

Supplementary Statement of Income, Expenses and Capital Costs: Draft Guidance Notes (draft 2)

Some NPOs receive grants or donations restricted to certain activities, or organise their work into “projects” or “programmes” with particular objectives or within specific themes. The objective of the Supplementary Statement of Income, Expenses and Capital Costs is to present key auditable financial information about a set of the NPO’s activities, in a way that could be useful to users of the financial statements, including the donor(s) providing the income for these activities, for accountability purposes.

The Supplementary Statement provides donors with the opportunity to streamline and harmonise donor reporting by NPOs, while maintaining flexibility for donors and NPOs alike. It also provides donors with an opportunity to reduce the donor audit burden on NPOs.

Use of the terms “shall” and “may”

This guidance uses different terms to distinguish those requirements that must be followed in order to comply with INPAG, from other disclosures which NPOs can opt to make when preparing a Supplementary Statement. The term “shall” is used to indicate those elements that must be included within a Supplementary Statement. Where this guidance sets out that a requirement “shall” be followed, non-adherence to that requirement is a departure from this guidance.

The guidance uses the term ‘may’ for an item which the NPO may choose, at its discretion, to include or disclose in the Supplementary Statement, depending on the circumstances.

A. Scope of the Supplementary Statement of Income, Expenses and Capital Costs

- A.1 An NPO may choose to prepare one or more Supplementary Statement of Income, Expenses and Capital Costs (“the Supplementary Statement”), in relation to one or more sets of its activities.
- A.2 The activities to which a Supplementary Statement relates are defined as the “Specified Activities”. The Specified Activities covered by a Supplementary Statement may relate to a specific activity, grant, project, programme or to all the NPO’s activities.
- A.3 The Supplementary Statement must indicate, in its title, the Specified Activities included (whether related to a specific activity, grant, project, programme or to the whole organisation), by providing a relevant reference or name by which those activities are known or referred to. If the Supplementary Statement includes all the NPO’s transactions for the period, the NPO must disclose this in the title of the Supplementary Statement, by stating that the Supplementary Statement is for the organisation as a whole.

Commented [SB21]: Assume will already be defined in INPAG

Commented [SB22]: To be finalised when INPAG develops its definitions of these terms, assuming they are used within INPAG

Commented [SB23]: At the end of this document we propose candidate terms which we will put forward to be included in the INPAG glossary.

- A.4 The NPO may disclose the identity of the donor(s) of income included within a Supplementary Statement but it is not required to make this disclosure under this guidance.
- A.5 The NPO shall determine, by reference to the Specified Activities, which transactions to include in the Supplementary Statement. All material transactions incurred in connection with the Specified Activities shall be included in the Supplementary Statement.
- A.6 All the information contained in the Supplementary Statement and the accompanying notes must be verifiable to the general purpose financial statements or to the NPO's underlying books and records.

B. Identification and inclusion of the Supplementary Statement within the financial statements

- B.1 Any SSIECC(s) prepared alongside the general purpose financial statements shall be included within the financial statements after the final note to the financial statements.
- B.2 The Supplementary Statement(s) so included shall be clearly separated from the primary statements and accompanying notes.
- B.3 Notes to a Supplementary Statement shall follow immediately after the Supplementary Statement to which they relate.
- B.4 If a Supplementary Statement and accompanying notes are audited, the audit report page references shall include the relevant pages.
- B.5 A Supplementary Statement may also be unaudited, in which case it shall be clearly marked "unaudited" and excluded from the audit report page references.

C. Information that shall be presented in the Supplementary Statement

- C.1 A Supplementary Statement shall set out:
 - C.1.1. the name of the reporting NPO
 - C.1.2. in its title, a reference for the Specified Activities included within the Supplementary Statement, or the name by which they are known, so that a user of the accounts may identify the Specified Activities and the related income within the general purpose financial statements.
 - C.1.3. The date of the end of the reporting period, and the period covered by the Supplementary Statement (being the period of the general purpose financial statements).
 - C.1.4. The presentation currency, being the currency in which the general purpose financial statements are presented.
 - C.1.5. The level of rounding, if any, used in presenting the amounts in the Supplementary Statement.
 - C.1.6. The income with and without restrictions, related to the Specified Activities, recognised consistently with the general purpose financial statements and in accordance with the requirements of this standard. Each material grant or donation related to the Specified Activities shall be included separately within the

Commented [SB24]: If the funder does not require an audit, for example.

The Supplementary Statement can be used for donor reporting separately from the general purpose financial statements. In such cases any audit will be a special purpose audit (whether paid for by the NPO or the donor).



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Supplementary Statement(s). Where there are other income sources related to the Specified Activities these shall be identified separately from grant and donation income.

C.1.7. The expenses related to the Specified Activities, recognised consistently with the general purpose financial statements and in accordance with the requirements of this standard, and classified in accordance with the Supplementary Statement Format in section C.4. Those expenses funded from funds with restrictions shall be shown separately from those funded from funds without restrictions. Expense category definitions are included in appendix 1 to this guidance.

C.1.8. Any element of foreign currency translation gains or losses or other financial changes which have been funded by the income included within the Supplementary Statement. Where the NPO assigns a portion of its foreign currency translation gains or losses to the Specified Activities, it shall explain in a note to the Supplementary Statement the basis upon which such gains or losses have been calculated, including the extent to which they are unrealised. The NPO shall also explain the foreign currency translation rates used to arrive at the amounts shown in the Supplementary Statement. Where costs which have arisen in connection with the Specified Activities because of foreign currency translation have been covered by another funding source such as funds without restrictions, the NPO may explain and disclose the amount in a note.

C.1.9. Any transfers between funds which the NPO has made, shown in the statement of change in net assets, which relate to the Specified Activities. Where an NPO makes a transfer between the funds relating to the Specified Activities and another fund, it shall disclose the transfer on the face of the Supplementary Statement in the relevant line, and explain the transfer in a note to the Supplementary Statement.

C.1.10. Other financial changes which have been included in the statement of net assets within the general purpose financial statements and allocated by the NPO to Specified Activities. Where these are included in the relevant line heading in the Supplementary Statement, they shall be explained in a note to the Supplementary Statement.

C.1.11. The opening and closing balances of the funds related to the Specified Activities, cross-referenced to the relevant note in the general purpose financial statements according to the requirements of INPAG paragraph XX.

C.2 Where income and expenses with and without restrictions are both included in the Supplementary Statement, they shall be presented in separate columns on the face of the Supplementary Statement.

C.3 If a movement in funds note is included within the general purpose financial statements, the NPO shall identify and explain, in a note to the Supplementary Statement, in which line in the movement in funds note the Specified Activities are included.

Commented [SB25]: By row, or by column, in fact depending on the option variation used

Commented [SB26]: Where a donor specifies what rates should be used for currency translation (either the actual rate, or a specific rate source) for the reports on their grant, and those rates are different from those used by the NPO in its own accounting system, then there will be some situations where this variation will not meet the donor requirements, depending on what they are precisely - and more specifically, whether they affect the amounts within the NPO's own reporting currency column. In these cases the format can be used for a standalone donor report outside of the INPAG statements, in which the FX transactions have been re-stated using the donor-specified rates. But given the that the SS is an inclusion in GPFS the home currency amounts cannot be on a different FX translation basis to the general purpose financial statements. Where donor requirements fall into this category and the donor is unwilling to change them, then this the SS will not cater for those cases in full. A full re-statement of the home currency SS in the SS notes using different, donor-specified rates is unlikely to be palatable, but an entity could explain in the note what the difference using different rates (see para E.3.5)

Commented [SB27]: All this will need to be revisited and finalised as INPAG develops

Commented [SB28]: Reference to be added in due course

C.4 The Supplementary Statement Format is as follows:

Supplementary Statement of Income, Expenses and Capital Costs for <i>[INSERT reference for or name by which the Specified Activities are known, for example, a grant or project name OR INSERT the NPO's name]</i>		
For the year ending XX XX 202X		
	Note	Currency
Income		
Grants and donations		
Other income <i>(list out)</i>		
Total income		
Expenses		
Direct expenses		
Employment		
Travel and subsistence		
Supplies and materials		
Running costs, external services and other		
Gifts in kind		
Grants payable		
(Optional) Support costs		
Total expenses		
Foreign currency translation gains/losses		
Transfers		
Other financial changes		
Change in grant <i>[fund]</i> balance		
Opening balance		
Closing balance		
(Optional) Capital Costs		
Expenses recognised		
Less: depreciation or amortisation charged		
Add: capital costs incurred		
Total costs		
Balance after capital costs		

D. Information that may be presented in the Supplementary Statement

- D.1 The NPO may include the name of the donor(s) providing the income within the Supplementary Statement, but it is not obliged under this guidance to do so.
- D.2 Income included within the Supplementary Statement may be analysed between sub-headings. In such cases, grant and donation income shall be identified separately from other income. Other income may include interest receivable in relation to the grant and donation income, or other types of income connected to the Specified Activities. The NPO is encouraged to use the same classification of income in the Supplementary Statement as has been used in the general purpose financial statements, subject to grant and donation income being separately identified. If it does not do so, it shall explain, in a note to the Supplementary Statement, where each line of income within the Supplementary Statement is included in the Statement of Income and Expenses.
- D.3 Expenses shall be recognised in the Supplementary Statement in accordance with the INPAG expense recognition criteria, but the NPO may provide further information in a note in relation to the recognition of expenses, with a reconciliation, if relevant, to expenses recognised on some other basis. In such cases the alternative basis shall be explained.
- D.4 The NPO may present additional breakdowns of the expenses relating to the Specified Activities in the Supplementary Statement, on the face of the Supplementary Statement or in the accompanying notes. Any additional breakdown of expenses must be clearly set out and included within the relevant expenses heading in the format in section C.4.
- D.5 The NPO may present the support costs funded from the income included within the Supplementary Statement as a separate expense heading. Alternatively, the NPO may include such costs in the direct expense headings on a line by line basis. The NPO shall explain in a note to the Supplementary Statement, where such costs are included in the general purpose financial statements.
- D.6 Where there are no amounts in any of the expense, foreign currency translation gains/losses, transfers or other financial changes lines related to the Specified Activities, these lines may be omitted from the Supplementary Statement.
- D.7 Where the income included in the Supplementary Statement has been received to purchase or acquire capital items, the NPO may disclose the capital costs incurred in the acquisition in the relevant optional section within the Supplementary Statement. In such cases, any depreciation or amortisation charges related to the relevant capital item(s) and included within expenses in the Supplementary Statement shall be deducted from costs to arrive at total costs (which shall include both expenses and capital costs).
- D.8 Any SSIECC shall include the information set out in the Supplementary Statement Format in section C.4. The NPO may also choose to present further information, in separate columns, as follows:
- D.8.1. The amounts, line by line, in the currency in which the income was provided to the NPO. If the NPO does so, it shall explain, in a note to the Supplementary Statement,

Commented [SB29]: This is to cater for a donor that has its own specific recognition rules with a grant, rather than simply accepting the expense recognition criteria of the NPO, and where those specific recognition rules are different from the INPAG rules

Commented [SB210]: Assuming we are able to influence to have this included in INPAG as a category in the INPAG FS notes

Commented [SB211]: All of this will have to be revisited when we know more about the INPAG expenses classification. If it adopts the approach of showing support costs in a note but then allocating them to direct costs, then the approach set out here is effective and possible - it would be possible for an NPO to EITHER include support costs in the direct cost headings OR to include them as a single separate charge in the SS (depending on donor approach). But if INPAG takes some other approach this material will need to be rethought.

Commented [SB212R11]: Basically, as the expense headings are "direct expenses" we will need to say that if support costs are included in these headings they are deemed, under the specific circumstances in which they were incurred, to be direct costs



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the basis of the presentation of the foreign currency amounts, including the foreign currency translation rates used.

- D.8.2. The budget amounts line by line associated with the Specified Activities. Any such amounts shall be capable of verification to the underlying books and records of the NPO.
- D.8.3. The prior period amounts relating to the Specified Activities. If these are amounts are included, each prior period included shall be shown in a separate column, clearly identifying the relevant period. A column showing the line totals over the periods included may be added. In such a case, the NPO shall confirm, in the notes to the Supplementary Statement, whether prior period amounts agree to the prior period financial statements, and if not, it shall explain the changes.
- D.8.4. The amounts for each line split into two time periods which together make up the reporting period of the general purpose financial statements. If the NPO does so, it shall clearly identify the time periods included in each column, and include a column containing the total by line heading for the reporting period.
- D.8.5. Where more than one grant or donation is included in the Supplementary Statement, the NPO may include each grant or donation, with the related expenses, as a separate column within the Supplementary Statement. If the NPO does so, it may identify each grant or donation separately. It may include a column containing the totals of the income and expenses presented for each grant or donation. If the NPO does not include a separate column for each grant or donation included in such a Supplementary Statement, it may include more than one grant or donation in a column, for example, grouping grants or donations in accordance with a specific them or strand of activities, or grouping immaterial grants and donations together.
- D.8.6. The NPO may include expenses funded from funds without restrictions in the Supplementary Statement. Where it does so, funds without restrictions must be shown as a separate column from funds with restrictions. The NPO shall use the alternative line headings shown in italics in the Supplementary Statement Format section C.4 if it includes funds without restrictions in the Supplementary Statement.
- D.9 The NPO may prepare a Supplementary Statement in which all of its financial transactions for the period are included (for which it deems the Specified Activities to be all of its activities in that period). If it does so, the NPO must disclose this in the title of the Supplementary Statement. Funds without restrictions shall be shown in a separate column from funds with restrictions. Individual grants or donations may be shown as separate columns in such a statement, or grouped together in some way, for example, by theme or strand of work. Where an NPO prepares a Supplementary Statement in which all its financial transactions for the period are included, it shall provide, in the notes, a reconciliation of the income, expenses and fund totals within the Statement to the general purpose financial statements.
- D.10 The NPO may present a reconciliation of the income amounts within the Supplementary Statement to the cash amounts received in the period in relation to the Specified Activities. It may also present a reconciliation of the expense amounts within the Supplementary

Commented [SB213]: Re: instances where the donor specifies the FX rates to be used:

If there are only two currencies involved in the activities - the donor currency and the home currency - it may be that this statement could be prepared based on donor-specified rates, if that is what the NPO wishes to do to meet donor requirements. But if there is a third currency (eg another currency of expenditure as well as the home currency) or the donor-specified rate is different from that at which the incoming grant was actually recognised by the NPO, this will not be possible, and the SS will not meet donor requirements. Essentially the SS won't work for this category of use cases, unless the donor can tweak their requirements. See earlier comment too.

Commented [SB214]: To cater for being able to split the reporting period to align to the donor reporting date

Statement to the cash amounts expended in the period in relation to the Specified Activities. If the NPO presents both reconciliations to cash amounts, it may also present a grant or fund cash balance at the end of the reporting period.

E. Notes to the Supplementary Statement of Income, Expenses and Capital costs

E.1 The notes to the Supplementary Statement shall:

- E.1.1. Confirm that the Supplementary Statement has been prepared on the same basis and using the same accounting policies as the general purpose financial statements. If the Supplementary Statement has departed in any material respect from that basis and those policies, the NPO shall provide an explanation of the departure(s) and the reason for the departure(s) in the notes.
- E.1.2. Disclose the information required by this guidance that is not presented on the face of the Supplementary Statement.
- E.1.3. Provide information that is not presented in the Supplementary Statement but is relevant to an understanding of the Statement.
- E.1.4. Disclose where the amounts in the Supplementary Statement are affected by a change in accounting policy, a change in estimate, or a prior period error, and the impact of such a change.
- E.1.5. As far as practicable, be presented in a systematic manner, with each item in the Supplementary Statement cross-referenced to the related information in the notes.

E.2 The following notes shall be included alongside the Supplementary Statement:

- E.2.1. *Purpose of the Supplementary Statement.* The note shall explain the purpose of the Supplementary Statement by reference to this guidance.
- E.2.2. *Scope of the SSEICC.* The note shall include a description of the Specified Activities. It shall also cross-reference the opening and closing balances shown in the Supplementary Statement to the relevant note in the general purpose financial statements according to the requirements of INPAG paragraph XX, and indicate the line within the movement in funds note in the general purpose financial statements in which these activities are included.
- E.2.3. *Basis of preparation.* The note shall include the basis of preparation of the Supplementary Statement and the accounting policies used. It shall include confirmation that the Supplementary Statement has been prepared on the same basis and using the same accounting policies as the general purpose financial statements, or if the Supplementary Statement has departed in any material respect from that basis and those policies, the NPO shall provide an explanation of the departure(s) and the reason for the departure(s) in the note. The note shall also contain confirmation that the information presented in the Statement and accompanying notes is verifiable to the general purpose financial statements or to the underlying books and records.

Commented [SB215]: Reference to be added in due course

Commented [SB216]: Assuming INPAG requires the preparation of a movement in funds note. If it does not, this will need to be revised.

Commented [SB217]: This section to be finalised once the INPAG requirements are clear



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E.3 The following notes may be included alongside the Supplementary Statement, if required under this guidance or relevant or necessary for the user's understanding of the information provided:

E.3.1. *Presentation of the Supplementary Statement.* If the NPO presents additional information on the face of the Supplementary Statement, as permitted by section D.8, it shall explain the presentation in a note to the Statement, and provide the information necessary for the user to understand the presentation and layout of the Statement.

E.3.2. *Income.* Where the NPO includes income amounts other than the grant or donation income related to the Specified Activities in the Supplementary Statement, it shall provide an explanation of the income included, and indicate where in the general purpose financial statements it is included.

E.3.3. *Expenses.* The NPO may include a further analysis of the expenses included in the Supplementary Statement in a note. It may include, in the note, the expense amounts related to the Specified Activities on a different recognition basis from that used in the financial statements. If it does so, it must explain the alternative basis and the differences from the expenses as shown in the Supplementary Statement.

E.3.4. *Support costs.*

E.3.4.1. Where an NPO includes an amount for support costs within the relevant line on the face of the Supplementary Statement, it shall explain the basis of the support cost charges in a note. It shall indicate in the note where these costs are included in the general purpose financial statements, and the basis of apportionment to the Specified Activities.

E.3.4.2. Where an NPO allocates a portion of support costs to any of the expenses lines within "Direct expenses", it shall show these amounts in a note, indicate where they are included in the general purpose financial statements, and explain the basis of allocation to the expense line headings.

E.3.4.3. An NPO may indicate, in the Support Costs note, its support cost rate, and the basis of its calculation. It may also indicate the difference between the support costs supplied by a grant or donation and its support cost rate based on its actual expenses.

E.3.5. *Foreign currency translation gains and losses.* If an amount is included within the Supplementary Statement for foreign currency translation gains or losses, the information set out in Section C.1.8 shall be provided in a note. In the note, the NPO may calculate and disclose the amount of the income, expenses or grant or fund balance had different foreign currency translation rates been used, but if it does so, it must explain the basis of the alternative rates.

E.3.6. *Transfers.* Where an amount is included as a transfer in the Supplementary Statement, the NPO shall explain the transfer in a note, including its basis and the fund to or from which the amounts have been transferred. Support costs funded by the income shown

Commented [SB218]: This would require the entity to explain if it has used any of the variations, so for example, to explain a split year presentation, or multiple year presentation, or donor currency presentation.

Commented [SB219]: As mentioned in a previous comment, this would be very useful if INPAG adopts an approach of defining, calculating and calculating and disclosing support costs in a note and permitting (or requiring) them to be allocated to Direct costs.

Commented [SB220]: To allow for the disclosure in the SS notes of the balances if using donor-specified rates

in the Supplementary Statement can be shown in this line, as a transfer to funds without restrictions.

E.3.7. *Other financial changes.* If an amount is included within the Supplementary Statement for other financial changes as per the statement of changes in net assets, the NPO shall provide an explanation for the amount, including the basis of its calculation in relation to the Specified Activities.

E.3.8. *Capital costs.* Where the NPO has included amounts in the optional Capital Costs section on the face of the Supplementary Statement (as set out in section D.7), it shall explain those amounts in a note, including providing details of the asset(s) acquired, their gross value, and any depreciation or amortisation applicable to the asset, and whether such depreciation or amortisation has been included in the Supplementary Statement.

E.3.9. *Reconciliation to cash income/cash expenditure/cash income and expenditure.* An NPO may present, in a note, a reconciliation of the income amounts within the Supplementary Statement to the cash amounts received in the period in relation to the Specified Activities, or a reconciliation of the expense amounts within the Supplementary Statement to the cash amounts expended in the period in relation to the Specified Activities, as per section D.10.

E.3.10. *Reconciliation to general purpose financial statements.* Where an NPO presents a Supplementary Statement for which the Specified Activities constitute all of the NPO's activities in the reporting period (as permitted by section D.9), it shall provide a note reconciling the total income, expenses, and movement in funds in the Supplementary Statement to the general purpose financial statements.

List of terms for glossary

1. Programme
2. Project
3. Grant
4. Donor
5. Specified Activities

Commented [SB221]: To add terms and to complete. We will propose these terms for inclusion in the INPAG glossary.

Appendix 1: Expenses definitions

Heading	Definition
Direct expenses	The necessary and reasonable expenses incurred in delivering the activities that contribute directly to the mission of the NPO. Such activities are termed "direct activities".
	The classification of Direct Expenses is set out in 1-6 below:
1. Employment	Staff salaries including income taxes; social security or national insurance contributions; staff-related statutory or contractual



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Heading	Definition
	costs; additional remuneration paid to staff as part of the organisation's standard staff contract; statutory termination payments; staff housing costs
2. Travel and subsistence	Travel costs, including car rental, fuel, vehicle running costs, depreciation of pre-owned vehicles, required flights and public transport; accommodation, subsistence or per diems for travelling staff; visas and other travel permits where required
3. Supplies and materials	Procured supplies and materials required for activities; non-staff costs of procurement and distribution including fuel, transport and haulage
4. Running costs, external services and other	Rent, utilities, mobile and online communications and IT, office supplies, expensed equipment and generators associated with direct activities; bank fees directly related to direct activities; costs of services including consultants, staff training costs, project audit fees, legal advice specifically in connection with the direct activities and other required specialists; depreciation of pre-owned equipment used for the direct activities; any other direct running costs including the distribution costs associated with individual grant-making
5. Gifts in kind	A physical item such as equipment and stock provided as a donation for use in the direct activities
6. Grants payable	Amounts transferred to other organisations or to individuals to undertake activities or to cover certain costs
Support costs	Costs which are necessary to administer and manage the NPO as a whole. Support costs relate to all the activities of the NPO, and are therefore shared across all the activities.

Commented [SB222]: To update when the term is determined within INPAG

Commented [SB223]: Need to await the finalised INPAG term to be used. Currently "Grant expenses".