

Updates to INPAG Sections follow feedback from the Exposure Drafts

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Authoritative Guidance

Section 2 – Concepts and pervasive principles

EXTRACT FROM SECTION 2 AS REPORTED TO TAG SEPTEMBER 2024

Net assets

- G2.78 Net assets are the residual of recognised assets minus recognised liabilities. Net assets will include specific categories of items whose use may be either with restrictions or without restrictions as per paragraph G2.85.
- G2.79 Some of the net assets of an NPO may not be available to it to achieve its objectives of providing a benefit to the public but instead are a financial interest that is due to the holders of equity claims. Equity claims are the financial interest in the net assets of an NPO that is due to holders of those claims. Where the holders of equity claims have established a financial interest in some of the net assets of the NPO (see paragraphs G2.80–G2.84), the equity claims shall be recognised as a subset of net assets.

Equity Claims in an NPO Context

- G2.80 Equity claims in the NPO context are expected to be rare. An NPO's net assets are anticipated to be used to achieve its objectives, not for distribution. Where equity claims do exist, they are unlikely to be material by magnitude but may be material by nature.
- G2.81 Where equity claims do exist, they provide a financial interest in the net assets of the NPO through an entitlement to:
- a) distributions of future economic benefits or service potential by the NPO during its life, such distributions being at the discretion of the NPO; and
 - b) distributions of any excess assets over liabilities in the event of the NPO's dissolution where this excess has not otherwise been distributed to another NPO or entity with a similar purpose.
- In some cases, this financial interest may be sold, exchanged, transferred or redeemed. Such a financial interest is similar but not the same as the concept of ownership in the IFRS for SMEs Accounting Standard, where investors in equity instruments that provide entitlement to the residual interest in the assets of an entity after deducting all of its liabilities are deemed to be owners.
- G2.82 Investments from holders of equity claims are an inflow of resources to the NPO, contributed by parties external to the NPO as a consequence of equity claims arrangements, that establish or increase a financial interest in the net assets of the NPO. Examples would include the purchase by external parties of share capital issued by the NPO or funds contributed by members that entitle them to a share of net assets.
- G2.83 The provision of funding by an external party that provides governance rights but does not establish a financial interest in the net assets of the NPO is not a contribution from holders of equity claims and does not lead to the recognition of equity claims. Also, if the amount contributed is required to be refunded in the future it will be recognised as a liability in accordance with Section 22.
- G2.84 Distributions to holders of equity claims are outflows of resources from the NPO, distributed to parties external to the NPO in accordance with equity claims arrangements, which return or reduce a financial interest in the net assets of the NPO. Examples would include the

repurchase from external parties of shares issued by the NPO or paying funds back to members so that they no longer had a further entitlement to a share of net assets.

Fund Accounting

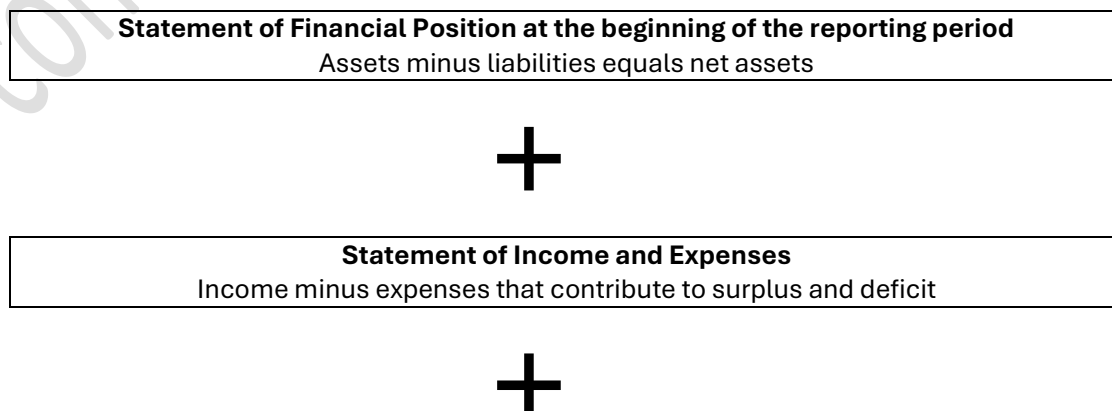
- G2.85 When assets and liabilities, and corresponding income and expenses, are recognised, they shall be accounted for in an appropriate fund. An NPO may have more than one fund for a variety of reasons. Where this is the case, each fund shall be categorised by an NPO as either being with restrictions or without restrictions. This allows an NPO to manage and present the elements by individual fund. Section 36 Fund accounting provides more detail on fund accounting.

Recognition and derecognition

The recognition process

- G2.89 Recognition is the process of capturing for inclusion in the Statement of Financial Position, the Statement of Income and Expenses or the Statement of Changes in Net Assets an item that meets the definition of one of the elements of financial statements – an asset, a liability, net assets, 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 assets is recognised in the Statement of Financial Position is referred to as its **carrying amount**.
- G2.90 Recognition links the elements, the Statement of Financial Position, the Statement of Income and Expenses and the Statement of Changes in Net Assets as follows (see Figure 2.1 and Figure 2.2):
- in the Statement of Financial Position, at the beginning and end of the reporting period, total assets minus total liabilities is equal to net assets; and
 - recognised changes in net assets during the reporting period comprise:
 - income minus expenses that contribute to surplus and deficit and that are recognised in the Statement of Income and Expenses; plus
 - income minus expenses that do not contribute to surplus and deficit and that are recognised directly in the Statement of Changes in Net Assets; plus
 - contributions from holders of equity claims minus distributions to holders of equity claims.

Figure 2.1: How recognition links the elements of financial statements



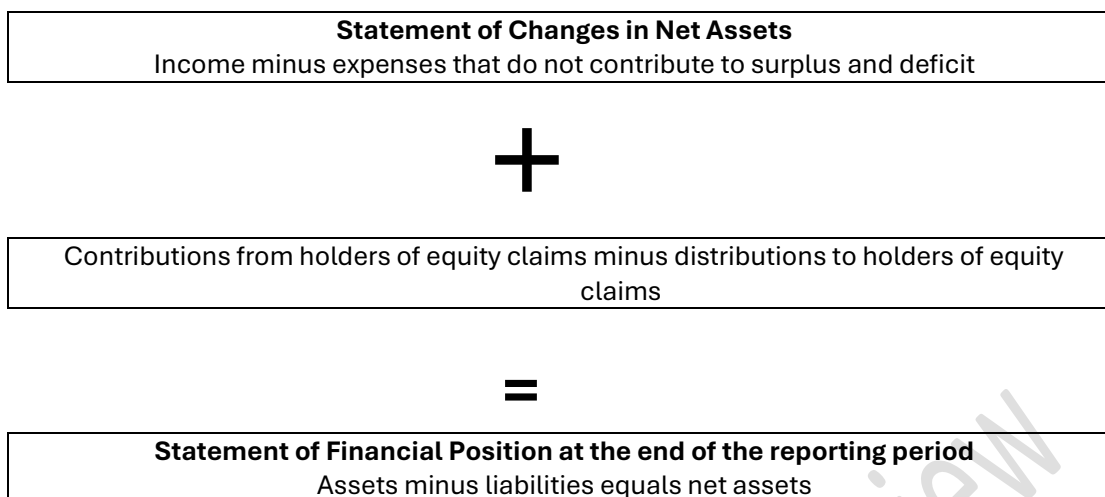


Figure 2.2: How recognition impacts components of net assets

Net assets at the beginning of the reporting period	In reporting period recognition			Net assets at the end of the reporting period
Funds without restrictions	Plus income without restrictions	Minus expenses without restrictions	Plus/minus reclassifications between funds without restrictions and funds with restrictions	Funds without restrictions
Funds with restrictions	Plus income with restrictions	Minus expenses with restrictions	Plus/minus reclassifications between funds without restrictions and funds with restrictions	Funds with restrictions
Equity claims (where they exist)	Plus contributions from holders of equity claims	Minus distributions to holders of equity claims		Equity claims

Recognition criteria

- G2.91 Only items that meet the definition of an asset, a liability or net assets are recognised in the Statement of Financial Position. Items that meet the definition of income or expenses are recognised in the Statement of Income and Expenses or in the Statement of Changes in Net Assets, depending on whether they contribute to surplus and deficit or not. However, not all items that meet the definition of one of those elements are recognised (see also paragraph 2.93 below).
- G2.92 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.

Relevance

- G2.93 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, it is uncertain whether an asset or liability exists, or an asset or liability exists but the probability of an inflow or outflow of economic benefits is low. The presence of one or both factors does not automatically lead to a conclusion that the information provided by recognition lacks relevance, as other factors may need to be taken into account.

...

Measurement of net assets

- G2.138 Net assets equal the total of the carrying amounts of all recognised assets less the total of the carrying amounts of all recognised liabilities.
- G2.139 In the rare circumstances where an NPO has equity claims, it may be appropriate to directly measure the carrying amount of some individual classes and/or components of net assets.

Presentation and disclosure

Presentation and disclosure as communication tools

- G2.140 A reporting NPO communicates information about its assets, liabilities, net assets and funds with and without restrictions in net assets, income and expenses by presenting and disclosing information in its financial reports.
- G2.141 Effective communication of information in financial reports makes that information more relevant and contributes to a faithful representation of an [entity's NPO's](#) assets, liabilities, net assets and funds with and without restrictions in net assets, income and expenses. It also enhances the understandability and comparability of information in financial reports.
- G2.142 Decisions on selection, location and organisation of information are made in response to the information needs of users. User information needs should underpin:
- a) information selection for the financial reports, in particular information about the financial position, income and expenses and cash flows of an NPO;
 - b) the location of information in the financial reports, which may affect the way that users interpret information; and
 - c) organisation of information, 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.
- G2.143 Just as cost constrains other financial reporting decisions, it also constrains decisions about presentation and disclosure. Hence, in making decisions about presentation and disclosure, it is important to consider whether the benefits provided to users of financial reports by presenting or disclosing particular information are likely to justify the costs of providing and using that information.

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Classification of components net assets

- G2.151 To provide useful information, it may be necessary, where relevant to an NPO, to classify components of net assets separately if those components have different characteristics or are subject to particular legal, regulatory or other requirements.
- G2.152 Similarly, to provide useful information, where an NPO manages net assets in separate funds, classifying net assets between funds with restrictions and funds without restrictions and providing an explanation of the nature and purpose of the funds and any restrictions will provide useful information.

Aggregation

- G2.153 Aggregation is the adding together of assets, liabilities, net assets (and funds with restrictions and funds without restrictions within net assets), income or expenses that have shared characteristics and are included in the same classification.
- G2.154 Aggregation makes information more useful by summarising a large volume of detail. However, aggregation conceals some of that detail. Hence, a balance needs to be found so that relevant information is not obscured either by a large amount of insignificant detail or by excessive aggregation.

Section 12 – Fair value measurement

Scope of this section

- G12.1 This section applies when another section requires or permits **fair value** measurements or disclosures about fair value measurements, except leasing transactions within the scope of Section 20 *Leases*.
- G12.2 The disclosures required by this section are not required for:
- a) **plan assets** measured at fair value in accordance with Section 28 *Employee benefits*; and
 - b) **assets** for which the **recoverable amount** is fair value less costs of disposal in accordance with Section 27 *Impairment of assets*.

Measurement

- G12.3 The objective of a fair value measurement is to estimate the price at which an **orderly transaction** (not a forced transaction) to sell an asset or to transfer a liability would take place between **market participants** at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).
- G12.4 Fair value is a market-based measurement, not an entity-specific measurement. Therefore, it is measured using the assumptions that market participants would use when pricing the asset or liability. An NPO's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.
- G12.5 When measuring fair value an NPO shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:
- (a) the condition and location of the asset; and
 - (b) restrictions, if any, on the sale or use of the asset.
- G12.6 A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:
- (a) in the **principal market** for the asset or liability; or
 - (b) in the absence of a principal market, in the **most advantageous** market for the asset or liability.

The NPO must have access to the principal (or most advantageous) market at the measurement date.

- G12.7 In the absence of evidence to the contrary, the market in which an NPO would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.
- G12.8 The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for **transaction costs**. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction.
- G12.9 If location is a characteristic of the asset, the price in the principal (or most advantageous) market shall be adjusted for transport costs.

Highest and best use of non-financial assets

- G12.10 A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefit or **service potential** by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
- G12.11 The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:
- (a) a use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (for example, the location or size of a property).
 - (b) a use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (for example, the zoning regulations applicable to a property).
 - (c) a use that is financially feasible takes into account whether a use generates adequate income or cash flows that market participants would require from an investment in that asset put to that use.
- G12.12 An NPO's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.
- G12.13 If the highest and best use of a non-financial asset provides maximum value to market participants through its use in combination with other assets (and liabilities) as a group, the fair value of the asset would assume that the asset would be used with those other assets (and liabilities) and that those complementary assets (and liabilities) would be available to market participants. Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets and liabilities within which the asset would be used.

Valuation techniques

- G12.14 When a price for an identical asset or liability is not observable, an NPO measures fair value using another valuation technique. The entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant **observable inputs** and minimising the use of **unobservable inputs**.
- G12.15 Three widely used valuation techniques are the market approach, the cost approach and the income approach. An NPO shall use valuation techniques consistent with one or more of these approaches to measure fair value:
- (a) the market approach uses prices and other relevant information generated by market transactions involving identical or comparable (that is, similar) assets, liabilities or a

group of assets and liabilities. For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables.

- (b) the cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
- (c) the income approach converts future amounts (for example, cash flows or income and expenses) to a single current (that is, discounted) amount. Those valuation techniques include, for example, the following:
 - (i) present value techniques;
 - (ii) option pricing models, such as the Black-Scholes-Merton formula or a binomial model (that is, a lattice model); and
 - (iii) the multi-period excess earnings method, which is used to measure the fair value of some **intangible assets**.

G12.16 Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate in accordance with Section 10. However, the disclosures in Section 10 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.

G12.17 If an asset or a liability measured at fair value has a bid price and an ask price (for example, an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorised within the fair value hierarchy (that is Level 1, 2 or 3; see paragraphs G12.22–G12.27). The use of bid prices for asset positions and ask prices for liability positions is permitted but is not required.

Reliable measure of fair value

G12.18 A valuation technique would be expected to arrive at a reliable measure of the fair value if:

- (a) it reasonably reflects how the market could be expected to price the asset; and
- (b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset.

G12.19 The fair value of investments in assets that do not have a quoted market price in an **active market** is reliably measurable if:

- (a) the variability in the range of reasonable fair value measures is not significant for that asset; or
- (b) the probabilities of the various measures within the range can be reasonably assessed and used in estimating fair value.

G12.20 There are many situations in which the variability in the range of reasonable fair value measures of assets that do not have a quoted market price is likely not to be significant. Normally it is possible to estimate the fair value of an asset that an NPO has acquired from an outside party. However, if the range of reasonable fair value measures is significant and the probabilities of the various measures cannot be reasonably assessed, the NPO is precluded from measuring the asset at fair value.

G12.21 If a reliable measure of fair value is no longer available for an asset measured at fair value (or is not available without undue cost or effort when such an exemption is provided (see paragraphs G11.17(c) and G11.65(b)), its **carrying amount** at the last date the asset was reliably measurable becomes its new cost. An NPO shall measure the asset at this cost amount less impairment until a reliable measure of fair value becomes available (or becomes available without undue cost or effort when such an exemption is provided).

Fair value hierarchy

G12.22 This section establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Level 1 inputs

G12.23 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and shall normally be used without adjustment to measure fair value whenever available.

G12.24 If an NPO holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity.

Level 2 inputs

G12.25 Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following:

- (a) quoted prices for similar assets or liabilities in active markets.
- (b) quoted prices for identical or similar assets or liabilities in markets that are not active.
- (c) inputs other than quoted prices that are observable for the asset or liability, for example:
 - (i) interest rates and yield curves observable at commonly quoted intervals;
 - (ii) implied volatilities; and
 - (iii) credit spreads.
- (d) market-corroborated inputs.

G12.26 An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorised within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

Level 3 inputs

G12.27 Level 3 inputs are unobservable inputs for the asset or liability. An NPO shall develop unobservable inputs using the best information available in the circumstances, which might include the NPO's own data. In developing unobservable inputs, an NPO may begin with its own data, but it shall adjust this data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (for example, an entity-specific synergy). An NPO need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an NPO shall take into account all information about market participant assumptions that is reasonably available.

Disclosures

G12.28 An NPO shall disclose for each **class of assets** and liabilities measured at fair value in the **Statement of Financial Position** after initial **recognition**:

- (a) the carrying amounts at the end of the **reporting period**;

- (b) the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3); and
- (c) a description of the valuation technique(s) it used for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, and the inputs used in the fair value measurement.

G12.29 For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, an NPO shall disclose:

- (a) total gains or losses for the period recognised in surplus or deficit, and the line items in surplus or deficit in which those gains or losses are recognised; and
- (b) total gains or losses for the period recognised in **Statement of Changes in Net Assets**, and the line items in Statement of Changes in Net Assets in which those gains or losses are recognised.

G12.30 An NPO shall determine appropriate classes of assets and liabilities on the basis of:

- (a) the nature, characteristics and risks of the asset or liability; and
- (b) the level of the fair value hierarchy within which the fair value measurement is categorised.

G12.31 A class of assets and liabilities will often require greater disaggregation than the line items presented in the Statement of Financial Position. However, an NPO shall provide sufficient information to permit reconciliation to the line items presented in the Statement of Financial Position.

G12.32 An NPO shall present the quantitative disclosures required by paragraphs G12.28–G12.31 in a table unless another format is more appropriate.

Application Guidance: Section 12 – Fair value measurement

Scope

AG12.1 Fair value determinations for NPOs are substantially similar to those of other entities. Some of the special considerations for NPOs are included in this Application Guidance.

Applying fair value to NPOs

AG12.2 [An NPO does not have to carry out an exhaustive search of all possible markets to identify the principal \(most advantageous market\), but it shall take into account all information that is reasonably available.](#)

AG12.3 [The most advantageous market may not be the one that generates the highest price, but is the market that an NPO is realistically able to access at the measurement date.](#)

AG12.4 For NPOs:

- (a) Level 1 'open market values' are likely to be limited to specific assets (see Illustrative Guidance example 3).
- (b) Level 2 values that are derived from observable prices may be relevant to NPOs for some assets and liabilities – for example, [investment properties, land and buildings](#). Where market values for an asset are available, yet the asset is used for social purposes rather than maximizing **cash inflows**, a Level 3 technique shall be employed (see Illustrative Guidance example 1).

- (c) ~~Many assets and liabilities will be part of~~ Level 3 in the fair value hierarchy will be used for assets where there are no observable inputs.

AG12.35 **Social use assets** may be more difficult to value as they may be unusual or heritage in nature, or simply because they do not generate cash flows. Social use assets held for their service potential may mean that fair value is tied to value to a community.

AG12.46 Heritage assets shall be valued using the principles in Section 17 *Property, plant and equipment*. The fair value of assets held for their service potential shall be determined using the cost approach, where there is no observable market. The cost approach calculates the value based on the current cost required to replace the service capacity of an asset.

Fair value of restricted use assets

AG12.57 Where a restriction is placed on how an asset can be used over time, the fair value of that asset shall be evaluated based on its current usage within those restrictions. This will be the highest and best use of that asset under those circumstances. An NPO shall not determine the highest and best use as if the restriction were lifted.

AG12.68 The fair value of an asset that is subject to a restriction shall take account of the service potential of that asset in determining its value. This should take account of the capacity needed to support the delivery of services to beneficiaries rather than, for example, the location or technical specification of the asset that is subject to a restriction.

Fair value of donated assets

AG12.79 ~~The a~~Application of fair value measurement on the initial recognition of a donated asset shall result in the be its deemed cost of that asset.

AG12.810~~Many~~ NPO assets and liabilities ~~will may~~ require the use of a Level 3 technique; that is either the market approach, cost approach or income approach, where observable inputs are not available. This will be particularly the case for assets arising from donations in-kind. Donated assets can be part of Level 1, 2 or 3 in the fair value hierarchy depending on the level of observable inputs and the impact of an asset being held for social purpose as set out in AG12.14 (c).

AG12.911Where an asset can be freely disposed of, it shall be measured at its highest and best use. ~~This;~~ which shall not take account of any previous ~~or existing~~ restriction. It shall also not take account of any current donor restriction that does not relate to the ongoing use of the asset.

AG12.10-12 If an observable market price is not available and obtaining a reliable measurement of fair value under paragraph AG12.6 is **impracticable**, the fair value of donated items shall be determined as their 'replacement cost'. Replacement cost is the lowest economical cost that would be incurred in achieving the service potential created for use in delivering services to beneficiaries. This provides the value of an equivalent item in local use, or '**value in use**'. An NPO may use the cost to the donor or the carrying amount of the assets provided by the donor (where the historic cost to the donor is not appropriate or known) as the deemed fair value where this is known and is relevant.

Fair value application in crisis situation

AG12.1113 There may be situations where an NPO is operating in a crisis situation and is not able to determine a fair value for the assets that it is receiving (eg inventory) because to do so would be impracticable. In this situation it may not be possible to reliably measure such donated items and the NPO shall not recognise them. A disclosure is required to describe the affected items.

Paragraphs AG13.8–AG13.9 set out these requirements and disclosures for donated inventory. The same principles also apply to other classes of assets.

Comparison of Section 12 with the *IFRS for SMEs Accounting Standard*

Section 12 of INPAG has been drawn from Section 12 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 12 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 12 of INPAG are as follows:

- The *IFRS for SMEs Accounting Standard* does not specifically consider when fair value is used to determine the deemed cost of a donated asset on initial recognition. Although the existing guidance can be applied to such assets, additional application guidance has been developed to assist NPOs with donated assets.
- The illustrative examples on this Section have been expanded to cover donated assets and all of the illustrative examples are included in the Implementation Guidance.
- References to share-based payments have been removed to align with other sections of INPAG.
- INPAG Section 12 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Section 16 – Investment property

Scope of this section

- G16.1 This section applies to accounting for investments in land or buildings that meet the definition of **investment property** in paragraph G16.2 and some property interests held by a lessee under an **operating lease** (see paragraph G16.4) that are treated like investment property. Only investment property whose **fair value** can be measured reliably without undue cost or effort on an ongoing basis is accounted for in accordance with this section at fair value through **surplus or deficit**. All other investment property is accounted for using the cost model in Section 17 *Property, plant and equipment* and remains within the scope of Section 17 unless a reliable measure of fair value becomes available and it is expected that fair value will be reliably measurable on an ongoing basis.

Definition and initial recognition of investment property

- G16.2 Investment property is property (land or a building, or part of a building, or both) held by the owner or by the lessee under a **finance lease** to earn rentals or for capital appreciation or both, instead of for:
- (a) use in the ordinary activities of the NPO, or for NPO's administrative purposes; or
 - (b) sale where this is in the ordinary course of NPO activity.
- G16.3 A property held by an NPO primarily for activities to deliver its missional objectives and which also generates **cash inflows**, for example social housing, shall not be classified as an investment property. Instead, it should be accounted for as property, plant, and equipment in accordance with Section 17.
- G16.4 A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property using this section if, and only if, the property would

otherwise meet the definition of an investment property and the lessee can measure the fair value of the property interest without undue cost or effort on an ongoing basis. This classification alternative is available on a property-by-property basis.

- G16.5 An NPO shall use its judgement to determine whether the acquisition of investment property is the acquisition of an **asset** or of a group of assets, or a business combination within the scope of Section 19 *Business combinations and goodwill*. Determining whether a specific transaction meets the definition of a business combination as defined in Section 19 and includes an investment property as defined in this section requires the separate application of both sections.
- G16.6 Mixed use property shall be separated between investment property and **property, plant and equipment**. However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property shall be accounted for as property, plant and equipment in accordance with Section 17.

Measurement at initial recognition

- G16.7 An NPO shall measure purchased investment property at its cost at initial **recognition**. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other **transaction costs**. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments. An NPO shall determine the cost of a self-constructed investment property in accordance with paragraphs G17.10–G17.14.
- G16.8 An NPO shall measure donated investment property at fair value in accordance with Section 12 *Fair value measurement*. Application of fair value on initial recognitions shall be the deemed cost of the investment property.
- G16.9 The initial cost of a property interest held under a **lease** and classified as an investment property shall be as prescribed for a finance lease by paragraph G20.9, even if the lease would otherwise be classified as an operating lease if it was in the scope of Section 20 *Leases*. In other words, the asset is recognised at the lower of the fair value of the property and the present value of the **minimum lease payments**. An equivalent amount is recognised as a **liability** in accordance with paragraph G20.9.

Measurement after initial recognition

- G16.10 Investment property whose fair value can be measured reliably without undue cost or effort shall be measured at fair value at each **reporting date** with changes in fair value recognised in surplus or deficit. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Section 12 *Fair value measurement* provides guidance on determining fair value. An NPO shall account for all other investment property using the cost model in Section 17.

Transfers

- G16.11 If a reliable measure of fair value is no longer available without undue cost or effort for an item of investment property measured using the fair value model, the NPO shall thereafter account for that item in accordance with Section 17 until a reliable measure of fair value becomes available. The **carrying amount** of the investment property on that date becomes its cost under Section 17. Paragraph G16.12(d)(iii) requires disclosure of this change. It is a change of circumstances and not a change in accounting policy.
- G16.12 Other than as required by paragraph G16.10, an NPO shall transfer a property to, or from, investment property only when there is a change in use. This occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use.

Disclosures

G16.13 An NPO shall disclose the following for all investment property accounted for at fair value through surplus or deficit (paragraph G16.12):

- (a) the extent to which the fair value of investment property (as measured or disclosed in the **financial statements**) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.
- (b) the existence and amounts of restrictions on the realisability of investment property or the remittance of **income** and proceeds of disposal.
- (c) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.
- (d) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:
 - (i) additions, disclosing separately those additions resulting from acquisitions through **business combinations**;
 - (ii) net **gains** or losses from fair value adjustments;
 - (iii) transfers to and from investment property carried at cost less accumulated **depreciation** and **impairment** (see paragraph G16.11);
 - (iv) transfers to and from **inventories** and owner-occupied property; and
 - (v) other changes.

This reconciliation need not be presented for prior periods.

G16.14 In accordance with Section 20, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An NPO that holds an investment property under a finance lease or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.

Comparison of Section 16 with the *IFRS for SMEs* Accounting Standard

Section 16 of INPAG has been drawn from Section 16 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 16 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 16 of INPAG are as follows:

- Section 16 includes an additional paragraph to distinguish between purchased and donated investment property. The new paragraph addresses the measurement of the investment property on receipt to provide clarity about the measurement base. It requires a donated investment property to be measured at fair value in line with Section 12 *Fair value measurement* on initial recognition.
- INPAG clarifies that assets that might otherwise be considered investment property but are held for an NPOs missional objectives (eg social housing) shall not be classed as investment property but instead as property, plant and equipment. Such assets should follow the requirements of Section 17 *Property, plant and equipment*.
- INPAG Section 16 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.

Section 17 – Property, plant and equipment

Scope of this Section

- G17.1 This Section applies to accounting for **property, plant and equipment** and accounting for **investment property** whose **fair value** cannot be measured reliably without undue cost or effort on an ongoing basis. Section 16 *Investment property* applies to investment property whose fair value can be measured reliably without undue cost or effort. This Section includes property that might otherwise be considered investment property as the primary purpose of the asset is to deliver an NPO's missional objectives (eg social housing), rather than its commercial returns.
- G17.2 Property, plant and equipment are tangible **assets** that:
- (a) are held for use in the ordinary activities of the NPO, for rental to others, or for NPO's administrative purposes; and
 - (b) are expected to be used during more than one period.
- G17.3 Property, plant and equipment does not include:
- (a) **biological assets** related to **agricultural activity** other than **bearer plants** that can be measured separately from the produce on them without undue cost or effort (see Section 34 *Specialised activities*). This section applies to bearer plants but it does not apply to the produce on bearer plants; and
 - (b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

Recognition

- G17.4 An NPO shall recognise the cost of an item of property, plant and equipment as an asset if, and only if:
- (a) it is **probable** that economic benefits or **service potential** associated with the item will flow to the NPO; and
 - (b) the cost of the item can be measured reliably.
- G17.5 Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Section when they meet the definition of property, plant and equipment. Otherwise, such items are classified as **inventory**.
- G17.6 Parts of some items of property, plant and equipment may require replacement at regular intervals (for example, the roof of a building). An NPO shall add to the **carrying amount** of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefit or service potential to the NPO. The carrying amount of those parts that are replaced is **derecognised** in accordance with paragraphs G17.32–G17.35 regardless of whether the replaced parts had been depreciated separately. If it is not practicable for an NPO to determine the carrying amount of the replaced part, the NPO may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Paragraph G17.21 provides that if the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits or service potential, an NPO shall allocate the initial cost of the asset to its major components and **depreciate** each such component separately over its **useful life**.
- G17.7 A condition of continuing to operate an item of property, plant and equipment (for example, a bus) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition

criteria are satisfied. Any remaining carrying amount of the cost of the previous major inspection (as distinct from physical parts) is derecognised. This is done regardless of whether the cost of the previous major inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

- G17.8 Land and buildings are separable assets and an NPO shall account for them separately, even when they are acquired together.

Measurement at initial recognition

- G17.9 An NPO shall measure an item of property, plant and equipment that has been acquired or constructed at initial **recognition** at its cost.
- G17.10 An NPO shall measure the cost of an item of property, plant and equipment that has been donated at its fair value in line with the guidance in Section 12 *Fair value measurement*. Application of fair value on initial recognition shall be the deemed cost of the asset.

Elements of cost

- G17.11 The cost of an item of property, plant and equipment comprises all of the following:
- (a) its purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
 - (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include the costs of site preparation, initial delivery and handling, installation and assembly and testing of functionality.
 - (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
- G17.12 The following costs are not costs of an item of property, plant and equipment and an NPO shall recognise them as an **expense** when they are incurred:
- (a) costs of opening a new facility;
 - (b) costs of introducing a new service or product (including costs of advertising and promotional activities);
 - (c) costs of conducting operations in a new location or with a new class of **service recipient** or customer (including costs of staff training);
 - (d) administration and other general overhead costs; and
 - (e) **borrowing costs** (see Section 25 *Borrowing costs*).
- G17.13 The **income** and related **expenses** of incidental operations during construction or development of an item of property, plant and equipment are recognised in **surplus or deficit** if those operations are not necessary to bring the item to its intended location and operating condition.

Measurement of cost

- G17.14 The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments.

Exchanges of assets

- G17.15 An item of property, plant or equipment may be acquired in exchange for a non-monetary asset, or assets, or a combination of monetary and non-monetary assets. An NPO shall measure the cost of the acquired asset at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the carrying amount of the asset given up.

Measurement after initial recognition

- G17.16 An NPO shall choose either the cost model in paragraph G17.17 or the revaluation model in paragraph G17.18 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. An NPO shall apply the cost model to investment property whose fair value cannot be measured reliably without undue cost or effort. An NPO shall recognise the costs of day-to-day servicing of an item of property, plant and equipment in surplus or deficit in the period in which the costs are incurred.

Cost model

- G17.17 An NPO shall measure an item of property, plant and equipment after initial recognition at cost less any accumulated **depreciation** and any accumulated **impairment losses**.

Revaluation model

- G17.18 An NPO shall measure an item of property, plant and equipment whose fair value can be measured reliably at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ **materially** from that which would be determined using fair value at the end of the **reporting period**. Section 12 provides guidance on determining fair value. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.
- G17.19 If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in the **Statement of Changes in Net Assets** and accumulated under the heading of revaluation surplus. However, the increase shall be recognised in **surplus or deficit** to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.
- G17.20 If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be recognised in the Statement of Changes in Net Assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in the Statement of Changes in Net Assets reduces the amount accumulated under the heading of revaluation surplus.

Depreciation

- G17.21 If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits or service potential, an NPO shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life. Other assets shall be depreciated over their useful lives as a single asset. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated.

- G17.22 The depreciation charge for each period shall be recognised in surplus or deficit unless another section of this Guidance requires the cost to be recognised as part of the cost of an asset. For example, the depreciation of manufacturing property, plant and equipment is included in the costs of **inventories** (see Section 13 *Inventories*).

Depreciable amount and depreciation period

- G17.23 An NPO shall allocate the **depreciable amount** of an asset on a systematic basis over its useful life.
- G17.24 Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement and changes in market prices may indicate that the **residual value** or useful life of an asset has changed since the most recent annual **reporting date**. If such indicators are present, an NPO shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The NPO shall account for the change in residual value, depreciation method or useful life as a change in an **accounting estimate** in accordance with paragraphs G10.18–G10.21.
- G17.25 Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.
- G17.26 An NPO shall consider all the following factors in determining the useful life of an asset:
- (a) the expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
 - (b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
 - (c) technical or commercial obsolescence arising from changes or improvements in usage, or from a change in the market demand for the service or product output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset.
 - (d) legal or similar limits on the use of the asset, such as the expiry dates of related **leases**.

Depreciable method

- G17.27 An NPO shall select a depreciation method that reflects the pattern in which it expects to consume the asset's economic benefits or service potential. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method. A depreciation method that is based on **revenue** that is generated by an activity that includes the use of an asset is not appropriate.
- G17.28 If there is an indication that there has been a significant change since the last annual reporting date in the pattern by which an NPO expects to consume an asset's future economic benefits, the NPO shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern. The NPO shall account for the change as a change in an accounting estimate in accordance with paragraphs G10.18–G10.21.

Impairment

Recognition and measurement of impairment

- G17.29 At each reporting date, an NPO shall apply Section 27 *Impairment of assets* to determine whether an item or group of items of property, plant and equipment is impaired and, if so, how to recognise and measure the impairment loss. That section explains when and how an NPO reviews the carrying amount of its assets, how it determines the **recoverable amount** of an asset, and when it recognises or reverses an impairment loss.

Compensation for impairment

- G17.30 An NPO shall include in surplus or deficit compensation from third parties for items of property, plant and equipment that were impaired, lost or given up only when the compensation becomes receivable.

Property, plant and equipment held for sale

- G17.31 Paragraph G27.9(f) states that a plan to dispose of an asset before the previously expected date is an indicator of impairment that triggers the calculation of the asset's recoverable amount for the purpose of determining whether the asset is impaired.

Derecognition

- G17.32 An NPO shall derecognise an item of property, plant and equipment:
- (a) on disposal; or
 - (b) when no future economic benefits or service potential are expected from its use or disposal.
- G17.33 An NPO shall recognise the **gain** or loss on the **derecognition** of an item of property, plant and equipment in surplus or deficit when the item is derecognised (unless Section 20 *Leases* requires otherwise on a sale and leaseback). The NPO shall not classify such gains as revenue.
- G17.34 The date of disposal of an item is the date the recipient obtains control of that item in accordance with the requirements in paragraphs G23.142–G23.157 for determining when a promise is satisfied. Section 20 applies to disposal by a sale and leaseback.
- G17.35 An NPO shall determine the gain or loss arising from the derecognition of an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Disclosures

- G17.36 An NPO shall disclose the following for each class of property, plant and equipment determined in accordance with paragraph G4.11(a) and separately for investment property carried at cost less accumulated depreciation and impairment:
- (a) the **measurement** bases used for determining the gross carrying amount;
 - (b) the depreciation methods used;
 - (c) the useful lives or the depreciation rates used;
 - (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period; and
 - (e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
 - (i) additions;
 - (ii) disposals;
 - (iii) acquisitions through **business combinations**;

- (iv) increases or decreases resulting from revaluations under paragraphs G17.18–G17.20 and from impairment losses recognised or reversed in the Statement of Changes in Net Assets in accordance with Section 27;
- (v) transfers to and from investment property carried at fair value through surplus or deficit (see paragraph G16.10);
- (vi) impairment losses recognised or reversed in surplus or deficit in accordance with Section 27;
- (vii) depreciation; and
- (viii) other changes.

This reconciliation need not be presented for prior periods.

G17.37 An NPO shall also disclose the following:

- (a) the existence and carrying amounts of property, plant and equipment to which the NPO has restricted title or that is pledged as security for **liabilities**;
- (b) the amount of contractual commitments for the acquisition of property, plant and equipment; ~~and~~
- (c) if an NPO has investment property whose fair value cannot be measured reliably without undue cost or effort it shall disclose that fact and the reasons why fair value measurement would involve undue cost or effort for those items of investment property-; and
- (d) The aggregate gross book value, accumulated depreciation and net book value of property, plant and equipment whose use is restricted to specific activities by donors or grantors.

G17.38 If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following:

- (a) the effective date of the revaluation;
- (b) whether an independent valuer was involved;
- (c) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and
- (d) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance.

Comparison of Section 17 with the *IFRS for SMEs Accounting Standard*

Section 17 of INPAG has been drawn from Section 17 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 17 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 17 of INPAG are as follows:

- Additional text has been added to make clear that assets sharing characteristics with an investment property but primarily used for service delivery are to be treated in accordance with Section 17.
- Consistent with investment property, an additional paragraph has been added to the guidance for property, plant and equipment for assets that have been donated, clarifying that fair value is to be used on initial recognition.
- INPAG Section 16 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Section 18 – Intangibles other than goodwill

Scope and objective of this section

- G18.1 This section applies to accounting for all **intangible assets** other than **goodwill** (see Section 19 *Business combinations and goodwill*), intangible assets held by an NPO for sale in the ordinary course of business (see Section 13 *Inventories*) and assets arising from contracts with customers (see Section 23 *Revenue*).
- G18.2 An intangible asset is an identifiable non-monetary **asset** without physical substance. Such an asset is identifiable when:
- (a) it is separable, ie capable of being separated or divided from the NPO and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or **liability**; or
 - (b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the NPO or from other rights and obligations.
- G18.3 This section does not apply to the following:
- (a) **financial assets**; or
 - (b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

Recognition

- G18.4 An NPO shall recognise an intangible asset as an asset if, and only if:
- (a) it is **probable** that the expected economic benefit or **service potential** that are attributable to the asset will flow to the NPO;
 - (b) the cost or value of the asset can be measured reliably; and
 - (c) the asset does not result from expenditure incurred internally on an intangible item.

General principle for recognising intangible assets

- G18.5 This section uses the term asset in a way that differs in some respects from the definition of an asset in the Glossary. Therefore, when applying this section, an NPO shall apply the definition of an asset in paragraph G18.6.
- G18.6 For the purpose of this section, an asset is a resource controlled by the NPO as a result of past events and from which economic benefit or service potential is expected to flow to the NPO.
- G18.7 An NPO shall assess the probability of expected economic benefit or service potential using reasonable and supportable assumptions that represent management's best estimate of the economic conditions that will exist over the **useful life** of the asset.
- G18.8 An NPO uses judgement to assess the degree of certainty attached to the flow of economic benefit or service potential that are attributable to the use of the asset on the basis of the evidence available at the time of initial **recognition**, giving greater weight to external evidence.
- G18.9 The probability recognition criterion in paragraph G18.4(a) is always considered satisfied for intangible assets that are separately acquired.
- G18.10 An intangible asset acquired in a **business combination** shall be recognised unless its **fair value** cannot be measured reliably without undue cost or effort at the acquisition date.

Initial measurement

G18.11 An NPO shall measure an intangible asset initially at cost.

Separate acquisition

- G18.12 The cost of a separately acquired intangible asset comprises:
- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
 - (b) any directly attributable cost of preparing the asset for its intended use.

Acquisition as part of a business combination

- G18.13 An intangible asset acquired in a business combination shall be recognised unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date.

Acquisition by way of grant or donation

- G18.14 If an intangible asset is acquired by way of a **grant or donation**, the cost shall be determined in accordance with Section 12 *Fair value measurement*. The fair value on initial recognition shall be the deemed cost of the asset.

Exchanges of assets

- G18.15 An intangible asset may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. An NPO shall measure the cost of such an intangible asset at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the **carrying amount** of the asset given up.

Internally generated assets

- G18.16 An NPO shall recognise expenditure incurred internally on an intangible item, including all expenditure for both **research** and **development** activities, as an **expense** when it is incurred unless it forms part of the cost of another asset that meets the recognition criteria in this Guidance.
- G18.17 As examples of applying the preceding paragraph, an NPO shall recognise expenditure on the following items as an expense and shall not recognise such expenditure as intangible assets:
- (a) internally generated brands, logos, publishing titles, customer lists and items similar in substance;
 - (b) start-up activities (ie start-up costs), which include establishment costs such as legal and secretarial costs incurred in establishing an NPO, expenditure to open a new facility or activity (ie pre-opening costs) and expenditure for starting new operations or launching new products or processes (ie pre-operating costs);
 - (c) training activities;
 - (d) advertising and promotional activities;
 - (e) relocating or reorganising part or all of an NPO; and
 - (f) internally generated goodwill.
- G18.18 Paragraph G18.17 does not preclude recognising a prepayment as an asset when payment for goods or services has been made in advance of the delivery of the goods or the rendering of the services.

Past expenses not to be recognised as an asset

- G18.19 Expenditure on an intangible item that was initially recognised as an expense shall not be recognised at a later date as part of the cost of an asset.

Measurement after recognition

- G18.20 An NPO shall measure intangible assets at cost less any accumulated **amortisation** and any accumulated **impairment losses**. The requirements for amortisation are set out in this section. The requirements for recognition of impairment are set out in Section 27 *Impairment of assets*.

Useful life

- G18.21 For the purpose of this Guidance, all intangible assets shall be considered to have a finite useful life. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights but may be shorter depending on the period over which the NPO expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.
- G18.22 If the useful life of an intangible asset cannot be established reliably, the life shall be determined based on management's best estimate but shall not exceed ten years.

Amortisation period and amortisation method

- G18.23 An NPO shall allocate the **depreciable amount** of an intangible asset on a systematic basis over its useful life. The amortisation charge for each period shall be recognised as an expense, unless another section of this Guidance requires the cost to be recognised as part of the cost of an asset such as **inventories** or **property, plant and equipment**.
- G18.24 Amortisation begins when the intangible asset is available for use, ie when it is in the location and condition necessary for it to be usable in the manner intended by management. Amortisation ceases when the asset is derecognised. The NPO shall choose an amortisation method that reflects the pattern in which it expects to consume the asset's economic benefit or service potential. If the NPO cannot determine that pattern reliably, it shall use the straight-line method.
- G18.25 There is a presumption that an amortisation method based on the **revenue** generated by an activity that includes the use of an intangible asset is inappropriate. However, an NPO may rebut this presumption and use an amortisation method based on revenue generated by an activity that includes the use of an intangible asset only if it provides a reliable pattern of how economic benefit or service potential are consumed:
- (a) in which the intangible asset is expressed as a measure of revenue (that is, when rights over the use of an intangible asset is specified as a fixed total amount of revenue to be generated); or
 - (b) when it can be demonstrated that revenue and the consumption of the intangible asset's economic benefit or service potential are highly correlated.

Residual value

- G18.26 An NPO shall assume that the **residual value** of an intangible asset is zero unless:
- (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or
 - (b) there is an **active market** for the asset and:
 - (i) residual value can be determined by reference to that market; and
 - (ii) it is probable that such a market will exist at the end of the asset's useful life.

Review of amortisation period and amortisation method

G18.27 Factors such as a change in how an intangible asset is used, technological advancement; and changes in market prices may indicate that the residual value or useful life of an intangible asset has changed since the most recent annual **reporting date**. If such indicators are present, an NPO shall review its previous estimates and, if current expectations differ, amend the residual value, amortisation method or useful life. The NPO shall account for the change in residual value, amortisation method or useful life as a **change in an accounting estimate** in accordance with paragraphs Section 10.

Recoverability of the carrying amount – impairment losses

G18.28 To determine whether an intangible asset is impaired, an NPO shall apply Section 27. That section explains when and how an NPO reviews the carrying amount of its assets, how it determines the **recoverable amount** of an asset and when it recognises or reverses an impairment loss.

Retirements and disposals

G18.29 An NPO shall derecognise an intangible asset, and shall recognise a **gain** or loss in **surplus or deficit**:

- (a) on disposal; or
- (b) when no economic benefit or service potential are expected from its use or disposal.

Disclosures

G18.30 An NPO shall disclose the following for each class of intangible assets:

- (a) the useful lives or the amortisation rates used;
- (b) the amortisation methods used;
- (c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the **reporting period**;
- (d) the line item(s) in the **Statement of Income and Expenses**, in which any amortisation of intangible assets is included; and
- (e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
 - (i) additions;
 - (ii) disposals;
 - (iii) acquisitions through business combinations;
 - (iv) amortisation;
 - (v) impairment losses recognised or reversed in surplus or deficit in accordance with Section 27; and
 - (vi) other changes.

This reconciliation need not be presented for prior periods.

G18.31 An NPO shall also disclose:

- (a) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is **material** to the NPO's **financial statements**;
- (b) for intangible assets acquired by way of a grant and initially recognised at fair value (see paragraph G18.14):
 - (i) the fair value initially recognised for these assets; and
 - (ii) their carrying amounts.
- (c) the existence and carrying amounts of intangible assets to which the NPO has restricted title or that are pledged as security for liabilities; and
- (d) the amount of contractual commitments for the acquisition of intangible assets.

- G18.32 An NPO shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period (ie the amount of expenditure incurred internally on research and development that has not been capitalised as part of the cost of another asset that meets the recognition criteria in this Guidance).

Comparison of Section 18 with the *IFRS for SMEs Accounting Standard*

Section 18 of INPAG has been drawn from Section 18 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 18 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 18 of INPAG are as follows:

- Consistent with Sections 16 and 17, an additional paragraph has been added to the section to provide guidance on determining the deemed cost of donated assets, where donated assets are valued at fair value on initial recognition.
- INPAG Section 18 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Section 22 – Liabilities and equity claims

Scope of this section

- G22.1 This Section establishes principles for classifying **financial instruments** as either liabilities or **equity claims** and addresses accounting for equity instruments issued to individuals or other parties acting in their capacity as investors in equity instruments (ie in their capacity as **holders of equity claims**).
- G22.2 This section shall be applied when classifying all types of financial instruments except:
- (a) those interests in **controlled entities, associates and joint arrangements** that are accounted for in accordance with Section 9 *Consolidated and separate financial statements*, Section 14 *Investments in associates* or Section 15 *Joint arrangements*.
 - (b) employers' rights and obligations under **employee benefit** plans, to which Section 28 *Employee benefits* applies.

Classification of a financial instrument as liability or equity claims

- G22.3 For the purpose of this Section, a liability is a present obligation of the NPO arising from past events, the settlement of which is expected to result in an outflow from the NPO of resources embodying economic benefits. Equity claims are the financial interest in the net assets of an NPO. Equity claims include investments by the holders of equity claims, plus or minus changes to those investments earned through their share of retained surpluses, minus reductions as a result of deficits and distributions.
- G22.4 An NPO shall classify a financial instrument as a **financial liability** or as equity claims in accordance with the substance of the contractual arrangement, not merely its legal form, and in accordance with the definitions of a financial liability and an equity claims instrument. Unless an NPO has an unconditional right to avoid delivering **cash** or another **financial asset** to settle a contractual obligation, the obligation meets the definition of a financial liability, and

is classified as such, except for those instruments classified as equity claims instruments in accordance with paragraph **G22.5**.

G22.5 Some financial instruments that meet the definition of a liability are classified as equity claims because they represent a financial interest in the net assets of the NPO:

- (a) a puttable instrument is a financial instrument that gives the holder the right to sell that instrument back to the issuer for cash or another financial asset or is automatically redeemed or repurchased by the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder. A puttable instrument that has all of the following features is classified as an equity claims instrument:
 - (i) it entitles the holder to a pro rata share of the NPO's net assets in the event of the NPO's liquidation or ceasing to be an NPO as set out in the equity claims agreement.
 - (ii) the instrument is in the class of instruments that is subordinate to all other classes of instruments.
 - (iii) all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.
 - (iv) apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the NPO, and it is not a contract that will or may be settled in the NPO's own equity claims instruments.
- (b) instruments, or components of instruments, that are subordinate to all other classes of instruments are classified as equity claims if they impose on the NPO an obligation to deliver to another party a financial interest in the net assets of the NPO only on liquidation or ceasing to be an NPO.

G22.6 The following are examples of instruments that are classified as liabilities instead of equity claims:

- a) an instrument is classified as a liability if the distribution of net assets on liquidation or on ceasing to be an NPO is subject to a maximum amount (a ceiling). For example, the holders of the instrument receive a pro rata share of the net assets, but this amount is limited to a ceiling and the excess net assets are distributed to another NPO or the **government**, the instrument is not classified as equity claims.
- (b) an instrument is classified as a liability if the instrument can only be redeemed at par or at an amount index linked to the amount originally paid. In other words, the holder of the equity claims instrument does not have a financial interest in the net assets of the NPO.
- (c) a puttable instrument is classified as equity claims if, when the put option is exercised, the holder receives a financial interest in the net assets of the NPO as set out in the equity claim arrangement measured in accordance with this Guidance. However, if the holder is entitled to an amount measured on some other basis (such as local GAAP), the instrument is classified as a liability.
- (d) an instrument is classified as a liability if it obliges the NPO to make payments to the holder before liquidation or on ceasing to be an NPO, such as a mandatory distribution.
- (e) a puttable instrument that is classified as equity or equity claims in a controlled entity's **financial statements** is classified as a liability in **the controlling NPO's consolidated financial statements**.
- (f) a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

G22.7 Members' shares in a co-operative and similar instruments are equity claims if:

- (a) the NPO has an unconditional right to refuse redemption of the members' shares; or

- (b) redemption is unconditionally prohibited by local law, regulation or the NPO's governing charter.

Original issue of shares or other equity claim instruments

- G22.8 An NPO shall recognise the issue of shares or other equity claim instrument as equity claims when it issues those instruments and another party is obliged to provide cash or other resources to the NPO in exchange for the instruments:
- (a) if the equity claim instruments are issued before the NPO receives the cash or other resources, the NPO shall present the amount receivable as an offset to equity claims in its **Statement of Financial Position** unless local laws or regulations prohibit such presentation (in which case the entity shall comply with the presentation requirements in the local laws or regulations); not as an asset;
 - (b) if the NPO receives the cash or other resources before the equity claim instruments are issued, and the NPO cannot be required to repay the cash or other resources received, the NPO shall recognise the corresponding increase in equity claims to the extent of consideration received; and
 - (c) to the extent that the equity claim instruments have been subscribed for but not issued, and the NPO has not yet received the cash or other resources, the NPO shall not recognise an increase in equity claims.
- G22.9 An NPO shall measure equity claim instruments, other than those issued as part of a **business combination** or those accounted for in accordance with paragraphs **G22.13–G22.15**, at the **fair value** of the cash or other resources received or receivable, net of **transaction costs**. If payment is deferred and the time value of money is **material**, the initial measurement shall be on a **present value** basis.
- G22.10 An NPO shall account for the transaction costs of an equity claim transaction as a deduction from equity claims. **Income tax** relating to the transaction costs shall be accounted for in accordance with Section 29 *Income tax*.
- G22.11 How the increase in equity claims arising on the issue of shares or other equity claim instruments is presented in the Statement of Financial Position is determined by applicable laws. For example, the par value (or other nominal value) of shares and the amount paid in excess of par value may be required to be presented separately.

Capitalisation or bonus issues of shares and share splits

- G22.12 A capitalisation or bonus issue (sometimes referred to as a stock dividend) is the issue of new shares to equity claim holders in proportion to their existing holdings. For example, an NPO may give its equity claim holders one dividend or bonus share for every five shares held. A share split (sometimes referred to as a stock split) is the dividing of an NPO's existing shares into multiple shares. For example, in a share split, each equity claim holder may receive one additional share for each share held. In some cases, the previously outstanding shares are cancelled and replaced by new shares. Capitalisation and bonus issues and share splits do not change total equity claims. An NPO shall reclassify amounts within equity claims as required by applicable laws.

Convertible debt or similar compound financial instruments

- G22.13 On issuing convertible debt or similar **compound financial instruments** that contain both a liability and an equity claims component, an NPO shall allocate the proceeds between the liability component and the equity claims component. To make the allocation, the NPO shall first determine the amount of the liability component as the fair value of a similar liability that does not have a conversion feature or similar associated equity component. The NPO shall allocate the residual amount as the equity component. Transaction costs shall be allocated

between the debt component and the equity component on the basis of their relative fair values.

G22.14 The NPO shall not revise the allocation in a subsequent period.

G22.15 In periods after the instruments were issued, the NPO shall account for the liability component as follows:

- (a) in accordance with Part I of Section 11 Basic financial instruments if the liability component meets the conditions in paragraph G11.8. In these cases, the NPO shall systematically recognise any difference between the liability component and the principal amount payable at maturity as additional interest **expense** using the **effective interest method** (see paragraphs G11.19–G11.24).
- (b) in accordance with Part II of Section 11 Other financial instrument issues if the liability component does not meet the conditions in paragraph G11.8.

Distributions to holders of equity claims

G22.16 An NPO shall reduce equity claims for the amount of distributions to its holders of equity claims (holders of its equity instruments). Income tax relating to **distributions to holders of equity claims** shall be accounted for in accordance with Section 29.

G22.17 Sometimes an NPO distributes assets other than cash to its holders of equity claims ('non-cash distributions'). When an NPO declares such a distribution and has an obligation to distribute non-cash assets to its holders of equity claims, it shall recognise a liability. It shall measure the liability at the fair value of the assets to be distributed unless it meets the conditions in paragraph G22.18. At the end of each **reporting period** and at the date of settlement, the NPO shall review and adjust the **carrying amount** of the capital distribution payable to reflect changes in the fair value of the assets to be distributed, with any changes recognised in equity claims as adjustments to the amount of the distribution. When an NPO settles the capital distribution payable, it shall recognise in surplus or deficit any difference between the carrying amount of the assets distributed and the carrying amount of the capital distribution payable.

G22.18 If the fair value of the assets to be distributed cannot be measured reliably without undue cost or effort, the liability shall be measured at the carrying amount of the assets to be distributed. If prior to settlement the fair value of the assets to be distributed can be measured reliably without undue cost or effort, the liability is remeasured at fair value with a corresponding adjustment made to the amount of the distribution and accounted for in accordance with paragraph G22.17.

G22.19 Paragraphs G22.17–G22.18 do not apply to the distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an NPO that makes the distribution.

Disclosures

G22.20 If the fair value of the assets to be distributed as described in paragraphs G22.17–G22.18 cannot be measured reliably without undue cost or effort, the NPO shall disclose that fact and the reasons why a reliable fair value measurement would involve undue cost or effort.

Section 33 – Related party disclosures

Scope of this section

- G33.1 This section requires an NPO to include in its **financial statements** the disclosures necessary to draw attention to the possibility that its **financial position** and **surplus or deficit** have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Related Party Defined

- G33.2 A **related party** is a person or entity that is related to the NPO that is preparing its financial statements (the **reporting NPO**):
- a) a person or a **close member of that person's family** is related to a reporting NPO if that person:
 - i. is a member of the key management personnel of the reporting NPO or of an entity that **controls** the reporting NPO;
 - ii. is a member of the reporting NPO's governing body (paid or not) which provides oversight of the NPO's activities;
 - iii. has control or **joint control** over the reporting NPO; or
 - iv. has significant influence over the reporting NPO.
 - b) an entity is related to a reporting NPO if any of the following conditions applies:
 - i. the entity and the reporting NPO are members of the same **group** (which means that each **controlling NPO**, and any **controlled entity** is related to the others).
 - ii. the entity is an **associate** or **jointly controlled** by the reporting NPO (or an associate or jointly controlled entity of a member of a group of which the reporting NPO is a member).
 - iii. both entities are jointly controlled entities of the same third entity.
 - iv. one entity is a jointly controlled entity of a third entity and the other entity is an associate of the third entity.
 - v. the entity is a **post-employment benefit plan** for the benefit of employees of either the reporting NPO or an entity related to the reporting NPO. If the reporting NPO is itself such a plan, the sponsoring employers are also related to the reporting NPO.
 - vi. the NPO is controlled or jointly controlled by a person identified in (a).
 - vii. the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting NPO or to the **parent** of the reporting NPO.
 - viii. a person identified in (a)(iii) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- G33.3 In considering each possible related party relationship, an NPO shall assess the substance of the relationship and not merely the legal form. This includes an assessment of the characteristics of the NPO's governance arrangements.
- G33.4 In the context of this Guidance, the following are not necessarily related parties:
- a) two NPOs simply because they have ~~a director or other~~ members of key management personnel in common;
 - b) two parties simply because they share joint control over a jointly controlled NPO;
 - c) any of the following simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an NPO or participate in its decision-making process):
 - i. providers of finance;
 - ii. trade unions;
 - iii. public utilities; or
 - iv. government departments and agencies; or

- d) a **customer, grant provider**, supplier, franchisor, distributor or general agent with whom an NPO transacts a significant volume of business, merely by virtue of the resulting economic dependence.

Disclosures

Disclosure of controlling party relationships

- G33.5 Relationships between a controlling NPO and its controlled entities shall be disclosed irrespective of whether there have been **related party transactions**. An NPO shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the NPO's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so (if any) shall also be disclosed.

Disclosure of key management personnel compensation

- G33.6 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the NPO, directly or indirectly, including any director (whether executive or otherwise) of that NPO. Compensation includes all **employee benefits** (as defined in Section 28 *Employee benefits*). Employee benefits include all forms of consideration paid, payable or provided by the NPO, or on behalf of the NPO (for example, by its parent), in exchange for services rendered to the NPO. It also includes such consideration paid on behalf of a parent of the NPO in respect of goods or services provided to the NPO.

- G33.7 An NPO shall disclose key management personnel compensation in total.

Disclosure of governing body member compensation

- G33.8 Governing body members are those persons having authority and responsibility for oversight of the NPO's activities (whether paid or not). Compensation includes all **employee benefits** (as defined in Section 28 *Employee benefits*). Employee benefits include all forms of consideration paid, payable or provided by the NPO, or on behalf of the NPO (for example, by its parent), in exchange for services rendered to the NPO. It also includes such consideration paid on behalf of a parent of the NPO in respect of goods or services provided to the NPO.

- G33.9 A disclosure shall be made in the **notes** to the financial statements that either:
- a) none of the members of the governing body have been paid any compensation (see paragraph G33.8) or benefits from employment with the NPO, or
 - b) one or more of the members of the governing body has been paid compensation or other benefits from employment with the NPO.

- G33.10 Where G33.8 b) is required to be followed, the disclosure shall include:
- a) who was paid and the nature of the work for which they were paid;
 - b) the amounts paid broken down into salary, pension, other benefits;
 - c) the legal arrangement for payment, i.e. employment or self-employed services and how this is distinguished from any governance role within the NPO; and
 - d) confirmation that the NPO is allowed to make such payments under law / constitution.

- G33.11 Where any member of the governing body has claimed expenses, then the disclosure shall include:
- a) how many members have been paid; and
 - b) the value of expenses paid where **material**, with disclosure of expenses by natural category

- G33.12 An NPO that obtains key management personnel services from another entity (management entity) is not required to make any disclosure that might otherwise be required by paragraph

G33.7 in relation to the compensation paid or payable by the management entity to the management entity's employees or directors. However, the amounts incurred by an NPO for the provision by a separate management entity of such services shall be disclosed.

Disclosure of related party transactions

G33.13 A related party transaction is a transfer of resources, services or obligations between a reporting NPO and a related party, regardless of whether a price is charged. Examples of related party transactions that are common to NPOs include, but are not limited to:

- a) transactions between an NPO and those that have **equity claims**;
- b) transactions between an NPO and another entity when both entities are under the common control of a single entity or person; and
- c) transactions in which an entity or governing body member and/or key management personnel of the reporting NPO incurs **expenses** directly that otherwise would have been borne by the reporting NPO.

G33.14 If an NPO has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements in paragraph G33.7 and G33.9-G33.10 to disclose key management personnel and governing body member compensation including expenses. At a minimum, disclosures shall include:

- a) the amount of the transactions;
- b) the amount of outstanding balances and commitments and:
 - i. their terms and conditions, including whether they are secured and the nature of the consideration to be provided in settlement; and
 - ii. details of any guarantees given or received.
- c) **provisions** for uncollectable receivables related to the amount of outstanding balances; and
- d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

Such transactions could include **income** or expense items, transfers (or donations) of goods, services; **leases**; guarantees; and settlements by the NPO on behalf of the related party or vice versa.

G33.15 An NPO shall make the disclosures required by paragraph G33.13 separately for each of the following categories:

- a) entities or individuals with control, joint control or significant influence over the NPO;
- b) entities over which the NPO has control, joint control or significant influence;
- c) key management personnel and governing body members of the NPO or its parent (in the aggregate); and
- d) other related parties.

G33.16 An NPO is exempt from the disclosure requirements of paragraph G33.13 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a **government** that has control, joint control or significant influence over the reporting NPO; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting NPO and the other entity.

G33.17 The following are examples of transactions that shall be disclosed if they are with a related party:

- a) purchases or sales of goods (finished or unfinished);
- b) donations;
- c) purchases or sales of property and other **assets**;
- d) rendering or receiving of services;
- e) leases;

- f) transfers of **research** and **development**;
- g) transfers under license agreements;
- h) transfers under finance arrangements (including loans and equity contributions in **cash** or in kind);
- i) provision of guarantees or collateral;
- j) commitments to do something if a particular event occurs or does not occur in the future;
- k) settlement of **liabilities** on behalf of the NPO or by the NPO on behalf of another party; and
- l) participation in a **defined benefit plan** that shares risks between the reporting NPO and other entities in the group.

G33.18 Transactions with a governing body member need not be disclosed where the governing body member; ~~(a) makes a donation, provided that this is an arms-length transaction and have not required the NPO to amend its normal activities, e.g. use certain suppliers or sources of inputs; (b) is a recipient of services made in accordance with the NPO's primary purpose, where the services are provided on the same terms as other eligible service recipients. Amounts owed by governing body members at the financial reporting date need not be disclosed if the governing body member has not exceeded the terms provided to other eligible service recipients. A list of governing body members that are in receipt of services shall be provided, with the nature of the service provided.~~

G33.19 An NPO shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.

G33.20 An NPO may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the NPO.

G33.21 If a reporting NPO applies the exemption in paragraph G33.15, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph G33.15:

- a) the name of the government and the nature of its relationship with the reporting NPO (that is, control, joint control or significant influence);
- b) the nature and amount of each individually significant transaction;

for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent. Types of transactions include those listed in paragraph G33.16.

Application Guidance: Section 33 – Related party disclosures

Related parties for NPOs

AG33.1—NPOs often have a separate governing body exercising authority, separately from the executive officers. Such members of governing bodies may be connected to counterparts, eg with funders or other NPOs, which is common in the sector to leverage co-operation. Transactions between NPOs with connected governing body members are related party transactions. This is because it is important for users of financial statements to understand where such links exist.

AG33.2—While in some jurisdictions it is not legal to compensate the governing body members for their governing body membership, in others it may be customary practice to do so. In either case it is necessary to make disclosures to show no potential for a conflict of interest. Paragraphs G33:8 – G33:10 therefore require the disclosure of personnel compensation, other benefits or employment and expenses claimed.

AG33.3—Paragraph G33.15 provides exemptions from reporting related party transactions with government entities. This exemption has been provided to reduce the potential burden of

reporting such transactions. NPO's may report such transactions where this is important to the understanding of the NPO's financial position.

~~AG33.4—Paragraph G33.17 a) permits donations from a governing body member to not be included as a related party transaction, provided there are no obligations for the NPO to vary its normal activities beyond those that would be required in an arms-length transaction. Grant arrangements that include any form of obligation on the NPO to undertake to deliver specified outputs, carry out specified activities or use resources in a specified way will create a unique obligation. Paragraph G33.17 a) will therefore not apply to such arrangements.~~

Comparison of Section 33 with the IFRS for SMEs Accounting Standard

Section 33 of INPAG has been drawn from Section 33 of the IFRS for SMEs Accounting Standard. The main differences between Section 33 of the draft Third edition of the IFRS for SMEs Accounting Standard and Section 33 of INPAG are as follows:

- The description of related parties has been broadened to specifically include members of a reporting NPO's governing body (paid or not) who provide oversight of the NPO's activities.
- The scope of possible related party transactions has been widened in G33.3 to include an assessment of the characteristics of an NPO's governance arrangements as these can take a variety of forms.
- INPAG Section 33 requires that the NPO shall disclose details of the personnel compensation paid to governing board members (if any) and the legal basis of those payments. There is also a requirement to disclose the nature and amount of all out-of-pocket expenses reimbursed.
- Where a governing body member makes a donation that does not create obligations for the NPO to amend its normal activities beyond those that would be required in an arms-length transaction, the transaction does not need to be disclosed.
- Similarly, services received in accordance with an NPO's primary purpose and that are provided on the same terms as any other eligible individual or entity do not need to be disclosed.
- The reference to 'director' has been removed from G33.4 as members of an NPO's governing body are scoped into key management personnel in G33.6. The type of relationships that might not be a related party relationship has been widened to include grant providers.
- The wording in G33.2 and G33.16 has been slightly amended such that in G33.2 'controlled entity and fellow controlled entities' is replaced with 'any controlled entities' to encompass them both. In G33.16 the words 'parent and subsidiary' have been removed in the context of participation in shared benefit plans as this is clear in the description of the entities that participate in the sharing of risks.
- The disclosures in G33.14a) have been broadened from only entities to also include individuals with control, joint control or significant influence, reflecting the broader nature of those who might hold equity claims.
- INPAG Section 33 uses different terminology, referring specifically to NPOs rather than entities more generally, and has been updated to be consistent with other sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Implementation Guidance

Section 12 – Fair value measurement

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

IG12.1 NPOs may find it challenging apply fair value measurement where there is no data relating to a specific asset or information is scarce or unreliable. Management may need to use judgement to determine an item's fair value. A fair value needs to be determined with reference to the best available information, with that information providing an evidence base for the valuation that is determined.

IG12.2 Sources of information can include, but are not limited to:

- Cost of the same or similar item if purchased in the jurisdiction now
- Cost of the same or similar item if purchased in the jurisdiction when it was manufactured or last available to be purchased
- Second hand markets for the same or similar items in the jurisdiction
- Costs of the key components that make up an asset
- Publications that provide asset valuations that can be used for benchmarking

IG12.3 Obtaining data may be a challenge when it relates to heritage assets or assets held for preservation. Such assets can also be part of the public sector. *IPSAS 45 Property, plant and equipment* refers to the measurement of heritage assets and may provide a source of additional information.

Illustrative examples

These examples portray hypothetical situations illustrating the judgements that might apply when an NPO measures assets and liabilities at fair value in different valuation situations. Although some aspects of the examples may be present in actual fact patterns, all the relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying Section 12.

Example 1 – Highest and best use (land)

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

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

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

land to a vacant site (that is, the land is to be used by market participants on a stand-alone basis).

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

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

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

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

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

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

Example 3 – Restriction on the sale of an equity instrument

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

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

Example 4 – Restrictions on the use of an asset

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

- (a) donor restriction on use of land: because in this situation the donor restriction on the use of the land is specific to the NPO, the restriction would not be transferred to market participants. Therefore, the fair value of the land would be the higher of its fair value used as a playground (that is, the fair value of the asset would be maximised through its use by market participants in combination with other assets or with other assets and liabilities) and its fair value as a site for residential development (that is, the fair value of the asset would be maximised through its use by market participants on a stand-alone basis), regardless of the restriction on the use of the land.
- (b) easement for utility lines: because the easement for utility lines is specific to (that is, a characteristic of) the land, it would be transferred to market participants with the land. Therefore, the fair value measurement of the land would take into account the effect of the easement, regardless of whether the highest and best use is as a playground or as a site for residential development.

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

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

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

Example 6 – Donation of services

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

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

Example 7 – Donation of copyright (intangible asset)

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

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

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

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

Section 33 – Related party disclosures

Are members of a governing body such as trustees or board members related parties?

- IG33.1 Yes. It is a common feature of NPOs in many jurisdictions that oversight and control of the NPO is ultimately exercised not by executive officers who are members of staff of the NPO, but by a separate governing body that is formed of individuals, often volunteers, who are not employed by the NPO. These can be known as trustees, board members, or similar.
- IG33.2 Whether an individual is employed by the NPO or not is irrelevant for the purpose of deciding whether they are a related party under Section 33 – *Related party disclosures*. If those individuals are providing oversight and have the ability to control or exert significant influence over the NPO, then they are related parties and the disclosure requirements of Section 33 apply to them.

Is a Director of an NPO a related party?

- IG33.3 Yes. Related parties include all governing body members and key management personnel. These individuals have authority and responsibility for planning, directing and controlling the activities of the NPO, directly or indirectly, and given the positions they hold this will include trustees or any director (whether executive or otherwise) of the NPO.

Are transactions between NPOs with connected governing body members considered related party transactions?

- IG33.4 Yes. NPOs often have a separate governing body exercising authority, separately from the executive officers. Such members of governing bodies may be connected to counterparts, e.g. with funders or other NPOs, which is common in the sector to leverage co-operation. Transactions between NPOs with connected governing body members are related party transactions. This is because these connections can influence decision-making, and it is important for users of financial statements to be aware of such relationships to understand their potential impact.

What are the disclosure requirements for governing body member compensation?

- IG33.5 While in some jurisdictions it is not legal to compensate the governing body members, in others it may be customary practice to do so. In either case it is necessary to make disclosures to show no potential for a conflict of interest. Paragraphs G33.8 – G33.10 therefore require the disclosure of personnel compensation, other benefits or employment and expenses claimed. In all cases,

such disclosures are necessary to demonstrate transparency and avoid potential conflicts of interest. Disclosures will include details of personnel compensation, pension and other benefits (para G33.10 (b)). It will also include details of expenses claimed by governing body members (G33.11).

IG33.6 The disclosure format should clearly show the compensation details for governing body members. It should only show the compensation in relation to their governance role and not any paid employment. This should address the requirements outlined in G33.10, ensuring clarity about how compensation is structured and paid. In presenting governing body compensation NPOs should consider the most appropriate format. The disclosures for employee expenses in G28.38 may provide an appropriate format.

Why are related party transactions with government entities exempt from disclosure?

IG33.6 Paragraph G33.15 provides exemptions from reporting related party transactions with government entities. This exemption has been provided to reduce the potential burden of reporting such transactions. NPO's may report such transactions where this is important to the understanding of the NPO's financial position.

Do all transactions between an NPO and a governing body member need to be disclosed under related party disclosure requirements?

IG33.7 Paragraph G33.17 a) permits donations from a governing body member to not be included as a related party transaction, provided there are no obligations for the NPO to vary its normal activities beyond those that would be required in an arms-length transaction. Grant arrangements that include any form of obligation on the NPO to undertake to deliver specified outputs, carry out specified activities or use resources in a specified way will create a unique obligation. Paragraph G33.17 a) will therefore not apply to such arrangements. An NPO should assess whether a transaction with a governing body member is material to the financial statements and whether it provides relevant information for users of their financial statements. If the transaction is material and impacts the understanding of the NPO's financial position, it should be disclosed—regardless of whether it is conducted at arms' length. An arms'-length transaction is a transaction conducted under normal commercial terms without undue influence from the related party.

IG33.8 As a result if a governing body member makes a donation, it must be disclosed if it is material. This is the case even if it is at arms'-length and does not require changes to the NPO's usual operations.

IG33.9 Exceptionally, NPOs do not have to disclose the transactions between a governing body member and an NPO where the governing body member is in receipt of services on the same terms as other eligible recipients. Disclosure is, however, required of the governing body members in receipt of such services. Transactions arising from services provided to governing body members that are not on the same terms as other eligible recipients must be disclosed where material.

IG33.10 Where a governing body member that receives services on the same terms as other eligible recipients has amounts owing at the financial reporting date these need to be disclosed if the amount owed is within the terms provided to other eligible service recipients.

IG33.11 While not mandated, NPOs are encouraged to voluntarily disclose smaller or non-material transactions where they add value to user understanding or help illustrate robust governance practices. For instance, detailing that governing body members do not receive preferential treatment compared to other eligible service recipients can strengthen stakeholder confidence.

Illustrative examples

Example 1: Social Housing NPO

If a governing body member of an NPO that provides social housing is also a tenant, the following shall be disclosed:

- The name of the governing body member;
- That the governing body member is a tenant of the NPO; and
- any arrears in rental payments (ie amounts outside of standard terms as a related party balance).

Example 2: Educational Grants

If a board member's immediate family member receives an educational grant from the NPO under the same terms as other applicants, the following no disclosure needs to be made unless the grant is on different terms to those provided to other eligible recipients. The name of the governing body member and that a member of the governing body member's family has received an education grant must be disclosed.

Example 3: Consultancy Services

If a governing body member provides consultancy services to the NPO, even at a discounted rate, the transaction must be disclosed if it is material. The name of the governing body member and the value of the consultancy work must be disclosed.

Basis for conclusions

Section 12 – Fair value measurement

BC12.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Fair value measurement was not included as a prioritised topic.

BC12.2 However, as a result of the high level review of this Section a limited number of amendments have been made. When assessing benefits generated by an asset, the term economic benefit has been widened to include service potential as this will be a factor in determining highest and best use, particularly when there is a limitation on the use of an asset.

BC12.3 The *IFRS for SMEs* Accounting Standard on fair value does not specifically consider when fair value ~~is~~ can be used to create the deemed cost of a donated asset on initial recognition. The

existing guidance can, however, be applied to the subsequent measurement of such assets. The Technical Advisory Group (TAG) discussed the importance of the concept of service potential for NPOs. It was acknowledged that given the scope of the topics included in this phase of INPAG that there would be limitations on the guidance available to assist in applying this concept. Topics related to measurement could be considered in a future phase of INPAG development.

BC12.4 To assist NPOs, a small amount of application guidance has been added that sets out how the fair value hierarchy is likely to apply to NPO assets and liabilities. This includes the use of a level 3 fair value when ~~related to generating~~ the 'deemed cost' of donated inventory and other donations in-kind. It mirrors the application guidance to Section 13 *Inventories*, and was considered preferable to adding text to the core guidance. The Secretariat views this additional guidance as a consequential change also arising from Section 23 Part I *Revenue from grants and donations*.

BC12.5 This application guidance was amended following feedback from respondents to Exposure Draft 3. Additional guidance was added to clarify what is necessary to identify the most advantageous market, given feedback about access to such markets. Clarifications were also made to confirm that donated assets could be part of assets held at all levels of the fair value hierarchy.

BC12.57 TAG members suggested that in the application guidance a distinction be made between the fair value measurement basis of donated assets that can only be used by the NPO for a specific purpose and those that have no restrictions and could be sold. They were of the view that if a donated asset can be sold, its fair value should be its open market value, but that if it cannot be sold its fair value should be determined with reference to its service potential. The Secretariat agreed with this view and these distinctions are made in the Application Guidance.

BC12.6 Respondents to Exposure Draft 3 raised questions about the interplay between market valuations and the fair value of assets held for their service potential and the measurement of assets that have a restriction where the nature of the restriction does not prevent the sale of the asset. As agreed with TAG members the application guidance to Section 12 provides adaptations that recognise differences arising from donated assets. Donated assets may have a specification that is greater than an NPO would otherwise have purchase and is greater than the operating requirement. INPAG allows such assets to be valued with reference to the value to the NPOs (its service potential) rather than with reference to observable inputs. The varying nature of restrictions on donated assets imposed by donors might be of a nature that does not prevent an asset from being measured at its highest and best use. Restriction in this context is not the same as a restriction in G12.5. The Secretariat having considered these responses is of the view that these adaptations remain valid.

BC12.68 The Secretariat considered whether further application guidance would be useful, particularly in applying the concept of highest and best use to NPO assets. The Secretariat's view is providing such application guidance might infer a level of review of this section that has not been carried out. Therefore fuller application guidance is not proposed.

BC12.9 Respondents to ED3 raised concerns about whether the fair value measurement principles are relevant to NPO operating models that rely on volunteers and gifts, as well as the challenges of measuring heritage assets or assets held for preservation. The Secretariat proposes to consider this feedback when this section is reviewed in a future edition of INPAG.

BC12.710 The implementation guidance included as part of the *IFRS for SMEs* Accounting Standard has been moved to the INPAG Implementation Guidance. All examples could be relevant to NPOs, except perhaps example 2 and additional examples have been added to cover volunteer time and a donation that exceeds the operating requirements of an NPO. Following feedback from

[respondents to Exposure Draft 3 a further example relating to an intangible asset was added.](#) The terminology in the examples reflects that in INPAG.

BC12.811 No other significant editorial changes are proposed from the *IFRS for SMEs* Accounting Standard. Changes have been made to align with other sections including the removal of references to share-based payments. Minor changes to terminology are proposed to align with other sections.

Section 16 – Investment property

BC16.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for investment property was not included as a prioritised topic.

BC16.2 The text in this Section is drawn from the equivalent section of the *IFRS for SMEs* Accounting Standard where investment property that has been acquired is required to be measured at cost on initial recognition. It is, however, possible that an NPO receives donated property that would be considered investment property, where the donated asset would not be used directly for the NPO's missional purposes. As a consequence, an additional paragraph has been added to distinguish between purchased and donated investment property. The new paragraph addresses the initial measurement of the investment property on receipt. It requires a donated investment property to be measured at fair value in line with Section 12 *Fair value measurement* on initial recognition, which becomes its deemed cost. The Secretariat consider this to be a consequential amendment from Section 23 Part I *Revenue from grants and donations*.

BC16.3 Technical Advisory Group (TAG) members discussed the importance of the concept of service potential for NPOs in measuring investment property. It was acknowledged that given the scope of the topics included in this phase of INPAG that there should be limitations on the additional guidance provided to assist in applying this concept.

BC16.4 TAG members also considered the situation where NPOs hold a property to deliver activities to meet its missional objectives that might fall within the definition of investment property. Given the nature of such assets, INPAG clarifies that such assets (eg social housing) shall not be classed as investment property but instead as property, plant and equipment. Such assets should follow the requirements of Section 17 *Property, plant and equipment*.

BC16.5 Some property assets could comprise both an investment property and property, plant and equipment. Section 16 requires that mixed use property shall be separated between investment property and property, plant and equipment. It was noted that where an asset has mixed used (part commercial and part for service delivery) that judgement may be required in determining which section to apply. The Secretariat expect that the judgement will be based on the principle purpose to which the asset is used.

BC16.6 Other than for these points, only minor editorial changes are proposed from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have also been included to align with other sections.

Section 17 – Property plant and equipment

- BC17.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Measurement issues associated with property, plant and equipment was proposed in the Consultation Paper, but this did not attract sufficient support and foreign currency translation was prioritised instead.
- BC17.2 Consideration was given to whether the scope of Section 17 needed to be amended to make clear that assets sharing characteristics with an investment property but primarily used for service delivery are to be treated in accordance with Section 17. This was considered a helpful clarification and as a consequence additional text has been added.
- BC17.3 Consistent with investment property, an additional paragraph has been added to the guidance for property, plant and equipment for assets that have been donated. Similarly, property, plant and equipment that has been donated shall be measured on initial recognition at its fair value in line with the guidance in Section 12 *Fair value measurement*. This measurement value is then used as the deemed cost of the donated asset. This is also considered a consequential amendment from Section 23 Part I *Revenue from grants and donations*. Technical Advisory Group (TAG) members discussed the importance of the concept of service potential for non-profits in measuring property, plant and equipment. It was acknowledged that given the scope of the topics included in this phase of INPAG that there should be limitations to the additional guidance provided to assist in applying this concept.
- BC17.4 No additional application guidance is proposed for Section 17 as the Secretariat is of the view that the additional guidance in Section 12 is sufficient to address the needs of those NPOs that have donated property, plant and equipment.
- BC17.5 TAG members were of the view that additional guidance on heritage assets would be useful. It was agreed that a reference would be made in Section 38 *Transition to INPAG*, noting that heritage assets have not been prioritised for inclusion in this version of INPAG.
- BC17.6 [Respondents who provided feedback on Section 36 *Fund accounting* also provided feedback on property, plant and equipment. These respondents were concerned to ensure that property, plant and equipment whose use is restricted to specific purposes is transparent in the financial statements. This is important to understand the extent to which NPOs are freely able to use its assets in meeting its missional objectives and where this is limited. NPOs can provide this information if it is useful to the users of its financial statements, but without introducing this as a requirement there would be a lack of consistency and potentially transparency. The Secretariat views this as consequential from the introduction of fund accounting. As a consequence a new disclosure has been added to require the disclosure of aggregate information about property, plant and equipment that is subject to restrictions to specific purposes by donors or grantors. NPOs may provide further information about these assets in the notes to the financial statements on in its narrative reporting.](#)
- BC17.67 Other than for these points, only minor editorial changes are proposed from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have been included to align with other sections.

Section 18 – Intangible assets other than goodwill

- BC18.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for intangible assets other than goodwill was not included as a prioritised topic.
- BC18.2 Consistent with investment property and property, plant and equipment, an additional paragraph has been added to the section for donated assets. The Secretariat did not initially propose this adaptation, but Technical Advisory Group (TAG) members were of the view that intangible assets can be acquired by way of a donation, for example the donation of the copyright of a book.
- BC18.3 On initial recognition an asset is measured at fair value in line with the guidance in Section 12 *Fair value measurement*, which becomes its deemed cost. TAG members were of the view that service potential was important in considering the measurement of intangible assets by an NPO and that this measurement basis could be used as the deemed cost of the donated asset. It was acknowledged that given the scope of the topics included in this phase of INPAG that there should be limitations on the guidance provided to assist in applying this concept. This is also considered a consequential amendment from Section 23 Part I *Revenue from grants and donations*.
- BC18.4 Other than for this point, only minor editorial changes are proposed from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have been included to align with other sections.

Section 22 – Liabilities and equity claims

- BC22.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Liabilities and equity were not included as a prioritised topic.
- BC22.12 However, a Amendments to Section 2 Concepts and Pervasive ~~pervasive~~ Principles for the NPO context have introduced net assets as a financial statement element. Net assets are defined as 'the residual available to the NPO to achieve its objectives after deducting all its liabilities from its assets'.
- BC22.23 It is recognised that for some NPOs, holders of equity claims may have established a financial interest in some of the net assets of the NPO ~~as a result of~~ because of equity arrangements. To distinguish between this and the situation generally prevalent in private sector entities where equity is the residual interest in the assets of the entity after deducting all its liabilities, the Secretariat agreed with the Technical Advisory Group that Section 2 and subsequently this Section would refer to equity claims rather than equity in the NPO context. Equity claims being the financial interest in the net assets of an NPO that is due to holders of those claims. This Section 22 was amended to reflect this distinction.
- BC22.34 Given the nature of NPOs and the circumstances in which they are likely to have share capital, the paragraphs related to the sale of options, rights and warrants, extinguishing financial liabilities with equity instruments and treasury shares have been removed. The paragraphs on convertible debt or similar compound financial instruments and capitalisation or bonus issues and share splits have been retained as it is possible that an NPO has control of, acquires or

merges with another entity that has share capital. The guidance may be useful in these circumstances.

BC22.45 In addition to this change, an example of a puttable instrument that is not relevant in the NPO context has been removed from this Section 22, and an example of an instrument that can only be redeemed at par or an index-linked amount has been included. This later example is intended to reflect member share type arrangements that are common for some NPOs.

BC22.56 Consistent with the proposal that share-based payments do not form part of INPAG given the nature of NPOs, references to Section 26 Share-based payments have been removed from this Section.

BC22.67 Other than these amendments, changes are editorial in nature to reflect the terminology being used in INPAG.

Section 33 – Related party disclosures

BC33.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Related parties was not included as a prioritised topic.

BC33.2 It was recognised that NPOs may have governance structures that differ from other organisations and it can be the case that individuals are the trustee or equivalent of more than one NPO. As a consequence this Section makes clear that a member of an NPO governing body, whether or not they are remunerated is a related party. It also requires that the characteristics of an NPO's governing body's governance arrangements are considered in determining related parties.

BC33.3 In developing the disclosures for the classification of expenses consideration was given to information about key management personnel and governing body members. Paragraph G33.7 requires the disclosure of key management personnel compensation in total. There were no specific disclosures for governing body members. To provide clarity, additional disclosures to cover their personnel compensation arrangements and expenses have been added. Such disclosures provide transparency for accountability purposes.

BC33.4 Details of the personnel compensation paid to governing board members (if any) and the legal basis of those payments are to be disclosed. The legal basis is important as it is not legal to compensate governing body members in some jurisdictions. There is also a requirement to disclose the nature and amount of all out-of-pocket expenses reimbursed.

BC33.5 ~~The Secretariat has included two new exemptions for the disclosure of related party transactions: Donations made by a governing body member need not be disclosed provided there are no special obligations to amend its normal activities e.g. use of certain suppliers or sources of inputs. Similarly, services received by a governing body member need not be disclosed where they are received on the same terms as any other eligible individual. Technical Advisory Group (TAG) members supported these amendments where amounts paid or received are on the same terms as other donors or beneficiaries. Application guidance clarifies that that this exemption would not apply to grants that have terms that place obligations on the NPO. The Secretariat initially proposed two exemptions for the disclosure of related party transactions involving governing body members. These exemptions stated that donations made by a governing body member need not be disclosed, provided there were no special obligations that would require the NPO to amend its normal activities (e.g., using specific suppliers or sources of inputs).~~

Similarly, services received by a governing body member were exempt from disclosure if they were provided on the same terms as those offered to any other eligible individual.

BC33.6 Technical Advisory Group (TAG) members supported these exemptions, especially where amounts paid or received are on the same terms as those applied to other donors or beneficiaries to reduce reporting burdens for NPOs. However, the feedback from ED3, questioned the appropriateness of these exemptions. Respondents were concerned that governing body members may be able to exert significant influence when making grants and donations even where transactions were at arms'-length, particularly if an NPO is reliant on such grants and donations. Respondents were also concerned that governing body members could exert influence to ensure that they received the services from an NPO, potentially in advance of other recipients and encouraged transparency.

BC33.7 The Secretariat considered this feedback acknowledging the importance of transparency and the potential burdens that might arise from this reporting. The Secretariat agreed that disclosure of grants and donations should be made given the risk of undue influence or conflicts of interest and that these were relevant to the users of the financial statements. TAG members supported this conclusion and as a result this exception to the disclosure requirements was removed.

BC33.8 The Secretariat separately considered the disclosure of services received on the same terms as other eligible recipients. The Secretariat acknowledged the possibility that governing body members may benefit favourably by being prioritised for the receipt of services, even though services are provided on the same terms as other eligible service recipients. The Secretariat agreed that the fact that a governing body is in receipt of services and the nature of the service received is disclosed, but on balance does not believe it is necessary to disclose the transactions or amounts. The Secretariat proposes that this exception is reviewed in advance of the second edition of INPAG to ensure that it is working effectively. TAG members supported this approach in balancing transparency versus reporting burdens. This exception does not apply to amounts outstanding beyond an NPO's normal terms.

BC33.9 Materiality applies to the disclosures required in this Section. To promote transparency NPOs are encouraged to voluntarily disclose immaterial transactions and how it manages the relationship with governing body members where those members are in receipt of services. This provides NPOs with an opportunity to build trust by voluntarily disclosing transactions that could offer valuable context. The implementation guidance provides further clarification on how these disclosures should be made, with accompanying examples.

BC33.610Section 33 is based on a typical private sector group structures and in particular where there are parent to entity type relationships. These kinds of structures may also be relevant to NPOs, particularly if separate legal entities have been created to carry out commercial activities, but less relevant for others. However, without a full review of this section it is proposed to leave the existing language about group relationships largely unchanged.

BC33.711Section 33 provides an additional exemption from disclosures where a government or another entity under the same control, joint control or significant influence of government controls, jointly controls or has significant influence over an NPO. This exemption in the *IFRS for SMEs* Accounting Standard was introduced to reduce the burden on preparers. This exemption has been maintained to similarly reduce the burden on the preparers.

BC33.812In reviewing this Section, consideration was given to whether service potential needed to be included within the scope of related party transactions to align with other sections. TAG members were of the view that service potential doesn't exist without another asset or service

and therefore was not itself a separate related party transaction. As a consequence this has concept not been included.

BC33.913 Finally, G33.14 broadens one of the disclosure categories from entities with control, joint control or significant influence to entities and individuals, reflecting the broader nature of those who might hold equity claims.

BC33.1014 Other than these changes, no major editorial changes are proposed for accounting for related party disclosures from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have been proposed to align with other sections.

confidential — for TAG review