

Club of Accountants and Auditors of NPOs - Russia

PART 2: NPO-specific financial reporting issues

Issue 1: Reporting entity and control (including branches)

Specific Matters for Comment 1

Item 1.d

Alternative 1 uses principles

- of exposure, or rights, to variable returns/benefits from its involvement with the other entity
- the ability to use its power over the other entity to vary the returns/benefits.

Many NPOs do not provide any paid services, so they don't have profit on sales and cannot provide any material (monetized) returns/benefits to the controlling entity. So use of 'returns/benefit' related principles to determine control could be very challenging to these NPOs. Thus alternative 2 looks preferable.

Section 2. Accounting for incoming resources

Issue 3: Non-exchange revenue

Specific Matters for Comment 3

Items 3.b; 3.d; 3.e

There is a significant difference in receiving, spending and reporting requirements between government grants and other non-exchange revenue, thus Alternative 2 which does not make any difference between government grant and other non-exchange revenue will not fit requests and expectations of donors and other users of financial info (except for government agencies). So Alternative 2 does not look attractive.

There is no big practical difference between Alternatives 1, 3, 4 except for Exceptions provided for Alternative 4. Taking into consideration that neither IPSAS nor IFRS for SME had been initially produced for NPOs using any of them as a basis will require NPO specific exceptions. So from this point of view Alternative 1 + Exceptions from alternative 4 and may be some other exceptions also looks preferable.

PART 2: NPO-specific financial reporting issues

Section 3: Accounting for outgoing resources (expenses and liabilities)

Issue 4: Grant expenses

Specific Matters for Comment 1

Item 4.d

Alternative 1 looks preferable because IPSASB's current project on Transfer Expenses (ED 72) is still a project and it's a bit tricky to incorporate it before final wording of ED72 is adopted.

PART 2: NPO-specific financial reporting issues

Section 4: Accounting for financial and non-financial assets

Issue 5: Measurement of non-financial assets held for social benefit

Specific Matters for Comment 5

Item 5.d

Alternative 2 looks preferable because it's closest to national regulation and thus transfer will be easy. On the other hand the alternative provides one more option "value in use" which could be useful for some NPOs

PART 2: NPO-specific financial reporting issues

Section 4: Accounting for financial and non-financial assets

Issue 6: Inventory held for use or distribution

Specific Matters for Comment 6

Items 6.b; 6.d

No proposed alternative is good enough. Alternative 3 with the following addition (exception) looks slightly better than others. The exception to be added is a "possibility for NPO to value inventory for distribution at no cost. If such approach is chosen by NPO then additional disclosure of information about cases will be needed in the financial reporting."

The necessity for exception is based on numerous cases when NPOs were first to provide aid during/after climate disturbances and in other emergencies. In such situations NPOs often get a lot of inventory for distribution but there is no time and resources to provide proper accounting for this inventory.

Possibility to value inventory for distribution at no cost was recently included into national accounting standards.

PART 2: NPO-specific financial reporting issues

Section 5: Presentation, content and scope of financial reports

Issue 7: Presentation of financial statements (including fund accounting)

Specific Matters for Comment 7

Item 7.b

From our point of view there is basic question related to presentation of financial statements. Most of the donors and general public (except for state agencies) don't require standard financial reports set by IFRS SME, other IFRS or IPSAS. Usually donors and general public are interested in information like follows:

- sources of income for NPO;
- "allocation schedule" of income (which sources of income had been used to fund particular projects or activities);
- structure of expenditure (in general) and for particular projects (how much was spent for salaries, rent, travel etc);
- remaining at the end of the period net unspent earmarked (and other) funding;
- share of restricted / unrestricted funds available for NPO at the end of reporting period with some explanations is it enough for the next period or not and what are the main gaps/risks
- etc.

Only part of the items mentioned above are covered to any extent in this discussion paper.

Necessity for NPOs to present a statement of comprehensive income; statement of changes in equity; statement of cash flows is not discussed into this discussion paper. Though these reports were initially intended to meet requirements of commercial companies shareholders and are hardly applicable to many NPOs and almost uninformative for users of NPOs financial reports. Development of IFRS4NPO could be a good moment to put forward the question about basic list of financial reports to be produced by NPOs.

Item 7.d

Alternative 2 looks preferable while Alternative 3 seems to be too complicated for implementation into small and medium size NPOs.

PART 2: NPO-specific financial reporting issues

Section 5: Presentation, content and scope of financial reports

Issue 8: Classification of expenses – function or nature?

Specific Matters for Comment 8

Item 8.d

Option 1 looks preferable as it allows reasonable flexibility depending on the nature of activities and resources available for NPO.

Reporting by function may appear to be very challenging for many NPOs because of allocation of expenses done as 'one go' for several functional areas. For example, allocation of salaries across projects or activities is one of the most complicated stories in NPOs taking into consideration that limited resources often requires from NPO's employees to perform multiple functions and does not allow to use time sheets in the same time. So reporting by function should remain as optional otherwise it could become too general and thus not that informative for users of the financial statements.

Item 8.g

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PART 2: NPO-specific financial reporting issues

Section 5: Presentation, content and scope of financial reports

Issue 9: Fundraising costs

Specific Matters for Comment 9

Item 9.d

Alternative 1 looks preferable.

PART 2: NPO-specific financial reporting issues

Section 5: Presentation, content and scope of financial reports

Issue 10: Narrative reporting

Specific Matters for Comment 10

Item 10.d

Alternatives 1 or 2 looks preferable. An idea to develop overall reporting framework looks nice but a bit unrealistic especially taking into consideration variety of NPOs and local regulations.