

Annex A

Section 2 Concepts and Pervasive Principles

Scope of this Section

- G2.1 This Section describes the objective of financial reports of non-profit organisations (NPOs) and the qualities that make the information in the financial reports of NPOs useful. It also sets out the concepts and basic principles underlying the general purpose financial reports (GPFRs) of NPOs.

Objectives of financial reporting by non-profit organisations

- G2.2 The objective of financial reporting by non-profit organisations (NPOs) is to provide information ~~about the financial position, performance and cash flows of the entity~~ that is useful for ~~economic decision-making~~ accountability and decision-making by a broad range of users of the financial reports who are not in a position to demand reports tailored to meet their particular information needs.

Users of GPFRs

- G2.3 NPOs are responsible for the stewardship of the resources entrusted to them. They are accountable for their management and use of resources to those that provide them with resources, and those that depend on them to use those resources to provide goods and services. This is both during the reporting period and over the longer term. Their interests may also be served by those fulfilling oversight functions on their behalf such as elected representatives and public sector officials.
- G2.4 GPFRs are not developed specifically to respond to any individual information needs. NPOs may have users of their GPFRs that can be primary users in some circumstances but in other circumstances have rights to tailored information.
- G2.5 Donors, for example, may be primary users when acting like other resource providers that do not have the authority to require the preparation of tailored financial reports, such as when carrying out due diligence. Donors are not, however, acting as primary users of GPFRs when exercising any authority they may have to require an NPO to provide information tailored to their own individual needs as part of a funding or other arrangements.

Information needs of users for accountability and decision-making

- G2.6 The discharge of accountability obligations requires the provision of information about the NPO's management of its resources in serving its purposes, its capacity to continue to operate in future periods, and its compliance with any regulations that govern its operations.
- G2.7 Information provided in GPFRs for accountability purposes will also contribute to, and inform, economic and other decision making.

Information provided by GPFRs to meet the needs of users

- G2.8 GPFRs need to provide information about the financial position, financial performance and cash flows of the NPO.
- G2.9 The core financial information presented in the financial statements will need to be supported by financial and non-financial information in the GPFRs that enhances, complements and supplements the financial information to fully describe an NPO's performance.
- G2.10 Non-financial information should include those items covered in Section XX *Narrative Reporting*.

Qualitative characteristics of information in GPFRs

- G2.11 The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. If information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

Fundamental qualitative characteristics

- G2.12 The fundamental qualitative characteristics are relevance and faithful representation.

Relevance

- G2.13 Relevant information is capable of making a difference in the decisions made by users, ie the information is material. Information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.

Materiality

- G2.14 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of GPFRs make on the basis of those reports. Materiality is an NPO-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual NPO's financial report.

Faithful representation

- G2.15 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.

Enhancing qualitative characteristics

- G2.16 Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that both is relevant and provides a faithful representation of what it purports to represent. The enhancing qualitative characteristics may

also help determine which of two ways should be used to depict a phenomenon if both are considered to provide equally relevant information and an equally faithful representation of that phenomenon.

Comparability

- G2.17 Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items.

Verifiability

- G2.18 Verifiability is the quality of information that helps assure users that information in GFRs faithfully represents the economic and other phenomena that it purports to represent.

Timeliness

- G2.19 Timeliness means having information available to **users** in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

Understandability

- G2.20 Classifying, characterising and presenting information clearly and concisely makes it understandable. Information should be presented in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. The need for understandability does not allow relevant information to be omitted on the grounds that it may be too difficult for some users to understand.

The cost constraint on useful financial reporting

- G2.21 Cost is a pervasive constraint on the information that can be provided by financial reporting **and non-financial reporting**. Reporting financial and **non-financial** information imposes costs, and it is important that those costs are justified by the benefits of reporting that information.
- G2.22 An undue cost or effort exemption is specific for some requirements in this **Standard Guidance**. This exemption shall not be used for other requirements in this **Standard Guidance**.
- G2.23 Considering whether obtaining or determining the information necessary to comply with a requirement would involve undue cost or effort depends on the **NPO's** specific circumstances and on management's judgement of the costs and benefits from applying that requirement. This judgement requires consideration of how the economic **and other** decisions of those that are expected to use the financial **statements reports** could be affected by not having that information. Applying a requirement would involve undue cost or effort by an **SME NPO** if the incremental cost (for example, valuers' fees) or additional effort (for example, endeavours by employees) substantially exceed the benefits that those that are expected to use the **SME NPO's** financial **report statements** would receive from having the information. ~~An assessment of undue cost or effort by an SME in accordance with this Standard would usually constitute a~~

~~lower hurdle than an assessment of undue cost or effort by a publicly accountable entity because SMEs are not accountable to public stakeholders.~~

G2.24 Assessing whether a requirement would involve undue cost or effort on initial **recognition** in the financial statements, for example at the date of the transaction, should be based on information about the costs and benefits of the requirement at the time of initial recognition. If the undue cost or effort exemption also applies subsequent to initial recognition, for example to a subsequent measurement of an item, a new assessment of undue cost or effort should be made at that subsequent date, based on information available at that date.

G2.25 Except for the undue cost or effort exemption in paragraph 19.15, which is covered by the disclosure requirements in paragraph 19.25, whenever an undue cost or effort exemption is used by an NPO entity, the NPO entity shall disclose that fact and the reasons why applying the requirement would involve undue cost or effort.

The Reporting NPO

G2.26- G2.36 – Hold for drafting of text following TAG discussion of the consultation response to the reporting entity

Elements of financial statements

G2.37 The elements of financial statements are:

Element	Financial statement element relates to
Assets, liabilities and net assets	Relate to the statement of financial position and the statement of movement in net assets
Income and expense	Relate to the statement of income and expenses where they contribute to surplus and deficit
	Relate to the statement of movement in net assets where they don't contribute to surplus and deficit

Statement of financial position

G2.38 The financial position of an NPO entity is the relationship of its assets, liabilities, and net assets equity as of a specific date as presented in the statement of financial position.

Asset

G2. 39 An asset is a present economic resource controlled by the NPO as a result of past events. An economic resource is a right that has the capability to produce economic benefits or service potential.

G2.40 Economic benefits are cash inflows or a reduction in cash outflows. These may be derived from, for example, an asset's use in the production and sale of goods and services or the direct exchange of an asset for cash or other resources.

G2.41 Service potential is the capacity to provide services that contribute to achieving the NPO's objectives. Service potential enables an NPO to achieve its objectives without necessarily generating net cash inflows.

Liability

G2.42 A liability is a present obligation of the NPO to transfer an economic resource as a result of past events.

G2.43 For a liability to exist, three criteria must all be satisfied:

- (a) the NPO has an obligation;
- (b) the obligation is to transfer an economic benefit or service potential; and
- (c) the obligation is a present obligation that exists as a result of past event

Net assets

G2.44 Net assets are ~~Equity is~~ the residual of recognised assets minus recognised liabilities. Net assets may be managed by an NPO in separate funds, which may be restricted or unrestricted.

G2.45 Restricted funds are funds that have been established because of a funding or legal arrangement that requires them to be expended, invested or retained by the NPO for a specific purpose.

G2.46 Unrestricted funds are funds that are freely available to be utilised for any of the NPOs purposes. Unrestricted funds may include reserves that are used to hold surpluses or deficits that arise from the timing differences of income and expenses or that management is holding for specific purposes (earmarked reserves), such as purchasing new assets, or to protect against unexpected events. They can also be used to hold unrealised gains and losses such as amounts related to the revaluation of assets that they choose or are required to revalue or from defined benefit pension schemes.

G2.47 NPOs may also hold equity as part of net assets. Equity is the residual interest in the assets of the NPO after deducting all its liabilities, that is subject to equity claims. Equity claims are claims that can be made by equity holders on the residual interest in the assets of the NPO after deducting all its liabilities.

Statement of movement in net assets

G2.48 Net assets, including restricted and unrestricted funds, and changes in them over the reporting period are recognised in the statement of movement in net assets in accordance with the presentation and disclosure requirements set out in Section XX.

Statement of income and expenses

G2.49 The statement of income and expenses shows the relationship of the income and expenses of an NPO during a reporting period that contribute to the surplus and deficit recognised for the reporting period.

Income

- G2.50 Income is increases in assets, or decreases in liabilities, that result in increases in net assets other than those relating to contributions from holders of equity claims. The definition of income encompasses both revenue and gains.
- G2.51 Revenue is income that arises in the ordinary activities of an NPO entity such as sales, fees, grants, interest, and dividends.
- G2.52 Gains are other items that meet the definition of income but are not revenue. This includes realised gains from the sale of assets and unrealised gains from increases in the value of assets.
- G2.53 Released gains are recognised in the statement of income and expenses and contribute to the surplus or deficit recognised for the reporting period. Unrealised gains are recognised in the statement of income and expenses or in the statement of movement in net assets in accordance with the requirements of the relevant Section of the INPAG. Unrealised gains that are not recognised in the statement of income and expenses will not contribute to the surplus or deficit recognised for the reporting period.

Expenses

- G2.54 Expenses are decreases in assets, or increases in liabilities, that result in decreases in net assets other than those relating to distributions to holders of equity claims. The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the NPO entity.
- G2.55 Expenses includes realised losses from the sale or derecognition of assets and unrealised losses from decreases in the value of assets. Realised losses are recognised in the statement of income and expenses and contribute to the surplus or deficit recognised for the reporting period. Unrealised losses are recognised in the statement of income and expenses or in the statement of movement in net assets in accordance with the relevant Section of the INPAG. Unrealised losses that are not recognised in the statement of income and expenses will not contribute to the surplus or deficit recognised for the reporting period.

Recognition of assets, liabilities, net assets income and expenses

- G2.56 Recognition is the process of capturing for inclusion in the statement of financial position, the statement of income and expenses, or the statement of movement in net assets, an item that meets the definition of one of the elements of financial statements—an asset, a liability, net asset, income or expenses. Recognition involves depicting the item in one of those statements—either alone or in aggregation with other items— in words and by a monetary amount, and including that amount in one or more totals in that statement. The amount at which an asset, a liability or net asset, is recognised in the statement of financial position is referred to as its 'carrying amount'.
- G2.57 Only items that meet the definition of an asset, a liability, or net assets, are recognised in the statement of financial position. Similarly, only items that meet the definition of income or expenses and contribute to the surplus or deficit recognised for the reporting period are recognised in the statement of income and expenses. Unrealised gains and losses that do not contribute to the surplus or deficit recognised for the reporting period are recognised in the

statement of movement in net assets. However, not all items that meet the definition of one of those elements are recognised.

G2.58 An asset or liability is recognised only if recognition of that asset or liability and of any resulting income, expenses or changes in net assets provides users of financial statements with information that is useful, ie with:

- (a) relevant information about the asset or liability and about any resulting income, expenses or changes in net assets; and
- (b) a faithful representation of the asset or liability and of any resulting income, expenses or changes in net assets.

G2.59 Information about assets, liabilities, net assets, income and expenses is relevant to users of financial statements. However, recognition of a particular asset or liability and any resulting income, expenses or changes in net assets may not always provide relevant information. That may be the case if, for example:

- (a) it is uncertain whether an asset or liability exists; or
- (b) an asset or liability exists, but the probability of an inflow or outflow of economic benefits is low.

G2.60 Recognition of a particular asset or liability is appropriate if it provides not only relevant information, but also a faithful representation of that asset or liability and of any resulting income, expenses or changes in net assets. Whether a faithful representation can be provided may be affected by the level of measurement uncertainty associated with the asset or liability or by other factors.

G2.61 Even if an item meeting the definition of an element is not recognised, an NPO may need to provide information about that item in the notes

Measurement of assets, liabilities, income and expenses

G2.62 Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis. A measurement basis is an identified feature—for example, historical cost, fair value or value in use—of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.

G2.63 Consideration of the qualitative characteristics of useful financial information and of the cost constraint is likely to result in the selection of different measurement bases for different assets, liabilities, income and expenses. This ~~Standard IFRS~~ Guidance specifies which measurement basis an entity shall use for many types of assets, liabilities, income and expenses.

Historical cost

G2.64 Historical cost measures provide monetary information about assets, liabilities and related income and expenses, using information derived, at least in part, from the price of the transaction or other event that gave rise to them.

G2.65 For assets, historical cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the asset at the time of its acquisition. For liabilities, historical cost is the amount of proceeds of cash or cash equivalents received or the fair value of non-cash assets received in exchange for the obligation at the time the obligation is incurred, or in some circumstances ~~(for example, income tax)~~ the amounts of cash or cash equivalents expected to be paid to settle the liability in the normal course of business. Amortised historical cost is the historical cost of an asset or liability plus or minus that portion of its historical cost previously recognised as expense or income.

Fair Value

G2.66 Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

G2.67 Fair value reflects the perspective of market participants—participants in a market to which the NPO has access. The asset or liability is measured using the same assumptions that market participants would use when pricing the asset or liability if those market participants act in their economic best interest. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques, for example, cash-flow-based measurement techniques.

Value in Use

G2.68 Value in use is the present value to the NPO of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the NPO will receive from its disposal at the end of its useful life.

G2.69 Value in use is an NPO-specific value that reflects the amount that can be derived from an asset through its operation and its disposal at the end of its useful life. For non-cash generating assets it is often calculated by determining the cost required for the NPO to replace the service potential of an asset (including the amount that the NPO will receive from its disposal at the end of its useful life) at the measurement date.

Pervasive recognition and measurement principles

G2.70 The requirements for recognising and measuring assets, liabilities, ~~net assets~~ income and expenses in this ~~Standard-Guidance~~ are based on pervasive principles that are derived from full IFRS ~~adapted as appropriate for the NPO context~~. In the absence of a requirement in this ~~Standard-Guidance~~ that applies specifically to a transaction or other event or condition, paragraph 10.4 provides guidance for making a judgement and paragraph 10.5 establishes a hierarchy for an ~~entity~~-NPO to follow in deciding on the appropriate accounting policy in the circumstances. The second level of that hierarchy requires an ~~entity~~-NPO to look to the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles set out in this section.

Accrual basis

G2.71 An ~~entity~~-NPO shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. On the accrual basis, items are recognised as assets, liabilities, ~~net assets~~, income or expenses when they satisfy the definitions and recognition criteria for those items.

Offsetting

- G2.72 An ~~entity~~ NPO shall not offset assets and liabilities, or income and expenses unless required or permitted by this ~~Standard~~ Guidance:
- (a) measuring assets net of valuation allowances is not offsetting. For example, allowances for inventory obsolescence and allowances for uncollectable receivables.
 - (b) if an ~~entity's~~ NPO's normal operating activities do not include buying and selling non-current assets, including investments and operating assets, then the NPO reports gains and losses on disposal of such assets by deducting from the proceeds on disposal the **carrying amount** of the asset and related selling expenses.

Presentation in GPFRs

- G2.73 Presentation aims to provide information that contributes towards the objectives of financial reporting and achieves the qualitative characteristics of information while taking into account the constraints on information included in GPFRs. Decisions on selection, location and organization of information are made in response to the needs of users for information about economic or other phenomena.
- G2.74 Users' information needs should underpin information selection for the financial statements. Those needs include information about the financial position, financial performance and cash flows of an NPO.
- G2.75 The location of information in the GPFR should assist the understanding of users. It has an impact on the achievement of the objectives of financial reporting and the qualitative characteristics. Location may affect the way that users interpret information and the comparability of information.
- G2.76 Information should be organized to assist users as organisation can affect its interpretation by users. Information organization involves a range of decisions including decisions on the use of cross- referencing, tables, graphs, headings, numbering, and the arrangement of items within a particular component of a report, including decisions on item order.

Section 2 – Concepts and pervasive principles

Basis for Conclusions

Introduction

- BC 2.1 This Basis for Conclusions summarises the considerations made during the development of Section 2 – Concepts and Pervasive Principles for the Exposure Draft.
- BC 2.2 It includes details of any changes made to the approach that was set out in the IFR4NPO Consultation Paper as a result of feedback from respondents. This has been done to enable respondents to this Exposure Draft to understand the evolution of the proposals from the Consultation Paper to Exposure Draft stage.
- BC 2.3 This Basis for Conclusion will be updated following the finalisation of Section 2 – Concepts and Pervasive Principles after the Exposure Draft stage.

The use of the IFRS Conceptual Framework and the IPSASB's Public Sector Conceptual Framework

- BC 2.4 The INPAG utilises the *IFRS for SMEs* Standard as its foundational framework, but where NPO-specific financial reporting issues have not been comprehensively or appropriately dealt with in the existing *IFRS for SMEs* Standard, or where there is no related Section in the *IFRS for SMEs* Standard providing financial reporting guidance, the INPAG may differ from the *IFRS for SMEs* Standard. In accordance with the "Process for developing the International Non-Profit Accounting Guidance through changes to the *IFRS for SMEs* Standard", this includes the use of IFRS Standards and its conceptual framework (the IASB's revised *Conceptual Framework for Financial Reporting* March 2018) and International Public Sector Accounting Standards (IPSAS) and its conceptual framework (the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* October 2014) where this can provide more appropriate financial reporting guidance in the NPO context.
- BC 2.5 A number of responses to the IFR4NPO Consultation Paper indicated that the conceptual basis of the *IFRS for SMEs* Standard was inappropriate for NPOs as it was based on the needs of users of general purpose financial statements of for-profit entities. It is also the case that the *Concepts and Pervasive Principles* contained in the *IFRS for SMEs* Standard published in 2015 do not reflect changes made to the conceptual framework that underpins IFRS Standards.
- BC 2.6 The Consultation Paper explained that there are insufficient resources available to the IFR4NPO project to develop an entirely new conceptual framework for NPO financial reporting. There are aspects of the IASB's Conceptual Framework and the IPSASB's Conceptual Framework that are suitable for use in the NPO context and are useful in providing the concepts and principles needed to develop financial reporting guidance for NPOs where these are not comprehensively or appropriately dealt with in the existing *IFRS for SMEs* Standard.
- BC 2.7 As such aspects of these conceptual frameworks have been utilised in developing Section 2 - *Concepts and Pervasive Principles* for the INPAG.

Primary users of GPFRs and their information needs

- BC 2.8 The IFR4NPO Consultation Paper focussed on the external stakeholders to whom NPOs are accountable and their information needs. These were service users, resource providers, regulators and broader society. Feedback from respondents indicated that recognition had not been given to internal stakeholders who are also important in the NPO context. Examples provided by these respondents of internal stakeholders included those charged with governance, staff, and members.
- BC 2.9 Stakeholders who may traditionally be seen as internal in nature are important for NPOs. With specific reference to general purpose financial reporting, however, the conceptual bases of international frameworks for general purpose financial reporting define primary users as those that do not possess the authority to require an entity to disclose the information they need. Many of the internal stakeholders raised by respondents to the Consultation Paper, including those charged with governance and staff, are likely to possess the authority to require an entity to disclose information to meet their own specific information needs.
- BC 2.10 The position of internal stakeholders was discussed with the Practitioner Advisory Group and Technical Advisory Group and it was agreed that they would likely possess the authority to require an NPO to disclose the information they need for accountability and decision-making purposes. In this regard they are akin to some external stakeholders, in particular regulatory bodies and major donors, who are also likely to possess this authority in certain circumstances.
- BC 2.11 International financial reporting frameworks indicate that those who possess the authority to require an entity to disclose the information they need are not the primary users of general purpose financial reports even if they may find the information contained within them useful. As such the primary users of NPO general purpose financial reports are deemed to be the public to whom the NPO provides goods and services and those resource providers who do not possess the authority to require an NPO to disclose the information they need for accountability and decision-making purposes.
- BC 2.12 Primary users will also include those that fulfil oversight functions on behalf of the public and resource providers. This is likely to include elected representatives and public officials who have a duty to represent the interests of members of the public who are provided with goods and services by the NPO or who provide it with financial and other resources.
- BC 2.13 Respondents supported the view expressed in the Consultation Paper that the information needs of these primary users cannot be met only through the reporting of financial information contained in the General Purpose Financial Statements (GPFS). As indicated in the Preface, GPFRs are needed to provide users with a meaningful understanding of an NPO's nature, objectives, strategy, risks, and performance.

Presentation in GPFRs

- BC 2.14 Presentation concepts and principles in both the IFRS for SMEs Standard and the IASB's Conceptual Framework are focussed on the core financial statements, whereas presentation in the IPSASB Conceptual Framework has a wider scope encompassing financial reports outside the core financial statements. This has therefore been utilised in developing presentation concepts and principles for the INPAG.

Qualitative Characteristics

BC 2.15 The qualitative characteristics of financial information are set out in conceptual frameworks to identify the types of information that are likely to be most useful to users of financial reports for accountability and decision-making. The qualitative characteristics provide a coherent framework for determining the decision-usefulness of financial reporting information, guidance on what to do when qualitative characteristics may be in conflict, and overall cost-benefit constraints on financial reporting.

BC 2.16 The *IFRS for SMEs* Standard provides explanations of the qualitative characteristics of information in financial statements. These qualitative characteristics do not presently match those of the revised IASB Conceptual Framework which underpins the development of IFRS Standards. They also do not reflect the broader scope of general purpose financial reporting that is recognised in the IPSASBs Conceptual Framework.

BC 2.17 The qualitative characteristics in the IASB Conceptual Framework and the IPSASB Conceptual Framework are consistent and are appropriate in the NPO context. As such these qualitative characteristics have been deemed by the INPAG Secretariat to be appropriate for use in the Concepts and Pervasive Principles of the INPAG. In accordance with the IASB's Conceptual Framework a distinction has been made between fundamental qualitative characteristics and enhancing qualitative characteristics.

BC 2.18 As there are Sections of the *IFRS for SMEs* Standard that have not yet been examined except for terminology changes as part of the IFR4NPO project, the undue cost or effort exemption that currently exists in the *IFRS for SMEs* Standard has been retained.

The Reporting NPO

[Content to be provided at the May TAG meeting following consideration of the response to the Consultation Paper]

Statement of Financial Position, Statement of Movement in Net Assets and Statement of Income and Expenses

BC 2.19 Elements of financial statements provide conceptually consistent categories for economic resources, claims, and changes in economic resources and claims that are recognised in the financial statements.

BC 2.20 The elements in the financial statements defined in the *IFRS for SMEs* Standard are focussed on the financial statements of private sector entities. As such there are aspects of some of the elements in the *IFRS for SMEs* Standard that do not capture the nature of these elements within the NPO context. For example, the definition of an asset which is focussed on the generation of cash flows, and the definition of equity which does not adequately capture how an NPO is funded and how it manages its net assets. The elements in the *IFRS for SMEs* Standard also do not reflect changes made in the IASB Conceptual Framework.

BC 2.21 The IPSASB Conceptual Framework contains some useful additional concepts that are relevant to NPOs. This includes the incorporation of the concept of service potential which ensures that it is possible for an entity to recognise an item with service potential even if it does not generate economic benefits in the form of cash flows.

BC 2.22 The definition of assets, liabilities, income and expenses for the INPAG draw on the IASB Conceptual Framework and the IPSASB Conceptual Framework to ensure that they reflect both the updated IASB definitions of the elements and relevant conceptual principles for non-profits from the public sector. A distinction for the NPO context has been made, with respect to gains and losses (see BC 2.35-2.36).

BC 2.23 The most significant change is with respect to equity which has been included within a new element defined as net assets, which incorporates restricted funds, unrestricted funds, reserves and equity.

BC 2.24 Many NPOs will manage their assets and liabilities within separate funds. These funds may be restricted or unrestricted. For restricted funds there will be a legal, funding, or other externally mandated arrangement that requires the NPO to use them in a certain way. This could for example be a legal requirement to invest a bequest or a grant agreement that requires funds provided to the NPO to be used only on a specific project or programme. Unrestricted funds do not have such constraints, and can be spent on any of the NPOs purposes. The management of the NPO may place its own internal restrictions on their use by earmarking them for specific purposes, but they will not breach any externally imposed restrictions if they do not use them in this way.

BC 2.25 In addition to these funds, NPOs may also hold reserves that are related to the revaluation of assets and any defined benefit pension schemes that are managed by the NPO.

BC 2.26 As part of the description of the broad characteristics of NPOs in Section 1, it was noted that one indicator of an entity being an NPO would be an absence of individuals with rights to financial returns. While it is not therefore expected that there will commonly be individuals with rights to the residual interest in the assets of an NPO after deducting all its liabilities this cannot be ruled out completely. A definition of equity has therefore been retained. Equity is defined as part of net assets and relates only to the residual interest in the assets of the NPO after deducting all its liabilities that is subject to equity claims. Equity claims are claims that can be made by equity holders on the residual interest in the assets of the NPO after deducting all its liabilities.

BC2.27 The elements are used to produce a statement of financial position, statement of income and expenses and a statement of movement in net assets (see Sections x ,y, z). Feedback from the Consultation is that users of GPFRs do not associate the financial performance of NPOs with profit and loss, but many accept the concept of a surplus or deficit. There was also feedback to request simplicity in the presentation of information. On this basis the INPAG statement of income and expenses is focused on surplus and deficit and not comprehensive income as permitted in the *IFRS for SMEs* Standard.

BC2.28 As a consequence not all unrealised gains and losses are proposed to appear in the statement of income and expenses. Those unrealised gains and losses related to valuation movements that are not required by the relevant Section of the IFRS for SMEs to be recognised in profit and loss are not shown in the statement of income and expenses but instead in the statement of movement in net assets. This ensures that they do not impact on the surplus or deficit recognised for the reporting period.

Recognition and measurement of assets, liabilities, income and expenses in financial statements

BC 2.29 As with other aspects of the Concepts and Pervasive principles, the revised IASB Conceptual Framework which underpins the development of IFRS Standards has been utilised to develop the recognition and measurement principles for the INPAG.

BC 2.30 Service potential is not a concept explicitly recognised in the IASB Conceptual Framework, although it is included in the IPSASB's Public Sector Conceptual Framework. It has been included in the definition of elements for the INPAG as it is relevant for assets that are held by an NPO not to generate cash flows, but rather for the services that can be provided by the asset. As part of measurement, value in use as a potential measurement basis has been included because this incorporates the concept of service potential. As highlighted in the IPSASB Public Sector Conceptual Framework, value in use is often calculated by determining the replacement cost of an asset's service potential and so replacement cost has also been included within the definition.

Section 2 - Concepts and Pervasive Principles

Mapping of IFRS for SMEs and INPAG

The IFRS for SMEs Standard	INPAG
Scope of this section	Scope of this section
2.1 This section describes the objective of financial statements of small and medium-sized entities (SMEs) and the qualities that make the information in the financial statements of SMEs useful. It also sets out the concepts and basic principles underlying the financial statements of SMEs.	G2.1 This Section describes the objective of financial reports of non-profit organisations (NPOs) and the qualities that make the information in the financial reports of NPOs useful. It also sets out the concepts and basic principles underlying the General Purpose Financial Reports (GPFRs) of NPOs.
Objective of financial statements of small and medium-sized entities	Objectives of financial reporting by Non-profit organisations
2.2 The objective of financial statements of a small or medium-sized entity is to provide information about the financial position, performance and cash flows of the entity that is useful for economic decision-making by a broad range of users of the financial statements who are not in a position to demand reports tailored to meet their particular information needs.	G2.2 The objective of financial reporting by non-profit organisations (NPOs) is to provide information ~~about the financial position, performance and cash flows of the entity~~ that is useful for ~~economic decision-making~~ accountability and decision-making by a broad range of users of the financial reports who are not in a position to demand reports tailored to meet their particular information needs.
2.3 Financial statements also show the results of stewardship of management — the accountability of management for the resources entrusted to it.	[Covered in Users of GPFRs G2.3-G2.7]
	Users of GPFRs
	G2.3 NPOs are responsible for the stewardship or the resources entrusted to them. They are accountable for their management and use of resources to those that provide them with resources, and those that depend on them to use those resources to provide goods and services. This is both during the reporting period and over the longer term. Their interests may also be served by those fulfilling oversight functions on their behalf such as elected representatives and public sector officials.
	G2.4 GPFRs are not developed specifically to respond to any individual information needs. NPOs may have users of their GPFRs that can be primary users in some circumstances but in other circumstances have rights to tailored information.
	G2.5 Donors, for example may be primary users when acting like other resource providers that do not have the authority to require the preparation of tailored

	financial reports, such as when carrying out due diligence. Donors are not, however, acting as primary users of GPFRs when exercising any authority they may have to require an NPO to provide information tailored to their own individual needs as part of a funding or other arrangements.
	<i>Information needs of users for accountability and decision-making</i>
	G2.6 The discharge of accountability obligations requires the provision of information about the NPO's management of its resources in serving its purposes, its capacity to continue to operate in future periods, and its compliance with any regulations that govern its operations.
	G2.7 Information provided in GPFRs for stewardship and accountability purposes will also contribute to, and inform, economic and other decision making.
	Information provided by GPFRs to meet the needs of users
	G2.8 GPFRs need to provide information about the financial position, financial performance and cash flows of the NPO.
	G2.9 The core financial information presented in the financial statements will need to be supported by financial and non-financial information in the GPFRs that enhances, complements and supplements the financial information to fully describe an NPO's performance.
	G2.10 Non-financial information should include those items covered in Section XX <i>Narrative Reporting</i> .
Qualitative characteristics of information in financial statements	Qualitative characteristics of information in GPFRs
Understandability	
2.4. The information provided in financial statements should be presented in a way that makes it comprehensible by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, the need for understandability does not allow relevant information to be omitted on the grounds that it may be too difficult for some users to understand	Replaced in G2.11-G2.20
Relevance	
2.5 The information provided in financial statements must be relevant to the decision-making needs of users. Information has the quality of relevance when	Replaced in G2.11-G2.20

it is capable of influencing the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.	
Materiality	
2.6 Information is material —and therefore has relevance—if its omission or misstatement could influence the economic decisions of users made on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. However, it is inappropriate to make, or leave uncorrected, immaterial departures from the <i>IFRS for SMEs</i> to achieve a particular presentation of an entity's financial position, financial performance or cash flows.	Replaced in G2.11-G2.20
Reliability	
2.7 The information provided in financial statements must be reliable. Information is reliable when it is free from material error and bias and represents faithfully that which it either purports to represent or could reasonably be expected to represent. Financial statements are not free from bias (ie not neutral) if, by the selection or presentation of information, they are intended to influence the making of a decision or judgement in order to achieve a predetermined result or outcome.	Replaced in G2.11-G2.20
Substance over form	
2.8 Transactions and other events and conditions should be accounted for and presented in accordance with their substance and not merely their legal form. This enhances the reliability of financial statements.	Replaced in G2.11-G2.20
Prudence	
2.9 The uncertainties that inevitably surround many events and circumstances are acknowledged by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow the deliberate understatement of assets or income or the	Replaced in G2.11-G2.20

deliberate overstatement of liabilities or expenses. In short, prudence does not permit bias	
Completeness	
2.10 To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.	Replaced in G2.11-G2.20
Comparability	
2.11 Users must be able to compare the financial statements of an entity through time to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different entities to evaluate their relative financial position, performance and cash flows. Hence, the measurement and display of the financial effects of like transactions and other events and conditions must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way across entities. In addition, users must be informed of the accounting policies employed in the preparation of the financial statements and of any changes in those policies and the effects of such changes.	Replaced in G2.11-G2.20
Timeliness	
2.12 To be relevant, financial information must be able to influence the economic decisions of users. Timeliness involves providing the information within the decision time frame. If there is undue delay in the reporting of information it may lose its relevance. Management may need to balance the relative merits of timely reporting and the provision of reliable information. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the needs of users in making economic decisions.	Replaced in G2.11-G2.20
	G2.11 The qualitative characteristics of information included in GPFs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. If information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.
	Fundamental qualitative characteristics
	G2.12 The fundamental qualitative characteristics are relevance and faithful representation.
	Relevance
.	G2.13 Relevant information is capable of making a difference in the decisions made by users, ie the

	information is material. Information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.
	<i>Materiality</i>
	G2.14 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of GFRs make on the basis of those reports. Materiality is an NPO specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual NPO's financial report.
	Faithful representation
	G2.15 <u>To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.</u>
	Enhancing qualitative characteristics
	G2.16 Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that both is relevant and provides a faithful representation of what it purports to represent. The enhancing qualitative characteristics may also help determine which of two ways should be used to depict a phenomenon if both are considered to provide equally relevant information and an equally faithful representation of that phenomenon.
	Comparability
	G2.17 Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items.
	Verifiability
	G2.18 <u>Verifiability is the quality of information that helps assure users that information in GFRs faithfully represents the economic and other phenomena that it purports to represent.</u>

	Timeliness
	G2.19 Timeliness means having information available to users in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.
	Understandability
	G2.20 Classifying, characterising and presenting information clearly and concisely makes it understandable. Information should be presented <u>in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented</u> . The need for understandability does not allow relevant information to be omitted on the grounds that it may be too difficult for some users to understand.
Balance between benefit and cost	The cost constraint in useful financial reporting
2.13 The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is substantially a judgemental process. Furthermore, the costs are not necessarily borne by those who enjoy the benefits, and often the benefits of the information are enjoyed by a broad range of external users.	G2.21 Cost is a pervasive constraint on the information that can be provided by financial reporting and non-financial reporting. Reporting financial and non-financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information.
2.14 Financial reporting information helps capital providers make better decisions, which results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole. Individual entities also enjoy benefits, including improved access to capital markets, favourable effect on public relations and perhaps lower costs of capital. The benefits may also include better management decisions because financial information used internally is often based at least partly on information prepared for general purpose financial reporting purposes.	[Capital markets and cost of capital not relevant in NPO context.]
Undue cost or effort	
2.14 a) An undue cost or effort exemption is specified for some requirements in this Standard. This exemption shall not be used for other requirements in this Standard.	G2.22 ➔ An undue cost or effort exemption is specified for some requirements in this ~~Standard~~ Guidance. This exemption shall not be used for other requirements in this ~~Standard~~ Guidance.
2.14 b) Considering whether obtaining or determining the information necessary to comply with a requirement would involve undue cost or effort depends on the entity's specific circumstances and on management's judgement of the costs and benefits from applying that requirement. This judgement requires consideration of how the economic	G2.23 ➔ Considering whether obtaining or determining the information necessary to comply with a requirement would involve undue cost or effort depends on the NPO's specific circumstances and on management's judgement of the costs and benefits from applying that requirement. This judgement requires consideration of how the economic and

decisions of those that are expected to use the financial statements could be affected by not having that information. Applying a requirement would involve undue cost or effort by an SME if the incremental cost (for example, valuers' fees) or additional effort (for example, endeavours by employees) substantially exceed the benefits that those that are expected to use the SME's financial statements would receive from having the information. An assessment of undue cost or effort by an SME in accordance with this Standard would usually constitute a lower hurdle than an assessment of undue cost or effort by a publicly accountable entity because SMEs are not accountable to public stakeholders.	other decisions of those that are expected to use the financial ~~statements~~ ~~reports~~ could be affected by not having that information. Applying a requirement would involve undue cost or effort by an ~~SME~~ ~~NPO~~ if the incremental cost (for example, valuers' fees) or additional effort (for example, endeavours by employees) substantially exceed the benefits that those that are expected to use the <del>SME</del>~~NPO~~'s financial ~~report~~ ~~statements~~ would receive from having the information. ~~An assessment of undue cost or effort by an SME in accordance with this Standard would usually constitute a lower hurdle than an assessment of undue cost or effort by a publicly accountable entity because SMEs are not accountable to public stakeholders.~~						
2.14 c) Assessing whether a requirement would involve undue cost or effort on initial recognition in the financial statements, for example at the date of the transaction, should be based on information about the costs and benefits of the requirement at the time of initial recognition. If the undue cost or effort exemption also applies subsequent to initial recognition, for example to a subsequent measurement of an item, a new assessment of undue cost or effort should be made at that subsequent date, based on information available at that date.	G2.24 ~~↔~~ Assessing whether a requirement would involve undue cost or effort on initial recognition in the financial statements, for example at the date of the transaction, should be based on information about the costs and benefits of the requirement at the time of initial recognition. If the undue cost or effort exemption also applies subsequent to initial recognition, for example to a subsequent measurement of an item, a new assessment of undue cost or effort should be made at that subsequent date, based on information available at that date.						
2.14 d) Except for the undue cost or effort exemption in paragraph 19.15, which is covered by the disclosure requirements in paragraph 19.25, whenever an undue cost or effort exemption is used by an entity, the entity shall disclose that fact and the reasons why applying the requirement would involve undue cost or effort.	G2.25 ~~↔~~ Except for the undue cost or effort exemption in paragraph 19.15, which is covered by the disclosure requirements in paragraph 19.25, whenever an undue cost or effort exemption is used by an ~~NPO~~ ~~entity~~, the ~~NPO~~ ~~entity~~ shall disclose that fact and the reasons why applying the requirement would involve undue cost or effort.						
	The Reporting entity						
	Section to be drafted for May TAG meeting based on feedback to the proposed way forward.						
	Elements of financial statements						
	G2.37 The elements of financial statements are: <table border="1"> <tr> <th>Element</th><th>Financial statement element relates to</th></tr> <tr> <td>Assets, liabilities and net assets</td><td>Relate to the statement of financial position and the statement of movement in net assets</td></tr> <tr> <td>Income and expense</td><td>Relate to the statement of income and expenses where they contribute to surplus and deficit</td></tr> </table>	Element	Financial statement element relates to	Assets, liabilities and net assets	Relate to the statement of financial position and the statement of movement in net assets	Income and expense	Relate to the statement of income and expenses where they contribute to surplus and deficit
Element	Financial statement element relates to						
Assets, liabilities and net assets	Relate to the statement of financial position and the statement of movement in net assets						
Income and expense	Relate to the statement of income and expenses where they contribute to surplus and deficit						

		Relate to the statement of movement in net assets where they don't contribute to surplus and deficit
Financial position	Statement of financial position	
2.15 The financial position of an entity is the relationship of its assets, liabilities and equity as of a specific date as presented in the statement of financial position. These are defined as follows: (a) an asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity; (b) a liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits; and (c) equity is the residual interest in the assets of the entity after deducting all its liabilities.	G2.38 The financial position of an NPO entity is the relationship of its assets, liabilities, and net assets equity as of a specific date as presented in the statement of financial position. ~~These are defined as follows:~~ (d) ~~an asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity;~~ (e) ~~a liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits; and~~ (f) ~~equity is the residual interest in the assets of the entity after deducting all its liabilities.~~	
2.16 Some items that meet the definition of an asset or a liability may not be recognised as assets or liabilities in the statement of financial position because they do not satisfy the criteria for recognition in paragraphs 2.27–2.32. In particular, the expectation that future economic benefits will flow to or from an entity must be sufficiently certain to meet the probability criterion before an asset or liability is recognised.	[Covered in G2.57]	
Assets	Assets	
2.17 The future economic benefit of an asset is its potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. Those cash flows may come from using the asset or from disposing of it.	G2. 39 An asset is a present economic resource controlled by the NPO as a result of past events. An economic resource is a right that has the potential to produce economic benefits or service potential.	
2.18 Many assets, for example property, plant and equipment , have a physical form. However, physical form is not essential to the existence of an asset. Some assets are intangible.	[additional detail on elements to be covered in the application guidance]	
2.19 In determining the existence of an asset, the right of ownership is not essential. Thus, for example, property held on a lease is an asset if the entity controls the benefits that are expected to flow from the property.	[additional detail on elements to be covered in the application guidance]	
	G2.40 Economic benefits are cash inflows or a reduction in cash outflows. These may be derived from, for example, an asset's use in the production and sale of goods and services or the direct exchange of an asset for cash or other resources.	
	G2.41 <u>Service potential is the capacity to provide services that contribute to achieving the NPO's</u>	

	<u>objectives. Service potential enables an NPO to achieve its objectives without necessarily generating net cash inflows.</u>
Liabilities	Liabilities
2.20 An essential characteristic of a liability is that the entity has a present obligation to act or perform in a particular way. The obligation may be either a legal obligation or a constructive obligation. A legal obligation is legally enforceable as a consequence of a binding contract or statutory requirement. A constructive obligation is an obligation that derives from an entity's actions when: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.	G2.42 A liability is a present obligation of the NPO to transfer an economic resource as a result of past events.
2.21 The settlement of a present obligation usually involves the payment of cash, the transfer of other assets, the provision of services, the replacement of that obligation with another obligation or the conversion of the obligation to equity. An obligation may also be extinguished by other means, such as a creditor waiving or forfeiting its rights.	G2.43 For a liability to exist, three criteria must all be satisfied: (a) the NPO has an obligation; (b) the obligation is to transfer an economic resource or service potential; and (c) the obligation is a present obligation that exists as a result of past event
Equity	Net assets
2.22 Equity is the residual of recognised assets minus recognised liabilities. It may be subclassified in the statement of financial position. For example, in a corporate entity, subclassifications may include funds contributed by shareholders, retained earnings and items of other comprehensive income recognised as a separate component of equity. This Standard does not prescribe how, when or if amounts can be transferred between components of equity.	G2.44 Net assets are ~~Equity is~~ the residual of recognised assets minus recognised liabilities. Net assets may be managed by an NPO in separate funds, which may be restricted or unrestricted.
2.23	G2.45 Restricted funds are funds that have been established because of a funding or legal arrangement that requires them to be expended, invested or retained by the NPO for a specific purpose
	G2.46 Unrestricted funds are funds that are freely available to be utilised for any of the NPOs purposes. Unrestricted funds may include reserves that are used to hold surpluses or deficits that arise from the timing differences of income and expenses or that management is holding for specific purposes (earmarked reserves), such as purchasing new assets, or to protect against unexpected events. They can also be used to hold unrealised gains and

	losses such as amounts related to the revaluation of assets that they choose or are required to revalue or from defined benefit pension schemes.
	G2.47 NPOs may also hold equity as part of net assets. Equity is the residual interest in the assets of the NPO after deducting all its liabilities, that is subject to equity claims. Equity claims are claims that can be made by equity holders on the residual interest in the assets of the NPO after deducting all its liabilities.
	Statement of movement in net assets
	G2.48 Net assets, including restricted and unrestricted funds, and changes in them over the reporting period are recognised in the statement of movement in net assets in accordance with the presentation and disclosure requirements set out in Section XX.
Performance	Statement of income and expenses
2.24 Performance is the relationship of the income and expenses of an entity during a reporting period . This Standard permits entities to present performance in a single financial statement (a statement of comprehensive income) or in two financial statements (an income statement and a statement of comprehensive income). Total comprehensive income and profit or loss are frequently used as measures of performance or as the basis for other measures, such as return on investment or earnings per share. Income and expenses are defined as follows: (a) income is increases in economic benefits during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from owners ; and (b) expenses are decreases in economic benefits during the reporting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to owners.	G2.49 The statement of income and expenses shows the relationship of the income and expenses of an NPO during a reporting period that contribute to the surplus and deficit recognised for the reporting period.
2.25 The recognition of income and expenses results directly from the recognition and measurement of assets and liabilities. Criteria for the recognition of income and expenses are discussed in paragraphs 2.27–2.32.	[covered in definitions of elements and recognition and measurement]
Income	Income
2.26 The definition of income encompasses both revenue and gains :	G2.50 Income is increases in assets, or decreases in liabilities, that result in increases in net assets other than those relating to contributions from holders of

(a) revenue is income that arises in the course of the ordinary activities of an entity and is referred to by a variety of names including sales, fees, interest, dividends, royalties and rent. (b) gains are other items that meet the definition of income but are not revenue. When gains are recognised in the statement of comprehensive income, they are usually displayed separately because knowledge of them is useful for making economic decisions.	equity claims. The definition of income encompasses both revenue and gains.
	G2.51 Revenue is income that arises in the ordinary activities of an NPO entity such as sales, fees, grants, interest, and dividends.
	G2.52 Gains are other items that meet the definition of income but are not revenue. This includes realised gains from the sale of assets and unrealised gains from increases in the value of assets.
	G2.53 Released gains are recognised in the statement of income and expenses and contribute to the surplus or deficit recognised for the reporting period. Unrealised gains are recognised in the statement of income and expenses or in the statement of movement in net assets in accordance with the requirements of the relevant Section of the INPAG. Unrealised gains that are not recognised in the statement of income and expenses will not contribute to the surplus or deficit recognised for the reporting period.
Expenses	Expenses
2.26 The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity: (a) expenses that arise in the course of the ordinary activities of the entity include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory or property, plant and equipment. (b) losses are other items that meet the definition of expenses and may arise in the course of the ordinary activities of the entity. When losses are recognised in the statement of comprehensive income, they are usually presented separately because knowledge of them is useful for making economic decisions.	G2.54 Expenses are decreases in assets, or increases in liabilities, that result in decreases in net assets other than those relating to distributions to holders of equity claims. The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the NPO entity.
	G2.55 Expenses includes realised losses from the sale or derecognition of assets and unrealised losses from decreases in the value of assets. Realised losses are recognised in the statement of income and

	expenses and contribute to the surplus or deficit recognised for the reporting period. Unrealised losses are recognised in the statement of income and expenses or in the statement of movement in net assets in accordance with the relevant Section of the INPAG. Unrealised losses that are not recognised in the statement of income and expenses will not contribute to the surplus or deficit recognised for the reporting period.
Recognition of assets, liabilities, income and expenses	Recognition of assets, liabilities, income and expenses
2.27 Recognition is the process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expense and satisfies the following criteria: (a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and (b) the item has a cost or value that can be measured reliably.	G2.56 Recognition is the process of capturing for inclusion in the statement of financial position, the statement of income and expenses, or the statement of movement in net assets, an item that meets the definition of one of the elements of financial statements—an asset, a liability, net asset, income or expenses. Recognition involves depicting the item in one of those statements—either alone or in aggregation with other items— in words and by a monetary amount, and including that amount in one or more totals in that statement. The amount at which an asset, a liability or net asset, is recognised in the statement of financial position is referred to as its 'carrying amount'.
	G2.57 Only items that meet the definition of an asset, a liability, or net assets, are recognised in the statement of financial position. Similarly, only items that meet the definition of income or expenses and contribute to the surplus or deficit recognised for the reporting period are recognised in the statement of income and expenses. Unrealised gains and losses that do not contribute to the surplus or deficit recognised for the reporting period are recognised in the statement of movement in net assets. However, not all items that meet the definition of one of those elements are recognised.
	G2.58 An asset or liability is recognised only if recognition of that asset or liability and of any resulting income, expenses or changes in net assets provides users of financial statements with information that is useful, ie with: (a) relevant information about the asset or liability and about any resulting income, expenses or changes in net assets; and (b) a faithful representation of the asset or liability and of any resulting income, expenses or changes in net assets.
	G2.59 Information about assets, liabilities, net assets, income and expenses is relevant to users of financial statements. However, recognition of a particular

	asset or liability and any resulting income, expenses or changes in net assets may not always provide relevant information. That may be the case if, for example: (a) it is uncertain whether an asset or liability exists; or (b) an asset or liability exists, but the probability of an inflow or outflow of economic benefits is low.
	G2.60 Recognition of a particular asset or liability is appropriate if it provides not only relevant information, but also a faithful representation of that asset or liability and of any resulting income, expenses or changes in net assets. Whether a faithful representation can be provided may be affected by the level of measurement uncertainty associated with the asset or liability or by other factors.
2.28 The failure to recognise an item that satisfies those criteria is not rectified by disclosure of the accounting policies used or by notes or explanatory material.	G2.61 Even if an item meeting the definition of an element is not recognised, an NPO may need to provide information about that item in the notes
The probability of future economic benefit	
2.29 The concept of probability is used in the first recognition criterion to refer to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the entity. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made on the basis of the evidence relating to conditions at the end of the reporting period available when the financial statements are prepared. Those assessments are made individually for individually significant items, and for a group for a large population of individually insignificant items.	[additional detail on recognition to be covered in the application guidance]
Reliability of measurement	
2.30 The second criterion for the recognition of an item is that it possesses a cost or value that can be measured with reliability. In many cases, the cost or value of an item is known. In other cases it must be estimated. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When a reasonable estimate cannot be made, the item is not recognised in the financial statements.	[additional detail on recognition to be covered in the application guidance]
2.31 An item that fails to meet the recognition criteria may qualify for recognition at a later date as a result of subsequent circumstances or events.	[additional detail on recognition to be covered in the application guidance]
2.32 An item that fails to meet the criteria for recognition may nonetheless warrant disclosure in	[additional detail on recognition to be covered in the application guidance]

the notes or explanatory material or in supplementary schedules. This is appropriate when knowledge of the item is relevant to the evaluation of the financial position, performance and changes in financial position of an entity by the users of financial statements.	
Measurement of assets, liabilities, income and expenses	Measurement of assets, liabilities, income and expenses
2.33 Measurement is the process of determining the monetary amounts at which an entity measures assets, liabilities, income and expenses in its financial statements. Measurement involves the selection of a basis of measurement. This Standard IFRS specifies which measurement basis an entity shall use for many types of assets, liabilities, income and expenses.	G2.62 Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis. A measurement basis is an identified feature—for example, historical cost, fair value or value in use —of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.
	G2.63 Consideration of the qualitative characteristics of useful financial information and of the cost constraint is likely to result in the selection of different measurement bases for different assets, liabilities, income and expenses. This ~~Standard IFRS~~ Guidance specifies which measurement basis an entity shall use for many types of assets, liabilities, income and expenses.
2.34 Two common measurement bases are historical cost and fair value: (a) for assets, historical cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the asset at the time of its acquisition. For liabilities, historical cost is the amount of proceeds of cash or cash equivalents received or the fair value of non-cash assets received in exchange for the obligation at the time the obligation is incurred, or in some circumstances (for example, income tax) the amounts of cash or cash equivalents expected to be paid to settle the liability in the normal course of business. Amortised historical cost is the historical cost of an asset or liability plus or minus that portion of its historical cost previously recognised as expense or income. (b) fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. In situations in which fair value measurement is permitted or required, the guidance in paragraphs 11.27–11.32 shall be applied.	[Measurement bases covered in G2.64 to G2.69]

	Historical cost
	G2.64 Historical cost measures provide monetary information about assets, liabilities and related income and expenses, using information derived, at least in part, from the price of the transaction or other event that gave rise to them.
	G2.65 For assets, historical cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the asset at the time of its acquisition. For liabilities, historical cost is the amount of proceeds of cash or cash equivalents received or the fair value of non-cash assets received in exchange for the obligation at the time the obligation is incurred, or in some circumstances ~~(for example, income tax)~~ the amounts of cash or cash equivalents expected to be paid to settle the liability in the normal course of business. Amortised historical cost is the historical cost of an asset or liability plus or minus that portion of its historical cost previously recognised as expense or income.
	Fair value
	G2.66 Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.
	G2.67 Fair value reflects the perspective of market participants—participants in a market to which the NPO has access. The asset or liability is measured using the same assumptions that market participants would use when pricing the asset or liability if those market participants act in their economic best interest. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques, for example, cash-flow-based measurement techniques.
	Value in use
	G2.68 <u>Value in use is the present value to the NPO of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the NPO will receive from its disposal at the end of its useful life.</u>
	G2.69 <u>Value in use is an NPO-specific value that reflects the amount that can be derived from an asset through its operation and its disposal at the end of its useful life.</u> For non-cash generating assets it is often calculated by determining the cost required for the NPO to replace the service potential of an asset (including the amount that the NPO will receive from its disposal at the end of its useful life) at the measurement date.

Pervasive recognition and measurement principles	Pervasive recognition and measurement principles
2.35 The requirements for recognising and measuring assets, liabilities, income and expenses in this Standard are based on pervasive principles that are derived from full IFRS . In the absence of a requirement in this Standard that applies specifically to a transaction or other event or condition, paragraph 10.4 provides guidance for making a judgement and paragraph 10.5 establishes a hierarchy for an entity to follow in deciding on the appropriate accounting policy in the circumstances. The second level of that hierarchy requires an entity to look to the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles set out in this section.	G2.70 The requirements for recognising and measuring assets, liabilities, net assets income and expenses in this ~~Standard~~ Guidance are based on pervasive principles that are derived from full IFRS adapted as appropriate for the NPO context . In the absence of a requirement in this ~~Standard~~ Guidance that applies specifically to a transaction or other event or condition, paragraph 10.4 provides guidance for making a judgement and paragraph 10.5 establishes a hierarchy for an ~~entity~~ NPO to follow in deciding on the appropriate accounting policy in the circumstances. The second level of that hierarchy requires an ~~entity~~ NPO to look to the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles set out in this section.
Accrual basis	Accrual basis
2.36 An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting . On the accrual basis, items are recognised as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.	G2.71 An ~~entity~~ NPO shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. On the accrual basis, items are recognised as assets, liabilities, net assets , income or expenses when they satisfy the definitions and recognition criteria for those items.
Recognition in financial statements	
Assets	
2.37 An entity shall recognise an asset in the statement of financial position when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. An asset is not recognised in the statement of financial position when expenditure has been incurred for which it is considered not probable that economic benefits will flow to the entity beyond the current reporting period. Instead such a transaction results in the recognition of an expense in the statement of comprehensive income (or in the income statement, if presented).	[additional detail on recognition covered in application guidance]
2.38 An entity shall not recognise a contingent asset as an asset. However, when the flow of future economic benefits to the entity is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.	[additional detail on recognition covered in application guidance]
Liabilities	
2.39 An entity shall recognise a liability in the statement of financial position when:	[covered in G2.43 - additional detail on recognition covered in application guidance and elsewhere]

(a) the entity has an obligation at the end of the reporting period as a result of a past event; (b) it is probable that the entity will be required to transfer resources embodying economic benefits in settlement; and (c) the settlement amount can be measured reliably.	
2.40 A contingent liability is either a possible but uncertain obligation or a present obligation that is not recognised because it fails to meet one or both of the conditions (b) and (c) in paragraph 2.39. An entity shall not recognise a contingent liability as a liability, except for contingent liabilities of an acquiree in a business combination (see Section 19 <i>Business Combinations and Goodwill</i>).	[additional detail on recognition covered in application guidance]
Income	
2.41 The recognition of income results directly from the recognition and measurement of assets and liabilities. An entity shall recognise income in the statement of comprehensive income (or in the income statement, if presented) when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably.	[additional detail on recognition covered in application guidance and elsewhere]
Expenses	
2.42 The recognition of expenses results directly from the recognition and measurement of assets and liabilities. An entity shall recognise expenses in the statement of comprehensive income (or in the income statement, if presented) when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.	[additional detail on recognition covered in application guidance and elsewhere]
Total comprehensive income and profit or loss	
2.43 Total comprehensive income is the arithmetical difference between income and expenses. It is not a separate element of financial statements and a separate recognition principle is not needed for it.	[covered in application guidance]
2.44 Profit or loss is the arithmetical difference between income and expenses other than those items of income and expense that this Standard classifies as items of other comprehensive income. It is not a separate element of financial statements and a separate recognition principle is not needed for it.	[covered in application guidance]
2.45 This Standard does not allow the recognition of items in the statement of financial position that do not meet the definition of assets or of liabilities regardless of whether they result from applying the	[covered in application guidance]

notion commonly referred to as the 'matching concept' for measuring profit or loss.	
Measurement at initial recognition	
2.46 At initial recognition, an entity shall measure assets and liabilities at historical cost unless this Standard requires initial measurement on another basis such as fair value.	[additional detail on measurement covered in application guidance and relevant Sections]
Subsequent measurement	
Financial assets and liabilities	
2.47 An entity measures basic financial assets and basic financial liabilities , as defined in Section 11 <i>Basic Financial Instruments</i> , at amortised cost less impairment except for investments in non-convertible preference shares and non-puttable ordinary or preference shares that are publicly traded or whose fair value can otherwise be measured reliably without undue cost or effort, which are measured at fair value with changes in fair value recognised in profit or loss.	[additional detail on measurement covered in application guidance and relevant Sections]
2.48 An entity generally measures all other financial assets and financial liabilities at fair value, with changes in fair value recognised in profit or loss, unless this Standard requires or permits measurement on another basis such as cost or amortised cost.	[additional detail on measurement covered in application guidance and relevant Sections ss]
Non-financial assets	
2.49 Most non-financial assets that an entity initially recognised at historical cost are subsequently measured on other measurement bases. For example: (a) an entity measures property, plant and equipment either at the lower of cost less any accumulated depreciation and impairment and the recoverable amount (cost model) or the lower of the revalued amount and the recoverable amount (revaluation model); (b) an entity measures inventories at the lower of cost and selling price less costs to complete and sell; and (c) an entity recognises an impairment loss relating to non-financial assets that are in use or held for sale. Measurement of assets at those lower amounts is intended to ensure that an asset is not measured at an amount greater than the entity expects to recover from the sale or use of that asset.	[additional detail on measurement covered in application guidance and relevant Sections]
2.50 For the following types of non-financial assets, this Standard permits or requires measurement at fair value:	[additional detail on measurement covered in application guidance and relevant Sections]

(a) investments in associates and joint ventures that an entity measures at fair value (see paragraphs 14.10 and 15.15 respectively); (b) investment property that an entity measures at fair value (see paragraph 16.7); (c) agricultural assets (biological assets and agricultural produce at the point of harvest) that an entity measures at fair value less estimated costs to sell (see paragraph 34.2); and (d) property, plant and equipment that an entity measures in accordance with the revaluation model (see paragraph 17.15B).	
Liabilities other than financial liabilities	
2.51 Most liabilities other than financial liabilities are measured at the best estimate of the amount that would be required to settle the obligation at the reporting date.	[additional detail on measurement covered in application guidance and relevant Sections]
Offsetting	Offsetting
2.52 An entity shall not offset assets and liabilities, or income and expenses, unless required or permitted by this Standard: (a) measuring assets net of valuation allowances is not offsetting. For example, allowances for inventory obsolescence and allowances for uncollectable receivables. (b) if an entity's normal operating activities do not include buying and selling non-current assets, including investments and operating assets, then the entity reports gains and losses on disposal of such assets by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses.	G2.72 An ~~entity~~ NPO shall not offset assets and liabilities, or income and expenses unless required or permitted by this ~~Standard~~ Guidance: (c) measuring assets net of valuation allowances is not offsetting. For example, allowances for inventory obsolescence and allowances for uncollectable receivables. (d) if an ~~entity's~~ NPO's normal operating activities do not include buying and selling non-current assets, including investments and operating assets, then the NPO reports gains and losses on disposal of such assets by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses.
	Presentation in GPFRs
	G2.73 <u>Presentation aims to provide information that contributes towards the objectives of financial reporting and achieves the qualitative characteristics of information while taking into account the constraints on information included in GPFRs. Decisions on selection, location and organization of information are made in response to the needs of users for information about economic or other phenomena.</u>
	G2.74 Users' information needs should underpin information selection for the financial statements. Those needs include information about the financial

	position, financial performance and cash flows of an NPO.
	G2.75 The location of information in the GPFR should assist the understanding of users. It has an impact on the achievement of the objectives of financial reporting and the qualitative characteristics. Location may affect the way that users interpret information and the comparability of information.
	G2.76 Information should be organized to assist users as organisation can affect its interpretation by users. Information organization involves a range of decisions including decisions on the use of cross-referencing, tables, graphs, headings, numbering, and the arrangement of items within a particular component of a report, including decisions on item order.

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