

Annex D

Section 5 – *Statement of income and expenses*

Scope of this section

G5.1 This section requires an NPO to present its income and expenses for a period—ie its financial performance or activities for the period—in one or two financial statements. It sets out the information that is to be presented in this statement and how to present it.

Presentation of income and expenses

G5.2 An NPO shall present its income and expenses for a period either: in a single statement of comprehensive income, in which case the statement of comprehensive income presents all items of income and expense recognised in the period; or in two statements—an a statement of income and expenses and a statement of comprehensive income—in which case where the statement of income and expenses presents all items of income and expense recognised in the period except those that are recognised in the statement of changes in net assets outside of profit or loss as permitted or required by this Guidance.

G5.3 Income and expenses in respect of restricted funds shall be presented in a separate column to income and expenses in respect of unrestricted funds.

G5.4 The effects of corrections of errors and changes in accounting policies are presented as retrospective adjustments of prior periods instead of as part of surplus or deficit in the period in which they arise (see Section 10).

G5.5 An NPO shall present its unrealised gains or losses from fair value adjustments as part of the surplus or deficit, except where these gains or losses are recognised in the Statement of changes in net assets (see paragraph G5.5). These should not be included in the operating surplus or deficit. Disclosure should be made of unrealised gains and losses from fair value adjustment to:

- a. investment properties (where accounting policy is to use fair value);
- b. some financial instruments (fair value through surplus or deficit);
- c. some defined benefit pensions (where accounting policy is to recognise actuarial adjustments through surplus or deficit).

G5.6 Four types of gains or losses are recognised as part of statement of changes in net assets, outside of surplus or deficit, when they arise prescribed by this Guidance:

- a. some gains and losses arising on translating the financial statements of a foreign operation (see Section 30 *Foreign Currency Translation*);
- b. some actuarial gains and losses (see Section 28 *Employee Benefits*);
- c. some changes in fair values of hedging instruments (see Section 12 *Other Financial Instrument Issues*); and

- d. changes in the revaluation surplus for **property, plant and equipment** measured in accordance with the revaluation model (see Section 17 *Property, Plant and Equipment*).

G5.7 As a minimum, an **NPO** shall include, in the statement of **income and expenses**, line items that present the following amounts for the period:

- a. **revenue**.
- b. finance costs.
- c. share of the **surplus or deficit** of investments in **associates** (see Section 14 *Investments in Associates*) and **jointly controlled entities** (see Section 15 *Investments in Joint Ventures*) accounted for using the equity method.
- d. **tax expense** excluding tax allocated to items (e), (g) and (h) (see paragraph 29.35).
- e. a single amount comprising the total of:
 - i. the post-tax **surplus or deficit** of a **discontinued operation**; and
 - ii. the post-tax gain or loss attributable to an **impairment**, or reversal of an impairment, of the **assets** in the discontinued operation (see Section 27 *Impairment of Assets*), both at the time and subsequent to being classified as a discontinued operation and to the disposal of the net assets constituting the discontinued operation.
- f. **surplus or deficit from operating activities** (~~if an entity has no items of other comprehensive income, this line need not be presented~~).
- ~~g.~~ each **gain or loss** (see paragraph 5.4(b)) classified by nature (excluding amounts in (h)). ~~Such items shall be grouped into those that, in accordance with this Guidance:-~~
 - ~~i. will not be reclassified subsequently to profit or loss—ie those in paragraph 5.4(b)(i)–(ii) and (iv); and~~
 - ~~ii. will be reclassified subsequently to profit or loss when specific conditions are met—ie those in paragraph 5.4(b)(iii).~~
- h. share of the **gains or losses** of associates and jointly controlled entities accounted for by the equity method.
- i. total **surplus or deficit** (~~if an entity has no items of other comprehensive income, it may use another term for this line such as profit or loss~~).

G5.8 An **NPO** shall disclose separately the following items in the statement of **income and expenses** as allocations for the period:

- a. **surplus or loss** for the period attributable to
 - (i) **non-controlling interest**; and
 - (ii) **the beneficiaries or providers of contributed capital**.
- ~~b. total comprehensive income for the period attributable to~~
 - ~~(i) non-controlling interest; and~~
 - ~~(ii) owners of the parent.~~

G5.9 An **NPO** shall present additional line items, headings and subtotals in the statement of **income and expenses** (~~and in the income statement, if presented~~), when such presentation is relevant to an understanding of the **NPO's** financial performance.

G5.10 An NPO shall not present or describe any items of income and expense as 'extraordinary items' in the statement of income and expenses ~~(or in the income statement, if presented)~~ or in the notes.

Analysis of expenses

G5.11 An NPO shall present an analysis of expenses ~~using a classification based on either the nature of expenses or the function of expenses within the entity, whichever~~ that provides information that is reliable and ~~more~~ relevant. *[Section x will contain further guidance on the classification of expenses that will be published in ED3]*

Application Guidance – Section 5 - *Statement of income and expenses*

AG5.1 The Guidance provides some flexibility over the presentation of the Statement of income and expenses subject to meeting the minimum requirements in this section. NPO's may present their income before their expenses before arriving at the operating surplus or deficit. Alternatively expenses can be presented first with income showing how expenses have been funded. An NPO shall choose a format that best explains to users of the financial statements the activities, transactions, and events of the NPO.

Information to be presented in the statement of income and expenses

AG5.2 The effects of an NPO's various activities, transactions, and other events differ in terms of its ability to meet its service delivery obligations. Disclosing the components of income and expenses assists in an understanding of the financial activities delivered and in making projections of future results.

AG5.3 Additional line items are included on the face of the statement of income and expenses, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of activity. Factors to be considered include:

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

AG5.4 Paragraph G5.3 requires that income and expenses in respect of restricted funds shall be presented in a separate column to the income and expenses in respect of unrestricted funds. In determining what are restricted funds regard should be given to the definition of restricted funds in Section 2 paragraph 2.x and to the requirements of other parts of this Guidance.

AG5.5 All income that meets the definition of restricted in AG5.3 shall be shown in the restricted funds column. The expenses that relate to the activities being funded by restricted income are to be separately identified and included in the restricted funds column.

AG5.6 The restricted funds column is an aggregate of all restricted income and expenses. An NPO should disaggregate the restricted funds column into the individual funds or a sub grouping of funds or programmes in the notes to the accounts, where this provides information that is useful to the users of the financial statements.

AG5.7 Income and expense items shall not be offset unless specifically required by this Guidance. This is generally limited to where expenses are incidental to the revenue. For example the proceed from the disposal of non-current assets may be shown

after deducting the carrying value of the asset and the selling costs from the proceeds of the sale.

AG5.8 Expenses are subclassified to highlight the costs and cost recoveries of particular programs, activities, or other relevant segments of an NPO. NPOs are required to present analysis of expenses on the face of the statement of income and expenses. *Section x will contain further guidance on the classification of expenses that will be published in ED3.*

Additional disclosures

AG5.9 The Guidance does not permit any items to be described as extraordinary. There may, however, be circumstances when disclosing additional line items will be beneficial to user's understanding of the financial statements. Where material by nature or by amount, the circumstances that would give rise to the separate disclosure of items of income and expense include:

- a. Write-downs of inventories to net realisable value, or of property, plant, and equipment to recoverable amount or recoverable service amount as appropriate, as well as reversals of such write-downs;
- b. Restructurings of the activities of an NPO and reversals of any provisions for the costs of restructuring;
- c. Disposals of items of property, plant, and equipment;
- d. Disposals of investments;
- e. Discontinuing operations;
- f. Litigation settlements; and
- g. Other reversals of provisions.

Basis for conclusions - Section 5 - *Statement of income and expenses*

- BC5.1 This Basis for Conclusions summarises the considerations made during the development of Section 5 – *Statement of income and expenses* for the Exposure Draft.
- BC5.2 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.
- BC5.3 This Basis for Conclusions will be updated following the finalisation of Section 5 – *Statement of income and expenses* after the Exposure Draft stage.

Statement name

- BC5.4 The financial statements have been included as a priority topic for phase 1 of the Guidance. The Consultation Paper covered a number of aspects of financial statement presentation including the term that should be used for the primary statement that covers the in year activities, transactions and events of an NPO. The Consultation Paper proposed the use of the term ‘Statement of Financial Performance’ for the statement that contains the NPO’s revenues and expenses.
- BC5.5 Around two thirds of respondents on this question supported the use of the term ‘Statement of Financial performance’. However, there were a number of disagreements. The main reason given by those that did not support the use of the term was that NPOs’ performance is not judged on whether they make surpluses or deficits, but whether they meet their aims and objectives (social performance).
- BC5.6 Respondents were concerned that using the term ‘financial performance’ could imply that this is the main measure of NPOs’ performance, which is not the case. The INPAG Secretariat consider alternative terms proposed by respondents. The most commonly suggested alternative terms were ‘income and expenses statement’ and ‘statement of financial activities’ as these terms were considered to be better understood by NPOs’ stakeholders.
- BC5.7 Alternatives were discussed with the project advisory groups and it was agreed that Statement of income and expenses was best understood by stakeholders and had the benefit of simplicity.
- BC5.8 Nevertheless, NPOs will have the flexibility to use a different term in their financial statements if an alternative would best explain the financial statement or to comply with local regulations.

Key financial information

Surplus and deficit

BC5.9 The INPAG Secretariat received a substantial amount of feedback that profit or loss was not an appropriate term for non-profit organisations. In discussion with stakeholders and advisory groups the term surplus or deficit was considered to be more appropriate. As a consequence this terms has been adopted in the financial statements. This removes the implication that there is any profit or loss and is more focused on the mathematical difference between income and expenses.

Classification of expenses

BC5.10 The presentation of expense information is included in Section 5 of the *IFRS for SMEs* Standard. This topic was identified as a priority issue for NPOs and was topic 8 in the Consultation Paper. This topic will be considered as part of Exposure Draft 3 (ED3). As a consequence the text from the *IFRS for SMEs* Standard has not been updated, with the requirement to produce an analysis of expenses retained but not described. This text will be updated at part of ED3, and a new INPAG Section will be created to provide more guidance on expense analysis and disclosure.

Statement format

BC5.11 The Consultation Paper sought views on how financial statements should be presented to help the user's understanding of an NPO's activities. This included feedback on the disclosure of material categories of income and expenses and/or transactions. The Consultation Paper also asked about the presentation of restricted and unrestricted funds.

Restricted and unrestricted income and expenses

BC5.12 The majority of the feedback received related to the use of fund accounting, which has implications for the presentation of restricted and unrestricted funds rather than on the disclosure of material categories of income and expenses.

BC5.13 The majority of respondents to the Consultation Paper supported the separate presentation or disclosure of restricted and unrestricted funds. Respondents felt that this was an important aspect of accountability and meeting users' needs. As a consequence it is proposed that the Statement of income and expenses shows separately, through two columns, income and expenses that each relate to restricted and unrestricted activities.

BC5.14 There was some discussion in responses to the Consultation about the need for comparatives and concerns about the complexity of the financial statements if comparatives are mandated alongside fund accounting requirements. This was considered by the project advisory groups, and whilst acknowledging the potential

for complexity, the advice was that comparative information is important for users to understand the financial statements. As a consequence the INPAG Secretariat is proposing that restricted and unrestricted income and expenses and their comparatives are required at an aggregate level only.

BC5.15 Further work will be undertaken as part of the development of the guidance on non-exchange transactions and grant expenses on the accounting for income and expenses that might be restricted. This will be available in ED2.

Single statement

BC5.16 In developing the Statement of income and expenses the INPAG Secretariat considered feedback from various stakeholder groups, including academic reports about how financial statements are used and their understandability.

BC5.17 There was a common theme that many users find financial statements complex and don't understand the information outside of the operating result. In considering these issues the INPAG Secretariat are proposing that the Statement of income and expenses reports predominantly on the activities in the year and focuses less on the impact of revaluations of items held in the balance sheet. This will mean that essentially only income and expenses and the effects of realised gains and losses (such as from the sale of an asset) are the focus of the Statement of income and expenses.

BC5.18 As not all Sections of the *IFRS for SMEs* Standard are being reviewed as part of this initial set of guidance, some Sections may require that some additional gains or losses are shown in the Statement of income and expense. This predominantly relates to losses or gains from adjustments to fair value. These will be shown in a separate section in the financial statement.

BC5.19 As a consequence the INPAG Secretariat is proposing that all items not prescribed by other Sections of INPAG can only be presented in a Statement of changes in net assets. This statement will provide subtotal that will provide equivalent information to the statement of comprehensive income, which include other comprehensive income. This is a departure from the *IFRS for SMEs* Standard which provides a choice of whether other comprehensive income is in a single statement that includes all types of income and expense.

BC5.20 As a consequence of these changes the Statement of income and expenses will show an Operating surplus or deficit, gains or loss through fair value adjustments (if any) and then a Total surplus or deficit.

Section 5 – *Statement of income and expenses*

IFRS for SMEs to INPAG Mapping

IFRS for SMEs	INPAG
Scope of this section	Scope of this section
5.1 This section requires an entity to present its total comprehensive income for a period—ie its financial performance for the period—in one or two financial statements . It sets out the information that is to be presented in those statements and how to present it.	G5.1 This section requires an NPO to present its income and expenses for a period—ie its financial performance or activities for the period— ~~in one or two financial statements~~ . It sets out the information that is to be presented in this statement and how to present it.
Presentation of total comprehensive income	Presentation of income and expenses
5.2 An entity shall present its total comprehensive income for a period either: a. in a single statement of comprehensive income, in which case the statement of comprehensive income presents all items of income and expense recognised in the period; or b. in two statements—an income statement and a statement of comprehensive income—in which case the income statement presents all items of income and expense recognised in the period except those that are recognised in total comprehensive income outside of profit or loss as permitted or required by this Standard.	G5.2 An NPO shall present its income and expenses for a period ~~either: in a single statement of comprehensive income, in which case the statement of comprehensive income presents all items of income and expense recognised in the period; or~~ a. ~~in two statements—an a~~ statement of income and expenses ~~and a statement of comprehensive income—in which case where~~ the statement of income and expenses presents all items of income and expense recognised in the period except those that are recognised in statement of changes in net assets outside of profit or loss as permitted or required by this Guidance.
	G5.3 Income and expenses in respect of restricted funds shall be presented in a separate column to income and expenses in respect of unrestricted funds.
5.3 A change from the single-statement approach to the two-statement approach, or vice versa, is a change in accounting policy to which Section 10 <i>Accounting Policies, Estimates and Errors</i> applies.	~~A change from the single-statement approach to the two-statement approach, or vice versa, is a change in accounting policy to which Section 10 <i>Accounting Policies, Estimates and Errors</i> applies.~~

Single-statement approach	Single-statement approach-
5.4 Under the single-statement approach, the statement of comprehensive income shall include all items of income and expense recognised in a period unless this Standard requires otherwise. This Standard provides different treatment for the following circumstances: - the effects of corrections of errors and changes in accounting policies are presented as retrospective adjustments of prior periods instead of as part of profit or loss in the period in which they arise (see Section 10); and - four types of other comprehensive income are recognised as part of total comprehensive income, outside of profit or loss, when they arise: - some gains and losses arising on translating the financial statements of a foreign operation (see Section 30 <i>Foreign Currency Translation</i>); - some actuarial gains and losses (see Section 28 <i>Employee Benefits</i>); - some changes in fair values of hedging instruments (see Section 12 <i>Other Financial Instrument Issues</i>); and - changes in the revaluation surplus for property, plant and equipment measured in accordance with the revaluation model (see Section 17 <i>Property, Plant and Equipment</i>).	~~5.5 Under the single-statement approach, the statement of comprehensive income shall include all items of income and expense recognised in a period unless this Standard requires otherwise. This Standard provides different treatment for the following circumstances:~~ G5.4 The effects of corrections of errors and changes in accounting policies are presented as retrospective adjustments of prior periods instead of as part of surplus or deficit in the period in which they arise (see Section 10).; ~~and~~
	G5.5 An NPO shall present its unrealised gains or losses from fair value adjustments as part of the surplus or deficit. These should not be included in the operating surplus or deficit. Disclosure should be made of unrealised gains and losses from fair value adjustment to:

	d. investment properties (where accounting policy is to use fair value); e. some financial instruments (fair value through surplus or deficit); f. some defined benefit pensions (where accounting policy is to recognise actuarial adjustments through surplus or deficit).
	~~5.6~~ G5.6 Four types of gains or losses are recognised as part of statement of changes in net assets, outside of surplus or deficit, when ~~they arise~~ prescribed by this Guidance: a. some gains and losses arising on translating the financial statements of a foreign operation (see Section 30 <i>Foreign Currency Translation</i>); b. some actuarial gains and losses (see Section 28 <i>Employee Benefits</i>); c. some changes in fair values of hedging instruments (see Section 12 <i>Other Financial Instrument Issues</i>); and d. changes in the revaluation surplus for property, plant and equipment measured in accordance with the revaluation model (see Section 17 <i>Property, Plant and Equipment</i>).
5.5 As a minimum, an entity shall include, in the statement of comprehensive income, line items that present the following amounts for the period: a. revenue. b. finance costs. c. share of the profit or loss of investments in associates (see Section 14 <i>Investments in Associates</i>) and jointly controlled entities (see Section 15 <i>Investments in Joint Ventures</i>) accounted for using the equity method. d. tax expense excluding tax allocated to items (e), (g) and (h) (see paragraph 29.35). e. a single amount comprising the total of:	G5.7 As a minimum, an NPO shall include, in the statement of income and expenses, line items that present the following amounts for the period: f. revenue. g. finance costs. h. share of the surplus or deficit of investments in associates (see Section 14 <i>Investments in Associates</i>) and jointly controlled entities (see Section 15 <i>Investments in Joint Ventures</i>) accounted for using the equity method. i. tax expense excluding tax allocated to items (e), (g) and (h) (see paragraph 29.35). j. a single amount comprising the total of:

iii. the post-tax profit or loss of a discontinued operation; and iv. the post-tax gain or loss attributable to an impairment, or reversal of an impairment, of the assets in the discontinued operation (see Section 27 <i>Impairment of Assets</i>), both at the time and subsequent to being classified as a discontinued operation and to the disposal of the net assets constituting the discontinued operation. f. profit or loss (if an entity has no items of other comprehensive income, this line need not be presented). g. each item of other comprehensive income (see paragraph 5.4(b)) classified by nature (excluding amounts in (h)). Such items shall be grouped into those that, in accordance with this Standard: i. will not be reclassified subsequently to profit or loss—ie those in paragraph 5.4(b)(i)–(ii) and (iv); and ii. will be reclassified subsequently to profit or loss when specific conditions are met—ie those in paragraph 5.4(b)(iii). h. share of the other comprehensive income of associates and jointly controlled entities accounted for by the equity method. i. total comprehensive income (if an entity has no items of other comprehensive income, it may use another term for this line such as profit or loss).	v. the post-tax surplus or deficit of a discontinued operation; and vi. the post-tax gain or loss attributable to an impairment, or reversal of an impairment, of the assets in the discontinued operation (see Section 27 <i>Impairment of Assets</i>), both at the time and subsequent to being classified as a discontinued operation and to the disposal of the net assets constituting the discontinued operation. h. surplus or deficit from operating activities ~~(if an entity has no items of other comprehensive income, this line need not be presented).~~ ~~i.~~ each gain or loss (see paragraph 5.4~~(b)~~) classified by nature (excluding amounts in (h)). ~~Such items shall be grouped into those that, in accordance with this Guidance:~~ ~~iii. will not be reclassified subsequently to profit or loss—ie those in paragraph 5.4(b)(i)–(ii) and (iv); and~~ ~~iv. will be reclassified subsequently to profit or loss when specific conditions are met—ie those in paragraph 5.4(b)(iii).~~ j. share of the gains or losses of associates and jointly controlled entities accounted for by the equity method. ~~k.~~ total surplus or deficit ~~(if an entity has no items of other comprehensive income, it may use another term for this line such as profit or loss).~~
5.6 An entity shall disclose separately the following items in the statement of comprehensive income as allocations for the period:	G5.8 An NPO shall disclose separately the following items in the statement of income and expenses as allocations for the period:

a. profit or loss for the period attributable to (i) non-controlling interest; and (ii) owners of the parent. c. total comprehensive income for the period attributable to (iii) non-controlling interest; and (iv) owners of the parent.	b. surplus or loss for the period attributable to (iii) non-controlling interest; and (iv) the beneficiaries or providers of contributed capital. ~~d. total comprehensive income for the period attributable to~~ ~~(v) non-controlling interest; and owners of the parent.~~
Two-statement approach	~~Two-statement approach~~
5.7 Under the two-statement approach, the income statement shall display, as a minimum, line items that present the amounts in paragraph 5.5(a)–5.5(f) for the period, with profit or loss as the last line. The statement of comprehensive income shall begin with profit or loss as its first line and shall display, as a minimum, line items that present the amounts in paragraph 5.5(g)–5.5(i) and paragraph 5.6 for the period.	~~Under the two-statement approach, the income statement shall display, as a minimum, line items that present the amounts in paragraph 5.5(a)–5.5(f) for the period, with profit or loss as the last line. The statement of comprehensive income shall begin with profit or loss as its first line and shall display, as a minimum, line items that present the amounts in paragraph 5.5(g)–5.5(i) and paragraph 5.6 for the period.~~
Requirements applicable to both approaches	~~Requirements applicable to both approaches~~
5.8 Under this Standard, the effects of corrections of errors and changes in accounting policies are presented as retrospective adjustments of prior periods instead of as part of profit or loss in the period in which they arise (see Section 10).	~~G5.7 Under this Standard, the effects of corrections of errors and changes in accounting policies are presented as retrospective adjustments of prior periods instead of as part of profit or loss in the period in which they arise (see Section 10).~~
5.9 An entity shall present additional line items, headings and subtotals in the statement of comprehensive income (and in the income statement, if presented), when such presentation is relevant to an understanding of the entity's financial performance.	G5.9 An NPO shall present additional line items, headings and subtotals in the statement of income and expenses ~~(and in the income statement, if presented)~~ , when such presentation is relevant to an understanding of the NPO's financial performance.
5.10 An entity shall not present or describe any items of income and expense as 'extraordinary items' in the statement of comprehensive income (or in the income statement, if presented) or in the notes.	G5.10 An NPO shall not present or describe any items of income and expense as 'extraordinary items' in the statement of income and expenses ~~(or in the income statement, if presented)~~ or in the notes.
Analysis of expenses	Analysis of expenses

5.11 An entity shall present an analysis of expenses using a classification based on either the nature of expenses or the function of expenses within the entity, whichever provides information that is reliable and more relevant.	G5.11 An NPO shall present an analysis of expenses ~~using a classification based on either the nature of expenses or the function of expenses within the entity, whichever~~ that provides information that is reliable and ~~more~~ relevant. <i>[Section x will contain further guidance on the classification of expenses that will be published in ED3]</i>
Analysis by nature of expense	~~Analysis by nature of expense-~~
a. Under this method of classification, expenses are aggregated in the statement of comprehensive income according to their nature (for example, depreciation , purchases of materials, transport costs, employee benefits and advertising costs) and are not reallocated among various functions within the entity.	~~Under this method of classification, expenses are aggregated in the statement of comprehensive income according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs) and are not reallocated among various functions within the entity.~~
Analysis by function of expense	~~Analysis by function of expense-~~
a. Under this method of classification, expenses are aggregated according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses.	~~Under this method of classification, expenses are aggregated according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses.~~