or deficit.

E2.29, E4.26, E5.7–E5.25

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its value in use. However, the carrying amount is not increased in excess of the amount had no impairment loss been recognised for the asset (or group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in surplus or deficit.

E5.30-E5.33

Inventories

Inventories held for sale are measured at the lower of cost and selling price less costs to complete and sell. Inventories held for distribution to service recipients at no or nominal consideration are measured at cost, adjusted for any loss of service potential (adjusted cost). Cost is calculated using the first-in, first-out method.

E1.7–E1.9, E1.23

Inventories of medical supplies can be received through donations. These donations often have a short shelf life and may not be used before expiry. Consequently, these items are only recognised as revenue and an expense when they are distributed to service recipients or otherwise used. They are not recognised unless they are used.

E1.5(b)

If an item of inventory is impaired, its carrying amount is reduced and an impairment loss is recognised immediately in surplus or deficit. Inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with either:

i. its selling price less costs to complete and/or sell; or
ii. adjusted cost, for inventory held for distribution at no or nominal consideration.

E1.24, E5.2–E5.5

Receivables

Receivables are measured at cost (that is, the amount invoiced or due to be invoiced), except when the amounts are not expected to be received within one year. In such instances, receivables are measured at amortised cost using the effective interest method.

F1.18, F1.20(a)

Bank loans

Interest expense is recognised using the effective interest method.

F1.20(a)

Internally designated funds

Our governing body may limit the use of otherwise unrestricted funds, by designating them for a specific purpose. While these funds are allocated, the governing body may reverse its decisions at any point and transfer funds back to the General Fund. They are therefore included within unrestricted funds.

B8.18

Note 3: Key sources of estimation uncertainty and critical judgements

INPAS Reference

B6.6, B6.7

In applying our accounting policies, management are required to make judgements for approval by the governing body (other than those regarding estimates) that have a significant impact on the amounts recognised in the financial statements. The governing body is also required to make estimates concerning future events impacting our accounting policies and the reported amounts of assets, liabilities, income and expenses that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may deviate from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revisions to estimates are recognised prospectively.

The governing body reviews the inherent risk associated with reliance on grants and donations, especially within the context of recent trends among grantors and takes into consideration geo-political considerations where these are relevant. Our ability to generate revenue provides resilience in fulfilling our mission in the longer term. The governing body has concluded that it has sufficient certainty that funding will continue to be received for the foreseeable future and has no reason to doubt that the viability of our operations is under threat. The financial statements have therefore been prepared on a going concern basis. B1.4

Information about judgements and estimates made in applying accounting policies, that have the most significant effects on the amounts recognised in the financial statements, is included in the following notes:

- **Grants with delivery obligations (Notes 5 and 10) –** grants (both received and paid) may impose delivery obligations on the recipient, with revenue or expenses only being recognised when or as those obligations are satisfied. The governing body has made a detailed assessment and an examination of the delivery obligations and made judgements for grant recognition including when grants are recognised over time or at a point of time. We have made an estimate of the percentage of the delivery obligation that has been satisfied, where a grant is recognised over time. This has required careful estimation based on output measures such as achieving an objective.
- **Non-current assets (Note 12) –** as the governing body has yet to determine how we will use the vacant land, which was donated to us, we have decided to present the economic benefits in the asset and to measure it at fair value. In measuring the fair value of the asset as discussed in Note 12, the valuer uses inputs other than quoted prices that are observable either directly or indirectly.

Note 4: Movement in funds

	Opening balance at 1 January 20X2	Income	Expenses	Other changes	Transfers	Closing balance at 31 December 20X2	INPAS Reference
	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s	B1.10(d), (e)
Restricted funds							
Grants with delivery obligations							
Longitudinal study (a)	–	54	(80)	–	–	(26)	B8.26(b)
Research database	–	70	(75)	5	–	–	B8.26(b)
Grants without delivery obligations							
Asthma research	–	100	(50)	–	–	50	B8.26(b)
COPD campaign	–	230	(30)	–	–	200	B8.26(b)
IT development	–	50	–	–	–	50	B8.26(b)
Bronchitis research	100	–	(10)	–	–	90	B8.26(b)
Emphysema research	50	–	(10)	–	–	40	B8.26(b)
Equipment	150	–	(30)	–	–	120	B8.26(b)
Other (b)	85	12	(2)	–	(5)	90	B8.26(b)
Total restricted funds	**385**	**516**	**(287)**	**5**	**(5)**	**614**	
Unrestricted funds							
Designated funds							
Capital improvement works	250	–	–	–	–	250	B8.26(b)
IT development	–	–	–	–	100	100	B8.26(b)
General Fund (b)	698	1,672	(1,969)	(4)	(95)	302	B8.26(b)
Total unrestricted funds	**948**	**1,672**	**(1,969)**	**(4)**	**5**	**652**	
Total funds	**1,333**	**2,188**	**(2,256)**	**1**	**–**	**1,266**	

(a) We expect the negative balance on the grant agreement for the longitudinal study to be addressed through funding to be provided by the donor in subsequent financial reporting periods. B8.26(d)

(b) The transfer between restricted and unrestricted funds relates to a vehicle where the use restriction has expired. B8.26(c)

	Opening balance at 1 January 20X1	Income	Expenses	Other changes	Transfers	Closing balance at 31 December 20X1	INPAS Reference
	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s	B1.10(d), (e)
Restricted funds							
Grants without delivery obligations							
Bronchitis research	–	100	–	–	–	100	B8.26(b)
Emphysema research	–	50	–	–	–	50	B8.26(b)
Equipment	–	150	–	–	–	150	B8.26(b)
Other	85	–	–	–	–	85	B8.26(b)
Total restricted funds	**85**	**300**	**–**	**–**	**–**	**385**	
Unrestricted funds							
Designated funds							
Capital improvement works	250	–	–	–	–	250	B8.26(b)
General Fund	624	2,205	(2,133)	2	–	698	B8.26(b)
Total unrestricted funds	**874**	**2,205**	**(2,133)**	**2**	**–**	**948**	
Total funds	**959**	**2,505**	**(2,133)**	**2**	**–**	**1,333**	

Note 5: Revenue from grants with delivery obligations

Revenue recognised in the year

	20X2	20X1	INPAS Reference
	CU000s	CU000s	B1.10(d),(e)
Longitudinal study (a)	54	–	C1.106(a)
Research database (b)	70	–	C1.106(a)
Total	**124**	**–**	

(a) On 1 April 20X2, we were awarded a grant of CU1,000,000 by the Country Z government for a ten-year longitudinal study to examine the longer-term outcomes of the global pandemic. CU72,000 is payable on 1 April of each year to cover staff costs. We will be paid the balance when the Country Z government accepts the final report. For the financial year 20X2, we recognised revenue of CU54,000 (9/12 of the year) over time as it relates to staff employment. — C1.111

(b) We received a grant of CX70,000 on 1 December 20X1 from Country X (CX being Country X's currency) for the development of a research database. We completed the database on 30 June 20X2. A change in the exchange rate between receipt and the date of completing the delivery obligation resulted in a foreign exchange gain of CU5,000. — C1.111

Delivery obligation liabilities

	Research database	Longitudinal study	C1.110
	CU000s	CU000s	B1.10(d), (e)
Balance 1 January 20X1	–	–	
Amounts received before obligations are met	70	–	
Balance 31 December 20X1	**70**	**–**	
Amounts received before obligations are met	–	72	
Revenue recognised for obligations met	(70)	(54)	
Balance 31 December 20X2	**–**	**18**	

Work in progress

	Pollution impact	C1.110
	CU000s	B1.10(d), (e)
Balance 1 January 20X2	–	
Expenses incurred on delivery obligations not yet complete	150	
Balance 31 December 20X2	**150**	

In 20X2 we were awarded a government grant of CU300,000 to research the short-term impact of high pollution levels. This grant is payable once the report has been accepted by the government. At the end of the reporting period our researchers estimated that the work was 75% complete. We expect the report to be accepted by December 20X3. We have incurred costs of CU150,000 and we have included these as a delivery obligation asset (work in progress). We review work in progress each year for impairment. — C1.111

Note 6: Revenue from grants and donations without delivery obligations

Grants and donations with restrictions

	20X2	20X1	INPAS Reference
			C1.106(a)
	CU000s	CU000s	B1.10(d),(e)
Asthma research (a)	100	–	B8.26(a)
Bronchitis research (a)	–	100	B8.26(a)
Emphysema research (a)	–	50	B8.26(a)
Equipment (c)	–	150	B8.26(a)
COPD campaign (b)	230	–	B8.26(a)
IT development (a)	50	–	B8.26(a)
Total grants and donations with restrictions	**380**	**300**	

(a) The funding for asthma research, bronchitis research, emphysema research and website development has been provided through restricted grants. We have reported the grant funding and associated expenses in separate funds (see note 4).

(b) We launched the fundraising campaign for research associated with chronic obstructive pulmonary disease (COPD) in September 20X2. As part of the campaign, we committed to only using the funding raised for research on COPD. As a consequence, we have shown the funds raised and the associated expenses in a separate fund (see note 4).

(c) In 20X1, a donor provided funding to be used to purchase equipment for medical research. We used the grant to fund the purchase of equipment in 20X1 (note 12).

Grants and donations without restrictions

	20X2	20X1	C1.106(a)
	CU000s	CU000s	B1.10(d), (e)
Government grants	315	1,135	
Public donations	675	250	
Total grants and donations without restrictions	**990**	**1,385**	

We receive government grants to support our operating expenses. We received an additional grant of CU900,000 in 20X1 because of the pandemic.

We receive public donations through various means beyond our campaigns for specific purposes. We may use these donations for any part of our mission.

Note 7: Income – grants and donations in cash and in-kind

	20X2 With delivery obligations	20X2 Without delivery obligations	20X1 With delivery obligations	20X1 Without delivery obligations	INPAS Reference
Grants and donations:	CU000s	CU000s	CU000s	CU000s	B1.10(d), (e)
In cash	124	1,370	–	1,685	C1.106(a)
Gifts in-kind	–	62	–	150	C1.106(b)
Services in-kind	–	80	–	75	C1.106(c)
Total grants and donations	**124**	**1,512**	**–**	**1,910**	

Donations in-kind

	20X2 Income CU000s	20X2 Expenses CU000s	20X1 Income CU000s	20X1 Expenses CU000s	B1.10(d), (e)
Vacant land (a)	–	–	80	–	C1.106(b)
Asthma medication (b)	50	50	70	70	C1.106(b)
Counsellors (c)	80	80	75	75	C1.106(c)
Minibus (d)	12	2	–	–	C1.106(b)
Total donations in-kind	**142**	**132**	**225**	**145**	

(a) A piece of land was donated in 20X1 to be used on any missional objective. There are no restrictions over how we may use this land and we have not made any decision on whether we will sell or use the land.

(b) We received 10,000 units of donated asthma medication in 20X2 (20X1: 20,000 units). We used 8,000 units of medication which we valued with reference to the market price, which reduces as the expiry date gets closer. We have included the related expenses as part of medical supplies. Further details are provided in Note 13 (Inventories).

(c) Fifteen (20X1: 15) volunteers provided counselling services over the year. These volunteers operate on a rota overseen by a member of staff. Their services are critical to the provision of counselling to those suffering with respiratory diseases. Therefore, we recognise the time donated by volunteers in the financial statements.

(d) A minibus with a value of CU12,000 was donated to transport members to and from respite care. It is included in a restricted fund with other grant funded assets that have restrictions. Depreciation of CU2,000 has been recognised as an expense in 20X2.

Amounts not recognised in the financial statements

An overseas researcher provided voluntary services for three months during 20X2. This has not been recognised in the financial statements. We estimate that if this time had been provided by a local researcher the cost would have been approximately CU7,000. C1.107(a), (b)(i), (c)

Note 8: Revenue from goods and services

Revenue recognised in year

	20X2	20X1	INPAS Reference
	CU000s	CU000s	B1.10(d), (e)
Respite care (a)	392	500	C1.193(a)
Education services (b)	150	80	C1.193(a)
Total revenue from goods and services	**542**	**580**	

(a) We provide respite care at a subsidised rate to members. Respite care is charged on a day rate. Some contracts for long-established clients are invoiced in arrears. Where contracts are invoiced in arrears, we recognise a contract asset (work in progress) for a proportion of the costs (based on the level of subsidy) and we recognise the remaining amount as costs are incurred. We transfer the work in progress to a receivable once a period of respite care is complete. In 20X2 CU220,000 (20X1: CU200,000) was recognised in revenue from work in progress. Cash received was CU188,000 (20X1 CU200,000). C1.196

(b) We also provide education courses and other education services related to our mission. While contracts are negotiated individually, all are charged on an agreed day rate, which we collect in advance of the service being provided. C1.196

Receipts in advance

	Respite care	Education services	
	CU000s	CU000s	B1.10(d) ,(e)
Balance 1 January 20X1	20	–	C1.195(a)
Amounts received	280	80	
Amounts recognised as revenue	(300)	(80)	C1.195(b)
Balance 31 December 20X1	**–**	**–**	C1.195(a)
Amounts received	220	150	
Amounts recognised as revenue	(172)	(150)	C1.195(b)
Balance 31 December 20X2	**48**	**–**	C1.195(a)

Note 9: Staff costs

	20X2	20X1	INPAS Reference
	CU000s	CU000s	B1.10(d),(e)
Salaries and wages	875	750	D4.39(a)
Taxes	263	265	
Pension costs	70	60	D4.39(b)
Other employee benefits (a)	8	28	D4.39(c), (d)
Total staff costs	**1,216**	**1,103**	

(a) Other employee benefits are for one-off bonuses made to members of staff for excellence. Bonuses in 20X1 were higher reflecting the exceptional performance during the global pandemic.

Note 10: Grants and donations given

Grants given

	20X2	20X1	
	CU000s	CU000s	B1.10(d),(e)
Residential adjustment grants (a)	50	200	D2.59(a), D2.60
Pollution research (b)	50	–	D2.59(a), D2.60
Total grants made	**100**	**200**	

(a) We made grants of CU50,000 (20X1: CU200,000) to qualifying individuals to purchase equipment to assist with residential adjustments for their ongoing wellbeing.

Grant fulfilment assets

	Pollution research: Country Y (b)	Pollution research: Country X	Total	
	CU000s	CU000s	CU000s	B1.10(d), (e)
Balance 1 January 20X2	–	–	–	D2.62
Payments made	50	50	100	D2.62
Amounts recognised as expense (purpose met)	(50)	–	(50)	D2.62
Balance 31 December 20X2	**–**	**50**	**50**	D2.62

(b) We made a grant agreement in 20X2 with NPO B in Country X and NPO C in Country Y to carry out research into the short-term impacts of pollution in individuals with pre-existing respiratory diseases in Country X. We provided a grant of CU50,000 to both NPO A and NPO B. We paid the grants when the agreements were signed. NPO B has not satisfied the requirements of the grant agreement and no expense has been recognised. We accepted the report by NPO C in 20X2 and the expense has been recognised in full. D2.59

Note 11: Operating expenses

The Statement of Income and Expenses presents expenses by nature.

	INPAS Reference
Fundraising costs	
Fundraising costs include CU30,000 for the costs of the public campaign to raise funds for research associated with chronic obstructive pulmonary diseases (COPD). These costs covered payments of CU20,000 (20X1: CU0) to an advertising agency for a social media campaign, a limited print media campaign with an advertorial in local newspapers and a limited TV advertising campaign in off-peak times. The remaining CU10,000 (20X1: CU0) relates to shared staff costs based on time sheet records. Support costs were immaterial. These costs have been funded from the donations received from the campaign. In 20X1, we spent CU37,000 on advertising, which was not related to any specific campaign.	D3.19-D3.21
Fundraising costs also include CU5,000 (20X1: CU25,000) for the cost of preparing applications for grants. During the year, six (20X1: ten) applications for grants were made, four (20X1: three) of which were successful. In none of these cases were we able to charge the application costs against the grant awarded. The costs include all shared staff costs based on time sheet records. Support costs of CU13,000 (20X1: CU11,000) were allocated to fundraising costs generally. These costs could not be charged to any of the campaigns or grants.	D3.19-D3.21
All fundraising costs related to activities to raise donations, gifts, grants and similar transfers. We did not have any commercial trading or investment management fundraising activities, hence no costs. We had incidental benefits in terms of awareness raising from fundraising, but these cannot be quantified without undue cost or effort.	D3.22, D3.23
Losses, write offs and unusual payments	
During 20X2 we made a non-contractual payment to a former employee. The employee raised a grievance which was subject to mediation processes, which was not successful. Our governing body decided to settle the grievance without going through the full legal process based on the likely costs and the uncertainty of the outcome. We did not accept legal liability but made a payment of CU10,000.	D1.19-D1.22

Additional expense analysis[4]

	20X2	20X1	INPAS Reference
	CU000s	CU000s	B1.10(d), (e)
Missional activities	1,680	1,592	B6.2(c)
Fundraising costs	48	73	B6.2(c)
Support costs	528	468	B6.2(c)
Total expenses	**2,256**	**2,133**	B6.2(c)

Missional activities are those activities that directly benefit those that use the services provided or activities that develop the understanding of respiratory diseases and their impact on individuals and their families. The main activities in 20X2 were as follows: **B6.2(c)**

	20X2	20X1	
	CU000s	CU000s	B1.10(d), (e)
Respite care programme	413	575	B6.2(c)
Education and counselling services	150	80	B6.2(c)
Research into respiratory diseases	830	737	B6.2(c)
Research related to pandemic	205	–	B6.2(c)
Other	82	200	B6.2(c)
Total missional activities	**1,680**	**1,592**	B6.2(c)

Support costs include the costs of the finance, HR, facilities and IT teams as well as senior management. Support costs only include those costs that cannot be directly allocated to a missional or fundraising activity and are costs that support our operation as a whole. **B6.2(c)**

[4] This additional expense analysis is optional. It is an example of additional expense information that an NPO can provide. This type of information is helpful to understand the cost of services on respite care and education services that have been subject to external charges.

Note 12: Non-current assets

	Land	Land (vacant)	Buildings	Vehicles	Plant and equipment	Total PPE*	Intangible assets	INPAS Reference
	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s	B1.10(d),(e)
Cost or value								
As at 1 January 20X2	250	80	600	100	500	1,530	60	E2.36(d), E4.28(c)
Additions	–	–	–	12	50	62	10	E2.36(e)(i), E4.28(e)(i)
Revaluation gains/(losses)	–	8	–	–	–	8	–	E2.36(e)(iv)
Disposals	–	–	–	–	(100)	(100)	–	E2.36(e)(ii), E4.28(e)(ii)
As at 31 December 20X2	250	88	600	112	450	1,500	70	E2.36(d), E4.28(c)
Accumulated depreciation/amortisation and impairment								
As at 1 January 20X2	–	–	(100)	(50)	(300)	(450)	(15)	E2.36(d), E4.28(c)
Depreciation/amortisation	–	–	(10)	(10)	(52)	(72)	(5)	E2.36(e)(vii), E4.28(e)(iv)
Impairment	–	–	–	–	(15)	(15)	–	E2.36(e)(vi), E4.28(e)(v)
Disposals	–	–	–	–	50	50	–	E2.36(e)(ii), E4.28(e)(ii)
Closing balance 31 December 20X2	–	–	(110)	(60)	(317)	(487)	(20)	E2.36(d), E4.28(c)
Net book values								
Brought forward at 1 January 20X2	250	80	500	50	200	1,080	45	E2.36(e), E4.28(e)
Carried forward at 31 December 20X2	**250**	**88**	**490**	**52**	**133**	**1,013**	**50**	E2.36(e), E4.28(e

*Note – PPE = Property, Plant and Equipment

Non-current assets with grantor use restrictions at 31 December 20X2

	Land	Land (vacant)	Buildings	Vehicles	Plant and equipment	Total PPE	INPAS Reference
Gross amount	–	–	–	17	150	167	E2.37(d)
Depreciation and impairment	–	–	–	(7)	(30)	(37)	E2.37(d)
Net book value	–	–	–	10	120	130	E2.37(d)

Fair value measurement

	INPAS Reference
We measured the vacant land at fair value on initial recognition (1 September 20X1) and subsequently on 1 December 20X2 using professional property valuers ABC Valuers, Capital City, Country Z. There has been no significant change in land values between 1 December 20X2 and 31 December 20X2.	A4.28 (c), E2.38
The fair value of land (vacant) uses inputs other than quoted prices that are observable either directly or indirectly and have therefore been categorised as using level 2 inputs.	A4.28(b)

	Level 1	Level 2	Level 3	Total	
	CU000s	CU000s	CU000s	CU000s	B1.10(d), (e)
Land (vacant)					
As at 31 December 20X2	–	88	–	88	A4.28(a), (b)
As at 31 December 20X1	–	80	–	80	A4.28(a), (b)

Other information

Vehicles include a minibus that was donated to us in 20X2 for the transport of members to and from respite care. This vehicle is limited to those purposes until it cannot economically function. The estimated value of the minibus when it was donated was CU12,000 and it has a net book value of CU10,000 at 31 December 20X2. The use restriction on another vehicle expired in 20X2. We have transferred the net book value (CU5,000) of this vehicle from a restricted fund to the General Fund.

We received a specific grant to fund for specialised medical equipment in 20X2 CU50,000 (20X1: CU50,000). We have shown this grant as a separate fund in Note 4. Cumulative depreciation/amortisation of these assets is CU11,000 (20X1: CU5,000).

In 20X2 we disposed of assets with a net book value of CU50,000 (20X: CU 50,000), assets. We received proceeds of CU46,000 (20X1: CU 52,000).

One piece of equipment was damaged in transit in 20X2 and we have recognised an impairment loss of CU15,000. We currently have no plans to replace the equipment, which was nearing the end of its useful life.

We received a donation from a corporate donor for the purposes of developing a new IT application as part of systems development in 20X2. We have shown the additions to intangible assets as a separate fund in Note 4 to the financial statements. We expect the IT application to become operational in 20X3 and consequently no amortisation has been charged in 20X2. Amortisation on other software is charged over the life of the software licence. E4.28(b), E4.29(a)

Note 13: Inventories

	Medical supplies	Consumables	Total	INPAS Reference
	CU000s	CU000s	CU000s	B1.10(d),(e)
As at 1 January 20X2	40	10	50	E1.27(b)
Purchases	257	25	282	
Donations	50	–	50	
Utilised	(300)	(25)	(325)	E1.27(c)
As at 31 December 20X2	**47**	**10**	**57**	E1.27(b)
As at 1 January 20X1	75	15	90	E1.27(b)
Purchases	215	30	245	
Donations	70	–	70	
Utilised	(320)	(30)	(350)	E1.27(c)
Impairment	–	(5)	(5)	E1.27(d)
As at 31 December 20X1	**40**	**10**	**50**	E1.27(b)

Inventories are held solely for consumption in the provision of services.

During 20X2 we had received 2,000 units (20X1: 1,000 units) of donated inventory that are approaching their expiry date and it is not certain that we can use them. Consistent with our accounting policy for donated inventory, they are not recognised until and unless they are used and are therefore not included within donated inventory as at 31 December 20X2. E1.28

Note 14: Other receivables

	31 Dec X2	31 Dec X1	
	CU000s	CU000s	B1.10(d), (e)
Receivables from customers (outstanding for 1 month or less)	64	32	F1.44
Total other receivables	**64**	**32**	

Note 15: Cash

	31 Dec X2	31 Dec X1	
	CU000s	CU000s	B1.10(d),(e)
Cash in foreign bank accounts	–	70	B5.24
Cash at bank	337	659	B5.24
Total cash	**337**	**729**	

Note 16: Reconciliation of liabilities arising from financing activities

	Short-term loan	Long-term loan	Total borrowing	INPAS Reference
	CU000s	CU000s	CU000s	B1.10(d),(e)
Balance at 1 January 20X1	103	250	353	F1.42(e)
Cash payments	(6)	(10)	(16)	B5.21(a)
Interest expense	6	10	16	B5.21(e)
Balance at 31 December 20X1	**103**	**250**	**353**	F1.42(e)
Cash payments	(106)	(10)	(116)	B5.21(a)
Interest expense	3	10	13	B5.21(e)
Balance at 31 December 20X2	**–**	**250**	**250**	F1.42(e)

Note 17: Other current liabilities

	31 Dec X2	31 Dec X1	
	CU000s	CU000s	B1.10(d),(e)
Borrowings	–	103	F1.42(e)
Payables	45	92	F1.42(e)
Accruals	41	48	F1.42(e)
Total other current liabilities	**86**	**243**	

Payables fall due within one month. Accruals fall due later than one month but not later than three months. F1.45

Note 18: Non-current liabilities

Long-term borrowings

	31 Dec X2	31 Dec X1	
	CU000s	CU000s	B1.10(d),(e)
Balance 1 January	250	250	F1.42(e)
Interest expense	10	10	
Interest paid	(10)	(10)	
Balance 31 December	**250**	**250**	F1.42(e)

A ten-year bank loan of CU250,000 was taken out in 20X0 at a fixed rate of 4%. The loan is repayable in 20Y0. F1.45

Members' shares

	31-Dec-X2	31-Dec-X1	INPAS Reference
	CU000s	CU000s	B1.10(d), (e)
Members' shares at 1 January	40	30	F1.42(d)
New shares	5	15	
Refunds	–	(5)	
Members' shares at 31 December	45	40	F1.42(d)

Members' shares provide the holder of those shares with access to respite care and educational services and the right to appoint members to our governing body. Members' shares do not give holders any rights to the net assets of the organisation. The value of the share is refunded when the holder leaves the respite scheme.

Note 19: Supplementary information

We have produced Supplementary statements that have been produced in accordance with INPAS Practice Guide 1 – Harmonised grant reporting. We have published these statements separately. Our whole-of-the entity supplementary information is set out below:

	Note	20X2	20X1	INPAS Reference
		CU000s	CU000s	B1.10(d),(e)
Income				
Grants and donations	4,5,6	1,636	1,910	H4.11(a)
Other income – sales of goods and services	8	542	580	H4.11(a)
Other income – interest income		10	15	H4.11(a)
Total income		**2,188**	**2,505**	H4.11(a)
Expenses				
Direct expenses				
Employment		756	691	H4.11(b)
Travel and subsistence		30	25	H4.11(b)
Supplies and materials		362	417	H4.11(b)
Other direct expenses including external services		400	257	H4.11(b)
Services in-kind and gifts in-kind	7	80	75	H4.11(b)
Grants and donations to others	10	100	200	H4.11(b)
Support costs	11	528	468	H4.11(b)
Total expenses		**2,256**	**2,133**	H4.11(b)
Foreign currency translation gains/losses	5	5	–	H4.11(c)
Other financial movements	12	(4)	2	H4.11(e)
Change in fund balances		**(67)**	**374**	
Opening balance		1,333	959	
Closing balance		1,266	1,333	
Adjustment for capital and inventory costs				
Total expenses (from above)		2,256	2,133	H4.14, H4.15
Minus: depreciation, amortisation charged in total expenses above		(92)	(50)	H4.14, H4.15
Plus: cost of capital items purchased or produced		75	235	H4.14, H4.15
Minus: inventory expenses reported in total expenses above		(325)	(350)	H4.14, H4.15
Plus: cost of inventory purchased or produced		282	245	H4.14, H4.15
Expenses including adjustment for capital and inventory costs		**2,196**	**2,213**	H4.14, H4.15
Opening balance including adjustment for capital and inventory costs		**1,253**	**959**	H4.14, H4.15
Closing balance including adjustment for capital and inventory costs		**1,246**	**1,253**	H4.14, H4.15

	INPAS Reference

Note 20: Contingent liabilities

During 20X2, a service recipient initiated proceedings following an adverse reaction to medication provided during respite care. The claim is for CU20,000. We have received legal advice that the claim has no merit and we have contested the claim. We have not recognised a provision in these financial statements as we are of the view that it is not probable that a loss will arise.	D5.18

Note 21: Events after the reporting date

On 25 January 20X3 there was a flood in respite care building storage area. We expect the cost of refurbishment to be CU36,000 and reimbursements from insurance to be CU16,000.	H3.10

Note 22: Related party transactions

The total remuneration of key management personnel in 20X2 (including salaries and benefits) was CU105,000 (20X1: CU98,000).	H1.7
Governing body members were not remunerated and were not refunded any out of pocket expenses in 20X2 or 20X1.	H1.9 (b)

Note 23: Approval of financial statements[5]

These financial statements were approved by the NPO A governing body and authorised for issue on 10 March 20X3.	H3.9

[5] This information may be presented as a separate note, as here, or in some other way, for example by a declaration and signature on the statement of financial performance.

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info@inprf.org