

Section 3 – Financial statement presentation (Status – Updated)

Scope of this Section

- G3.1 This Section explains **fair presentation** of financial statements, what compliance with the INPAS requires and what comprises a complete set of financial statements.

Fair presentation

- G3.2 Financial statements shall present fairly the **financial position, income and expenses**, other changes in net assets and **cash flows** of an NPO. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and **recognition** criteria for **assets, liabilities**, income and expenses set out in **Section 2 Concepts and pervasive principles**:
- a) the application of INPAS, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, income and expenses, other changes in net assets and cash flows of NPOs.
 - b) the application of this Standard by an NPO with **public accountability** is unlikely to result in a fair presentation in accordance with this Standard (see paragraph **G1.9**).
- The additional disclosures referred to in (a) are necessary when compliance with the specific requirements in this Standard is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the NPO's financial position and income and expenses.

Compliance with INPAS

- G3.3 An NPO whose financial statements comply with INPAS shall make an explicit and unreserved statement of such compliance in the **notes. Financial statements** shall not be described as complying with INPAS unless they comply with all the requirements of this Standard. Where an NPO is transitioning to INPAS, it shall comply with the disclosure requirements in **Section 38 Transition to INPAS**.
- G3.4 In the extremely rare circumstances when management concludes that compliance with this Standard would be so misleading that it would conflict with the objective of financial statements of NPOs set out in **Section 2**, the NPO shall depart from that requirement in the manner set out in paragraph **G3.5**, unless the relevant regulatory framework prohibits such a departure.
- G3.5 When an NPO departs from a requirement of this Standard in accordance with paragraph **G3.4**, it shall disclose the following:
- a) that management has concluded that the financial statements present fairly the NPO's financial position, income and expenses, other changes in net assets and cash flows;
 - b) that it has complied with INPAS, except that it has departed from a particular requirement to achieve a fair presentation; and
 - c) the nature of the departure, including the treatment that INPAS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in **Section 2** and the treatment adopted.
- G3.6 When an NPO has departed from a requirement of this Standard in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph **G3.5 c**).

- G3.7 In the extremely rare circumstances when management concludes that compliance with a requirement in INPAS would be so misleading that it would conflict with the objective of financial statements of NPOs set out in **Section 2**, but the relevant regulatory framework prohibits departure from the requirement, the NPO shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing the following:
- a) the nature of the requirement in this Standard and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in **Section 2**; and
 - b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.

Going concern

- G3.8 When preparing financial statements, the management of an NPO using this Standard shall assess the NPO's ability to continue as a **going concern**. An NPO is a going concern unless management either intends to liquidate it or to cease activities, or it has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least but is not limited to twelve months from the **reporting date**.
- G3.9 When management is aware in making its assessment of **material** uncertainties related to events or conditions that cast significant doubt upon the NPO's ability to continue as a going concern, the NPO shall disclose those uncertainties. When an NPO does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the NPO is not regarded as a going concern.

Frequency of reporting

- G3.10 An NPO shall present a complete set of financial statements (including comparative information – see paragraph **G3.14**) at least annually. When the end of an NPO's **reporting period** changes and the financial statements are presented for a period longer or shorter than one year, the NPO shall disclose the following:
- a) that fact;
 - b) the reason for using a longer or shorter period;
 - c) the fact that comparative amounts presented in the financial statements (including the related notes) are not entirely comparable.

Consistency of presentation

- G3.11 An NPO shall retain the presentation and **classification** of items in the financial statements from one period to the next unless:
- a) it is apparent, following a significant change in the nature of the NPO's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in **Section 10 Accounting policies, estimates and errors**
 - b) this Standard requires a change in presentation.
- G3.12 When the presentation or classification of items in the financial statements is changed, an NPO shall reclassify comparative amounts unless the reclassification is **impracticable**. When comparative amounts are reclassified, an NPO shall disclose the following:
- a) the nature of the reclassification;

- b) the amount of each item or class of items that is reclassified; and
- c) the reason for the reclassification.

G3.13 If it is impracticable to reclassify comparative amounts, an NPO shall disclose why reclassification was not practicable.

Comparative information

G3.14 Except when this Standard permits or requires otherwise, an NPO shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements. An NPO shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

Materiality and aggregation

G3.15 An NPO shall present separately each material class of similar items. An NPO shall present separately items of a dissimilar nature or function unless they are immaterial.

G3.16 When applying this Standard, an NPO shall decide, after taking into consideration all the relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An NPO shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

G3.17 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the **primary users** of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting NPO. Materiality depends on the nature or magnitude of information, or both. An NPO assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Accrual basis

G3.18 An NPO shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. On the accrual basis, items are recognised as assets, liabilities, net assets, income or expenses when they satisfy the definitions and recognition criteria for those items.

Complete set of financial statements

G3.19 A complete set of financial statements of an NPO shall include all the following:

- a) a **Statement of Financial Position** as at the reporting date;
- b) a **Statement of Income and Expenses** for the reporting period, displaying those items of income and expense recognised during the period in determining **surplus or deficit**;
- c) a **Statement of Changes in Net Assets** for the reporting period;
- d) a **Statement of Cash Flows** for the reporting period; and
- e) notes comprising material accounting policy information and other explanatory information.

G3.20 Because paragraph G3.14 requires comparative amounts in respect of the previous period for all amounts presented in the financial statements, a complete set of financial statements means

that an NPO shall present, as a minimum, two of each of the required financial statements and related notes.

- G3.21 In a complete set of financial statements, an NPO shall present each financial statement with equal prominence.
- G3.22 An NPO may use titles for the financial statements, other than those used in this Standard, as long as they are not misleading. Similarly an NPO may choose other labels for the headings and line items used in the Standard provided they are not misleading.

Identification of the financial statements

- G3.23 An NPO shall clearly identify each of the financial statements and the notes and distinguish them from other information in the same document. In addition, an NPO shall display the following information prominently and repeat it when necessary for an understanding of the information presented:
- the name of the reporting NPO and any change in its name since the end of the preceding reporting period;
 - whether the financial statements cover the individual NPO or a **group** of entities;
 - the date of the end of the reporting period and the period covered by the financial statements;
 - the **presentation currency** as defined in **Section 30 Foreign currency translation**; and
 - the level of rounding, if any, used in presenting amounts in the financial statements.
- G3.24 An NPO shall disclose the following in the notes:
- the domicile and legal form of the NPO, its country of incorporation or registration (if applicable) and the address of the office registered with the jurisdictional regulator (or principal place of **business** if different from the registered office or there is no registered office).
 - a description of the nature of the NPO's operations and its principal activities.

Presentation of information not required by this Standard

- G3.25 This Standard does not address presentation of segment information, earnings per share (if applicable) or interim financial reports by NPOs. An NPO making such disclosures shall describe the basis for preparing and presenting the information.

Comparison of Section 3 with the *IFRS for SMEs Accounting Standard*

Section 3 of INPAS has been drawn from Section 3 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 3 of the Third edition of the *IFRS for SMEs Accounting Standard* and Section 3 of the first edition of INPAS are as follows:

- INPAS Section 3 uses different terminology, referring specifically to NPOs rather than entities more generally.
- INPAS Section 3 refers to income and expenses rather than financial performance to better represent the nature of NPOs. While financial performance is important to all organisations, the purposes/ mission of NPOs may prioritise other factors in assessing overall performance.
- INPAS Section 3 requires an NPO to produce a Statement of Income and Expenses that results in a surplus or deficit rather than allowing the choice available in Section 3 of the draft Third

edition of the IFRS for SMEs Accounting Standard of either a single statement of comprehensive income or a separate income statement and statement of comprehensive income. Surplus and deficit replaces profit and loss.

- INPAS Section 3 replaces the statement of changes in equity with a Statement of Changes in Net Assets.
- The additional guidance in Section 3 of the Third edition of the IFRS for SMEs Accounting Standard that relates to the required use of its statements has been removed where these statements are not required in INPAS.
- INPAS Section 3 includes additional commentary in relation to the transitional guidance to be contained in Section 38 of INPAS.
- INPAS Section 3 amends the information required about the reporting entity, including registration information, so that it addresses the more varied arrangements for NPOs. The requirements are intended to provide equivalent information.
- INPAS allows alternative headings and descriptions to be used in addition to alternative titles to financial statements where this would not result in information that is misleading. This is to provide explicit flexibility for NPOs.

Section 4 – Statement of Financial Position (Status – Modified)

Scope of this Section

- G4.1 This Section sets out the information that is to be presented in a **Statement of Financial Position** and how to present it. The Statement of Financial Position (sometimes called the balance sheet) presents an NPO's **assets, liabilities** and **net assets** (comprising restricted funds, unrestricted funds, any **equity claims** and, exceptionally, **non-controlling interests**) as of a specific date – the end of the **reporting period**.

Information to be presented in the Statement of Financial Position

- G4.2 The Statement of Financial Position shall include line items that present the following amounts:
- a) **cash** and cash **equivalents**;
 - b) operating and other receivables;
 - c) **financial assets** (excluding amounts shown under a), b), k) and l));
 - d) inventories;
 - e) **property, plant and equipment** (including **bearer plants** in the scope of **Section 17 Property, plant and equipment**);
 - f) **investment property** carried at cost less accumulated **depreciation** and **impairment**;
 - g) investment property carried at **fair value** through **surplus or deficit**;
 - h) **intangible assets**;
 - i) **biological assets** in the scope of **Section 34 Specialised activities** carried at cost less accumulated depreciation and impairment;
 - j) biological assets in the scope of **Section 34** carried at fair value through surplus or deficit;
 - k) investments in **associates**;
 - l) investments in **jointly controlled entities**;
 - m) operating and other payables;
 - n) **financial liabilities** (excluding amounts shown under m) and q));
 - o) liabilities and assets for **current tax**;
 - p) **deferred tax liabilities** and **deferred tax assets** (these shall always be classified as noncurrent);
 - q) **provisions**;
 - r) **non-controlling interest**, presented within net assets;
 - s) **equity claims**, being the cumulative total at the reporting date of **contributions from holders of equity claims** less **distributions to holders of equity claims**;
 - t) the aggregate of **restricted funds**; and
 - u) the aggregate of **unrestricted funds**.
- G4.3 An NPO shall present additional line items (including by disaggregating the line items listed in paragraph **G4.2**), headings and subtotals in the Statement of Financial Position when such presentation is relevant to an understanding of the NPO's **financial position**.

Current/non-current distinction

- G4.4 An NPO shall present current and non-current assets, and current and non-current liabilities, as separate **classifications** in its Statement of Financial Position in accordance with paragraphs **G4.5–G4.8**, except when a presentation based on liquidity provides information that is reliable

and more relevant. When that exception applies, all assets and liabilities shall be presented in order of approximate liquidity (ascending or descending).

Current assets

G4.5 An NPO shall classify an asset as current when:

- a) it expects to realise the asset, or intends to sell or consume it, in the NPO's normal operating cycle;
- b) it holds the asset primarily for the purpose of its operating activities;
- c) it expects to realise the asset within twelve months after the reporting date; or
- d) the asset is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

G4.6 An NPO shall classify all other assets as non-current. When the NPO's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

Current liabilities

G4.7 An NPO shall classify a liability as current when:

- a) it expects to settle the liability in the NPO's normal operating cycle;
- b) it holds the liability primarily for the purpose of its operating activities;
- c) the liability is due to be settled within twelve months after the reporting date; or
- d) the NPO does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date.

G4.8 An NPO shall classify all other liabilities as non-current.

Normal operating cycle

G4.9 There is a rebuttable presumption that an NPO's operating cycle is twelve months. Where the presumption is rebutted, the normal operating cycle of an NPO is the time taken to convert inputs or resources into outputs. For instance, an NPO may receive donations or grants and use these resources to deliver services to meet the NPO's objectives.

Sequencing of items and format of items in the Statement of Financial Position

G4.10 This Standard does not prescribe the sequence or format in which items are to be presented. Paragraph G4.2 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation in the Statement of Financial Position. In addition:

- a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the NPO's financial position; and
- b) the descriptions used and the sequencing of items or aggregation of similar items may be amended, according to the nature of the NPO and its transactions, to provide information that is relevant to an understanding of the NPO's financial position.

G4.11 The judgement on whether additional items are presented separately is based on an assessment of all the following:

- a) the amounts, nature and liquidity of assets;
- b) the function of assets within the NPO; and
- c) the amounts, nature and timing of liabilities.

Information to be presented either in the Statement of Financial Position or in the notes

- G4.12 An NPO shall disclose, either in the Statement of Financial Position or in the notes, the following subclassifications of the line items presented:
- a) property, plant and equipment in classifications appropriate to the NPO.
 - b) cash and cash equivalents, showing separately cash that may not be available for use by the NPO (comprising cash and cash equivalents that have restrictions due to reasons such as foreign exchange controls, legal restrictions or restrictions imposed by donors – for example, the retention of cash in a specified bank account).
 - c) operating and other receivables, showing separately amounts ~~due receivable~~ from related parties, amounts ~~due and receivables~~ from other parties ~~and receivables arising from accrued income not yet billed~~.
 - d) inventories, showing separately amounts of inventories:
 - i) held for sale in the ordinary course of operations
 - ii) held for distribution in the ordinary course of operations
 - iii) in the process of production for such sale; and
 - iv) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
 - e) operating and other payables, showing separately amounts payable to operating suppliers, payable to related parties, deferred income and accruals.
 - f) provisions for **employee benefits** and other **provisions**.
- G4.13 The use of separate columns to present items in the Statement of Financial Position in respect of restricted funds and unrestricted funds is not required.
- G4.14 An NPO shall disclose an analysis of the movements of net assets, either on the face of the Statement of Financial Position or in the notes, showing separately material individual reserves or funds, where this is not required by **Section 36 Fund accounting**.
- G4.15 In addition to the disclosures in paragraph **G4.12**, an NPO with share capital shall disclose the following, either in the Statement of Financial Position or in the notes for each class of share capital:
- a) the number of shares authorised;
 - b) the number of shares issued and fully paid and issued but not fully paid;
 - c) par value per share or that the shares have no par value;
 - d) a reconciliation of the number of shares outstanding at the beginning and at the end of the period. This reconciliation need not be presented for prior periods;
 - e) the rights, preferences and restrictions attaching to that class, including restrictions on the distribution of **dividends** and the repayment of capital;
 - f) shares in the entity held by the NPO or by its controlled entities or associates; and
 - g) shares reserved for issue under options and **contracts** for the sale of shares, including the terms and amounts.
- G4.16 An NPO with equity claims other than share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph **G4.15**, showing changes during the period in each category of equity claims and the rights, preferences and restrictions attaching to it.
- G4.17 If at the reporting date an NPO has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities, the NPO shall disclose the following information:
- a) a description of the asset(s) or the group of assets and liabilities;
 - b) a description of the facts and circumstances of the sale; and
 - c) the carrying amount of the assets or, if the disposal involves a group of assets and liabilities, the carrying amounts of those assets and liabilities.

Comparison of Section 4 with the *IFRS for SMEs* Accounting Standard

Section 4 of INPAS has been drawn from Section 4 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 4 of the Third edition of the *IFRS for SMEs* Accounting Standard and Section 4 of INPAS are as follows:

- INPAS Section 4 replaces 'equity' as defined in the *IFRS for SMEs* Accounting Standard with 'net assets' in its description of the Statement of Financial Position. Net assets are comprised of restricted funds, unrestricted funds and equity claims (which are defined in Section 2 for the NPO context) and exceptionally non-controlling interests.
- Consequently, Section 4 of INPAS removes 'equity attributable to owners of the entity' and replaces it with equity claims, restricted funds and unrestricted funds. Several core disclosures relating to equity have been removed, with disclosures only where applicable.
- INPAS Section 4 clarifies that there is no requirement to split all items in the Statement of Financial Position between those with and without restrictions.
- INPAS Section 4 requires that restricted funds and unrestricted funds are disaggregated into their main components, either on the face of or in the notes to the financial statements.
- INPAS Section 4 replaces the word 'trade' in relation to receivables, payables and liabilities used in Section 4 of the Third edition of the *IFRS for SMEs* Accounting Standard with 'operating' to accommodate the range of activities that NPOs carry out.
- INPAS Section 4 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other Sections of INPAS rather than the *IFRS for SMEs* Accounting Standard.

Section 5 – Statement of Income and Expenses (Status – Modified)

Scope of this Section

- G5.1 This Section requires an NPO to present its **income and expenses** for a period – ie its financial activity for the period. It sets out the information that is to be presented in this statement and how to present it.

Presentation of income and expenses

- G5.2 An NPO shall present a **Statement of Income and Expenses** that presents all items of income and expense recognised in the period, except those that are recognised in the **Statement of Changes in Net Assets** as permitted or required by this Standard.
- G5.3 Aggregated income and expenses with restrictions may be presented in a separate column to aggregated income and expenses without restrictions on the face of the Statement of Income and Expenses.
- G5.4 The effects of corrections of **errors** and changes in **accounting policies** are presented as retrospective adjustments of prior periods instead of as part of surplus or deficit in the period in which they arise (see **Section 10 Accounting policies, estimates and errors**).
- G5.5 The Statement of Income and Expenses shall include all items of income and expense recognised in a period unless this Standard requires otherwise. An NPO shall present its unrealised gains or losses from **fair value** adjustments as part of the surplus or deficit, except where these gains or losses are recognised in the Statement of Changes in Net Assets (see paragraph **G5.6**). These should be presented after **surplus or deficit from operating activities** in arriving at the total surplus or deficit of the NPO. Disclosure shall be made of unrealised gains and losses from fair value adjustment to:
- investment properties that are carried at fair value through surplus or deficit
 - financial instruments** that are carried at fair value through surplus or deficit
 - defined benefit pensions where actuarial adjustments are recognised through surplus or deficit.
- G5.6 Four types of unrealised gains or losses are recognised as part of Statement of Changes in Net Assets (see Section 6 Statement of Changes in Net Assets) outside of surplus or deficit when prescribed by this Standard:
- some **gains** and **losses** arising on translating the **financial statements** of a foreign operation (see **Section 30 Foreign currency translation**);
 - some actuarial gains and losses (see **Section 28 Employee benefits**);
 - some changes in fair values of **hedging instruments** (see **Part II of Section 11 Other financial instrument issues**); and
 - changes in the revaluation surplus for **property, plant and equipment**, measured in accordance with the revaluation model (see **Section 17 Property, plant and equipment**).
- G5.7 **As a minimum an** NPO shall include, in the Statement of Income and Expenses, line items that present the following amounts for the period:
- revenue**;
 - finance costs;

- c) share of the surplus or deficit of investments in **associates** (see Section 14 *Investments in associates*) and **jointly controlled entities** (see Section 15 *Joint arrangements*), accounted for using the equity method;
- d) **tax expense**, excluding tax allocated to items e), g) and h) (see paragraph G29.35);
- e) a single amount comprising the total of:
 - i) the post-tax surplus or deficit of a **discontinued operation**; and
 - ii) the post-tax gain or loss attributable to an **impairment**, or reversal of an impairment, of the assets in the discontinued operation (see Section 27 *Impairment of assets*), both at the time and subsequent to being classified as a discontinued operation and to the disposal of the net assets constituting the discontinued operation;
- f) surplus or deficit from operating activities;
- g) each unrealised gain or loss (see paragraph G5.5) classified by nature (excluding amounts in h));
- h) share of the gains or losses of associates and jointly controlled entities accounted for using the equity method; and
- i) total surplus or deficit.

G5.8 An NPO shall disclose separately in the Statement of Income and Expenses as allocations for the period the surplus or deficit for the period attributable to:

- a) **non-controlling interest**;
- b) holders of **equity claims**.

G5.9 An NPO shall present additional line items, headings and subtotals in the Statement of Income and Expenses when such presentation is relevant to an understanding of the NPO's financial performance.

G5.10 An NPO shall not present or describe any items of income and expense as 'extraordinary items' in the Statement of Income and Expenses or in the **notes**.

Analysis of expenses

G5.11 An NPO shall present an analysis of expenses that provides information that is reliable and more relevant in accordance with Section 24 Part II *Classification of expenses*.

Comparison of Section 5 with the *IFRS for SMEs Accounting Standard*

Section 5 of INPAS has been drawn from Section 5 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 5 of the Third edition of the *IFRS for SMEs Accounting Standard* and Section 5 of INPAS are as follows:

- INPAS Section 5 requires an NPO to produce a Statement of Income and Expenses that results in a surplus or deficit rather than allowing the choice available in Section 5 of the Third edition of the *IFRS for SMEs Accounting Standard* of either a single statement of comprehensive income or a separate income statement and statement of comprehensive income. References to the choice between these two statements have been removed throughout Section 5.
- The terms surplus and deficit are used in INPAS Section 5 rather than profit and loss.
- INPAS Section 5 requires that unrealised gains and losses arising from certain fair value adjustments are shown after surplus or deficit from operating activities on the Statement of Income and Expenses unless required to be shown in the Statement of Changes in Net Assets.

- INPAS Section 5 refers to holders of equity claims instead of 'owners of the parent' used in the Third edition of the *IFRS for SMEs* Accounting Standard.
- The requirements relating to the classification of expenses are not included in Section 5, as a separate Section provides NPO-specific guidance for the approach to the analysis.
- INPAS Section 5 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other Sections of INPAS rather than the *IFRS for SMEs* Accounting Standard.

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Section 6 – Statement of Changes in Net Assets (Status – Modified)

Scope of this Section

- G6.1 This Section sets out requirements for presenting the changes in an NPO's net assets for a period.

Presentation

- G6.2 The Statement of Changes in Net Assets presents an NPO's **surplus or deficit** for a **reporting period, gains or losses** that are not taken through the Statement of Income and Expenses (see paragraph G5.6), movements between funds, the effects of changes in **accounting policies** and corrections of **errors** recognised in the period, and the amounts of contributions by and distributions to holders of **equity claims** during the period.

- G6.3 An NPO shall present in the Statement of Changes in Net Assets for **equity claims, restricted funds, unrestricted funds** other reserves (eg revaluation reserves) and **non-controlling interests** that together comprise net assets, a reconciliation between the **carrying amount** at the beginning and the end of the period, separately disclosing:

- surplus or deficit;
- for each component of net assets, the effects of changes in accounting policies and corrections of errors recognised in accordance with Section 10 *Accounting policies, estimates and errors*;
- for each component of net assets, changes resulting from gains or losses that are recognised directly in net assets (see paragraph G5.6);
- total income and expenses, to be a subtotal of a), b) and c), showing separately any amount relating to a non-controlling interest;
- changes resulting from movements between restricted funds and unrestricted funds, and any of the other identified components; and
- changes resulting from movements in equity claims, including **distributions to holders of equity claims** and **contributions from holders of equity claims**.

Where components of net assets include items which will be reclassified in surplus or deficit when specific conditions are met (see Part II of Section 11) they shall be grouped separately from items which will not be reclassified subsequently.

- G6.4 An NPO shall provide a reconciliation of the **carrying amount** at the beginning and the end of the period, in line with G6.3, of any material subcomponents of net assets (such as restricted funds and unrestricted funds) in the notes to the accounts, which aggregate to the components shown on the Statement of Changes in Net Assets.

Comparison of Section 6 with the *IFRS for SMEs Accounting Standard*

Section 6 of INPAS has been drawn from Section 6 of the *IFRS for SMEs Accounting Standard* but has been updated to be specific to the statement requirements for NPOs. The overall purpose of Section 6 is consistent with Section 6 of the Third edition of the *IFRS for SMEs Accounting Standard*. The main differences between Section 6 of the Third edition of the *IFRS for SMEs Accounting Standard* and the Section 6 of INPAS are as follows:

- INPAS Section 6 replaces the statement of changes in equity with a Statement of Changes in Net Assets and does not include any requirements for a statement of income and retained earnings.
- INPAS Section 6 amends the scope from requiring the presentation of changes in an entity's equity for a period to changes in an NPO's net assets, with the purpose amended to reflect the single statement approach.
- INPAS Section 6 prescribes the items to be presented on the face of the statement to allow the subtotalling of income and expenses consistent with the definition of comprehensive income.
- INPAS Section 6 requires a reconciliation of the opening and closing carrying amounts of any material subcomponent of net assets, restricted funds, unrestricted funds and non-controlling interests in the notes to the accounts.
- INPAS Section 6 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other Sections of INPAS rather than the *IFRS for SMEs* Accounting Standard.

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Section 7 – Statement of Cash Flows (Status – Updated)

Scope of this Section

- G7.1 This Section sets out the information that is to be presented in a Statement of Cash Flows and how to present it. The Statement of Cash Flows provides information about the changes in **cash** and **cash equivalents** of an NPO for a reporting period, showing separately changes from **operating activities**, **investing activities** and **financing activities**.

Cash equivalents

- G7.2 Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. They are held to meet short-term cash commitments instead of for investment or other purposes. Consequently, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an NPO's cash management, bank overdrafts are a component of cash and cash equivalents.

Information to be presented in the Statement of Cash Flows

- G7.3 An NPO shall present a Statement of Cash Flows that presents **cash flows** for a reporting period classified by operating activities, investing activities and financing activities.

Operating activities

- G7.4 Operating activities are the principal activities of the NPO. Consequently, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of surplus or deficit. Examples of cash flows from operating activities are:
- a) cash receipts from grants and donations ;
 - b) cash receipts from the rendering of services and the sale of goods;
 - c) cash receipts from royalties, fees, commissions and other **revenue**;
 - d) cash payments to suppliers for goods and services;
 - e) cash payments to and on behalf of employees;
 - f) cash payments or refunds of income tax, unless they can be specifically identified with financing and investing activities;
 - g) cash receipts and payments from investments, loans and other contracts held for dealing or trading purposes, which are similar to inventory acquired specifically for resale; and
 - h) cash receipts and payments from advances and loans made to other parties where such transactions are the NPO's primary objective.

Some transactions, such as the sale of an item of property, plant or equipment, may give rise to a gain or loss that is included in surplus or deficit. However, the cash flows relating to such transactions are cash flows from investing activities. Where a grant or donation is received specifically for the acquisition or construction of **property, plant and equipment, intangible assets** and other long-term assets this should be separately disclosed.

Investing activities

- G7.5 Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Examples of cash flows arising from investing activities are:

- a) cash payments to acquire property, plant and equipment (including self-constructed property, plant and equipment), intangible assets and other long-term assets;
- b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
- c) cash payments to acquire **equity** or debt instruments of other entities and interests in jointly controlled entities (other than payments for those instruments classified as cash equivalents or held for dealing or trading);
- d) cash receipts from sales of equity or debt instruments of other entities and interests in jointly controlled entities (other than receipts for those instruments classified as cash equivalents or held for dealing or trading);
- e) cash advances and loans made to other parties (except where such transactions are the NPO's primary objective which, consistent with paragraph G7.4(h), which should be treated as operating activities);
- f) cash receipts from the repayment of advances and loans made to other parties (except where such transactions are the NPO's primary objective which, consistent with paragraph G7.4(h), which should be treated as operating activities);
- g) cash payments for futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading, or the payments are classified as financing activities; and
- h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge (see Part II of **Section 11 Other Financial Instrument Issues**), an NPO shall classify the cash flows of the contract in the same manner as the cash flows of the item being hedged.

Financing activities

G7.6 Financing activities are activities that result in changes in the size and composition of the borrowings and equity claims of an NPO. Examples of cash flows arising from financing activities are:

- a) cash proceeds from **contributions from holders of equity claims** (including the issue of shares, if applicable);
- b) cash payments to holders of **equity claims** to acquire or redeem the NPO's equity claims;
- c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;
- d) cash repayments of amounts borrowed; and
- e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance **lease**.

Reporting cash flows from operating activities

G7.7 An NPO shall present cash flows from operating activities using either:

- a) the indirect method, whereby surplus or deficit is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments and items of income or expense associated with investing or financing cash flows; or
- b) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

Indirect method

- G7.8 Under the indirect method, the net cash flow from operating activities is determined by adjusting surplus or deficit for the effects of:
- a) changes during the period in **inventories** and operating receivables and payables;
 - b) non-cash items such as **depreciation, provisions, deferred tax**, accrued income (expenses) not yet received (paid) in cash, unrealised foreign currency gains and losses, undistributed profits of **associates** and donations of goods and services; and
 - c) all other items for which the cash effects relate to investing or financing.
- An NPO shall not include donations of non-cash items, for example, donated inventory in the statement of cash flows.

Direct method

- G7.9 Under the direct method, net cash flow from operating activities is presented by disclosing information about major classes of gross cash receipts and gross cash payments. Such information may be obtained either:
- a) from the accounting records of the NPO, or
 - b) by adjusting income, expenses and other items in the **Statement of Income and Expenses** for:
 - i) changes during the period in inventories and operating receivables and payables;
 - ii) other non-cash items; and
 - iii) other items for which the cash effects are investing or financing cash flows.

Reporting cash flows from investing and financing activities

- G7.10 An NPO shall present separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. The aggregate cash flows arising from acquisitions and from disposals of controlled entities or other **business** units shall be presented separately and classified as investing activities.

Foreign currency cash flows

- G7.11 An NPO shall record cash flows arising from transactions in a foreign currency in the NPO's **functional currency** by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow. Paragraph G30.22 explains when an exchange rate that approximates the actual rate can be used.
- G7.12 The NPO shall translate cash flows of a foreign **controlled entity** at the exchange rates between the NPO's functional currency and the foreign currency at the dates of the cash flows.
- G7.13 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, to reconcile cash and cash equivalents at the beginning and the end of the period, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency must be presented in the Statement of Cash Flows. Consequently, the NPO shall remeasure cash and cash equivalents held during the reporting period (such as amounts of foreign currency held and foreign currency bank accounts) at period-end exchange rates. The NPO shall present the resulting unrealised gain or loss separately from cash flows from operating, investing and financing activities.

Interest and capital distributions

- G7.14 An NPO shall present separately cash flows from interest and **distributions to holders of equity claims** (including **dividends**) received and paid. The NPO shall classify cash flows consistently from period to period as operating, investing or financing activities.
- G7.15 An NPO may classify interest paid and interest and distributions to holders of equity claims (including dividends) received as operating cash flows because they are included in **surplus or deficit from operating activities**. Alternatively, the NPO may classify interest paid and interest and distributions to holders of equity claims (including dividends) received as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.
- G7.16 An NPO may classify distributions to holders of equity claims paid as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, the NPO may classify distributions to holders of equity claims paid as a component of cash flows from operating activities because they are paid out of operating cash flows.

Income tax

- G7.17 An NPO shall present separately cash flows arising from income tax and shall classify them as cash flows from operating activities unless they can be specifically identified with financing and investing activities. When tax cash flows are allocated over more than one class of activity, the NPO shall disclose the total amount of taxes paid.

Non-cash transactions

- G7.18 An NPO shall exclude from the Statement of Cash Flows investing and financing transactions that do not require the use of cash or cash equivalents. An NPO shall disclose such transactions elsewhere in the **financial statements** in a way that provides all the relevant information about those investing and financing activities.
- G7.19 Many investing and financing activities do not have a direct impact on current cash flows even though they affect the capital and asset structure of an NPO. The exclusion of non-cash transactions from the Statement of Cash Flows is consistent with the objective of a Statement of Cash Flows because these items do not involve cash flows in the current period. Examples of non-cash transactions are:
- the receipt of donated assets;
 - the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;
 - the acquisition of an entity by means of an equity issue; and
 - the conversion of debt to equity.

Changes in liabilities arising from financing activities

- G7.20 An NPO shall disclose a reconciliation between the opening and closing balances in the Statement of Financial Position for liabilities arising from financing activities. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Statement of Cash Flows as cash flows from financing activities. The reconciliation shall include:
- changes from financing cash flows;
 - changes arising from obtaining or losing control of subsidiaries or other businesses;
 - the effect of changes in foreign exchange rates;
 - changes in fair values; and

- e) other changes.

Supplier finance arrangements

- G7.21 Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the NPO with extended payment terms, or the NPO's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as 'supply chain finance', 'payables finance' or 'reverse factoring arrangements'.
- G7.22 An NPO shall disclose in aggregate for its supplier finance arrangements:
- a) the key terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an NPO shall disclose separately the terms and conditions of arrangements that have dissimilar key terms and conditions.
 - b) as at the beginning and end of the reporting period:
 - i) the carrying amounts, and associated line items presented in the NPO's statement of financial position, of the financial liabilities that are part of a supplier finance arrangement.
 - ii) the range of payment due dates (for example, 30–40 days after the invoice date) for both the financial liabilities disclosed in accordance with (i) and comparable operating payables that are not part of the supplier finance arrangement. Comparable operating payables are, for example, operating payables of the NPO with other NPOs similar objectives or jurisdictions as the financial liabilities disclosed in accordance with (i). If ranges of payment due dates are wide, an NPO shall disclose explanatory information about those ranges or divide them into narrower ranges.
 - c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed in accordance with (b)(i). Examples of non-cash changes include the effect of business combinations, exchange differences and other transactions that do not require the use of cash or cash equivalents (see paragraph G7.18).

Components of cash and cash equivalents

- G7.23 An NPO shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts presented in the Statement of Cash Flows to the equivalent items presented in the Statement of Financial Position. However, the NPO is not required to present this reconciliation if the amount of cash and cash equivalents presented in the Statement of Cash Flows is identical to the amount similarly described in the Statement of Financial Position.

Other disclosures

- G7.24 An NPO shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the NPO that are not available for use by the NPO. Cash and cash equivalents held by an NPO may not be available for use by the NPO because of, among other reasons, foreign exchange controls or legal restrictions (including restrictions imposed by donors). For example, exchange controls may mean that an NPO's trading operation in one country is unable to transfer profits to the controlling NPO in another country, or restrictions imposed by a donor may mean that funds have to be retained in a specified bank account until used to fund specific activities.

Comparison of Section 7 with the *IFRS for SMEs Accounting Standard*

Section 7 of INPAS has been drawn from Section 7 to the IFRS for SMEs Accounting Standard. The main differences between Section 7 to the Third edition of IFRS for SMEs Accounting Standard and Section 7 of INPAS are as follows:

- INPAS Section 7 requires the disclosure of information that is more typical of NPOs, including:
 - Cash receipts from grants and donations as part of operating cashflows
 - Cash and cash equivalents not available for use by the NPO including restrictions by funders.
- INPAS Section 7 clarifies that loans and the repayment of loans as part of NPOs programmes for service beneficiaries should be treated as operating cashflows.
- INPAS Section 7 replaces references to the two statements that capture all income and expenses with the Statement of Income and Expenses.
- INPAS Section 7 uses different terminology, referring specifically to NPOs, rather than entities more generally and to other Sections of INPAS rather than the IFRS for SMEs Accounting Standard. It also replaces dividends with distributions to holders of equity claims.

Section 8 – Notes to the financial statements (Status – Updated)

Scope of this Section

- G8.1 This Section sets out the principles underlying information that is to be presented in the **notes** to the **financial statements** and how to present it. Notes contain information in addition to that presented in the **Statement of Financial Position**, the **Statement of Income and Expenses**, the **Statement of Changes in Net Assets** and the **Statement of Cash Flows**. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for **recognition** in those statements. In addition to the requirements of this Section, nearly every other Section of this Standard requires disclosures that are normally presented in the notes.

Structure of the notes

- G8.2 The notes shall:
- present information about the basis of preparation of the financial statements and the specific **accounting policies** used, in accordance with paragraphs **G8.5–G8.7**;
 - disclose the information required by this Standard that is not presented elsewhere in the financial statements; and
 - provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.
- G8.3 An NPO shall, as far as practicable, present the notes in a systematic manner. An NPO shall cross-reference each item in the financial statements to any related information in the notes.
- G8.4 An NPO normally presents the notes in the following order:
- a statement that the financial statements have been prepared in compliance with INPAS (see paragraph **G3.3**);
 - material accounting policy information (see paragraph **G8.5**);
 - supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and
 - any other disclosures.

Disclosure of accounting policies

- G8.5 An NPO shall disclose material accounting policy information. Accounting policy information is material if, when considered together with other information included in the NPO's financial statements, it can reasonably be expected to influence decisions that the **primary users** of **general purpose financial statements** make on the basis of those financial statements.

Information about judgements

- G8.6 An NPO shall disclose, along with material accounting policy information or other notes, the judgements, apart from those involving estimations (see paragraph **G8.7**), that management has made in the process of applying the NPO's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. **Examples of judgements that an NPO might be required to disclose include those made in determining:**

- a) appropriate classes of assets and liabilities in accordance with paragraph G12.30 for which disclosures about fair value measurements are provided;
- b) that the NPO has **control** of another entity; and
- c) that the NPO has **joint control** of an arrangement or significant influence over another entity.

Information about key sources of estimation uncertainty

- G8.7 An NPO shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the **reporting date** that have a significant risk of causing a **material** adjustment to the **carrying amounts** of **assets** and **liabilities** within the next financial year. In respect of those assets and liabilities, the notes shall include details of:
- a) their nature; and
 - b) their carrying amount as at the end of the **reporting period**.

Comparison of Section 8 with the *IFRS for SMEs Accounting Standard*

Section 8 of INPAS has been drawn from Section 8 to the IFRS for SMEs Accounting Standard, with changes only to terminology and to align with the statements required by INPAS. The main differences between Section 8 to the Third edition of IFRS for SMEs Accounting Standard and Section 8 of INPAS are as follows:

- Reference to the choice of two statements for financial performance have been replaced with the single Statement of Income and Expenses required by INPAS.
- INPAS Section 8 uses different terminology, referring specifically to NPOs, rather than entities more generally and to other Sections of INPAS rather than the IFRS for SMEs Accounting Standard.

Section 10 – Accounting policies, estimates and errors (Status – Updated)

Scope of this Section

G10.1 This Section provides guidance for selecting and applying the **accounting policies** used in preparing **financial statements**. It also covers changes in **accounting estimates** and correction of **errors** in prior period financial statements.

Selection and application of accounting policies

G10.2 Accounting policies are the specific principles, bases, conventions, rules and practices applied by an NPO in preparing and presenting financial statements.

G10.3 If this Standard specifically addresses a transaction, other event or condition, an NPO shall apply this Standard. However, an NPO need not follow a requirement in this Standard if the effect of doing so would not be **material**.

G10.4 If this Standard does not specifically address a transaction, other event or condition, an NPO's management shall use its judgement in developing and applying an accounting policy that results in information that is:

- a) relevant to the decision-making needs of users; and
- b) reliable, in that the financial statements:
 - i) represent faithfully the financial position, income and expenses, other changes in net assets, and **cash flows** of an NPO;
 - ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
 - iii) are neutral, ie free from bias;
 - iv) are prudent; and
 - v) are complete in all material respects.

G10.5 In making the judgement described in paragraph G10.4, management shall refer to, and consider the applicability of, the following sources in descending order:

- a) the requirements and guidance in this Standard dealing with similar and related issues; and
- b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in **Section 2 Concepts and pervasive principles**.

G10.6 In making the judgement described in paragraph G10.4, management may also consider the requirements and guidance in other authoritative sources of accounting guidance dealing with similar and related issues:

- a) primarily for exchange transactions, the *IFRS for SMEs* Accounting Standard, **full IFRS Accounting Standards** (where the requirements or guidance do not conflict with the concepts and principles in Section 2);
- b) primarily for non-exchange transactions, **IPSAS** (where the requirements or guidance do not conflict with the concepts and principles in Section 2); or
- c) primarily for NPO-specific transactions not adequately addressed by the *IFRS for SMEs* Accounting Standard, full IFRS Accounting Standards or IPSAS, jurisdictional-level

accounting standards intended to be applied by NPOs where the requirements or guidance do not conflict with the concepts and principles in Section 2 (including those standards superseded by INPAS).

In considering the relevance of other authoritative sources of accounting guidance, an NPO shall have regard to the specificity of the source (as a source that deals with the specific circumstances is likely to be more relevant than one from which the NPO must draw analogies), and the continued relevance of the source (as the passage of time may diminish the relevance of certain sources).

Consistency of accounting policies

G10.7 An NPO shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless this Standard specifically requires or permits categorisation of items for which different policies may be appropriate. If this Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

Changes in accounting policies

G10.8 An NPO shall change an accounting policy only if the change:

- a) is required by changes to this Standard; or
- b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the NPO's financial position, income and expenses, other changes in net assets or cash flows.

G10.9 The following are not changes in accounting policies:

- a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring;
- b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were not material; or
- c) a change to the cost model when a reliable measure of **fair value** is no longer available (or vice versa) for an asset that this Standard would otherwise require or permit to be measured at fair value.

G10.10 If this Standard allows a choice of accounting treatment (including the measurement basis) for a specified transaction or other event or condition and an NPO changes its previous choice, that is a change in accounting policy.

G10.11 The initial application of a policy to revalue assets in accordance with Section 17 **Property, Plant and Equipment** is a change in an accounting policy to be dealt with as a revaluation in accordance with **Section 17**. Consequently, a change from the cost model to the revaluation model for a class of **property, plant and equipment** shall be accounted for prospectively, instead of in accordance with paragraphs **G10.12–G10.13**.

Applying changes in accounting policies

G10.12 An NPO shall account for changes in accounting policy as follows:

- a) an NPO shall account for a change in accounting policy resulting from a change in the requirements of this Standard in accordance with the transitional provisions, if any, specified in that amendment; and
- b) an NPO shall account for all other changes in accounting policy **retrospectively** (see paragraph **G10.13**).

Retrospective application

G10.13 When a change in accounting policy is applied retrospectively in accordance with paragraph **G10.12**, an NPO shall apply the new accounting policy to comparative information for prior periods to the earliest date for which it is practicable, as if the new accounting policy had always been applied. When it is **impracticable** to determine the individual-period effects of a change in accounting policy on comparative information for one or more prior periods presented, an NPO shall apply the new accounting policy to the **carrying amounts** of assets and liabilities as at the beginning of the earliest period for which **retrospective application** is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of **net assets** for that period.

Disclosure of a change in accounting policy

G10.14 When an amendment to this Standard has an effect on the current period or any prior period, or might have an effect on future periods, an NPO shall disclose the following:

- a) the nature of the change in accounting policy;
- b) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
- c) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- d) an explanation if it is impracticable to determine the amounts to be disclosed in (b) or (c). Financial statements of subsequent periods need not repeat these disclosures.

G10.15 When a voluntary change in accounting policy has an effect on the current period or any prior period, an NPO shall disclose the following:

- a) the nature of the change in accounting policy;
- b) the reasons why applying the new accounting policy provides reliable and more relevant information;
- c) to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:
 - i) for the current period;
 - ii) for each prior period presented; and
 - iii) in the aggregate for periods before those presented.
- d) an explanation if it is impracticable to determine the amounts to be disclosed in (c). Financial statements of subsequent periods need not repeat these disclosures.

Accounting estimates

G10.16 An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, the NPO develops an **accounting estimate** to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

G10.17 An NPO uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques (for example, techniques used to measure the **depreciation** expense for an item of property, plant and equipment, applying **Section 17**) and valuation techniques (for example, techniques used to measure the fair value of an asset or liability applying **Section 12 Fair Value Measurement**).

Changes in accounting estimates

- G10.18 An NPO may need to change an accounting estimate if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience.
- G10.19 The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates, unless they result from the correction of prior period errors. A change in the measurement basis applied is a change in an accounting policy and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.
- G10.20 An NPO shall recognise the effect of a change in an accounting estimate, other than a change to which paragraph **G10.21** applies, in **surplus or deficit** in:
- a) the period of the change, if the change affects that period only; or
 - b) the period of the change and future periods, if the change affects both.
- G10.21 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets, the NPO shall recognise it by adjusting the carrying amount of the related asset, liability or net assets item in the period of the change.

Disclosure of a change in accounting estimates

- G10.22 An NPO shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period. If it is practicable for the NPO to estimate the effect of the change in one or more future periods, the NPO shall disclose those estimates.

Corrections of prior period errors

- G10.23 Prior period errors are omissions from, and misstatements in, an NPO's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:
- a) was available when financial statements for those periods were authorised for issue; and
 - b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
- G10.24 Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts and fraud.
- G10.25 To the extent practicable, an NPO shall correct a material prior period error retrospectively in the first financial statements authorised for issue after its discovery by:
- a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
 - b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.
- G10.26 When it is impracticable to determine the effects of an error on comparative information for one or more prior periods presented, the NPO shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period).

Disclosure of prior period errors

G10.27 An NPO shall disclose the following about prior period errors:

- a) the nature of the prior period error;
 - b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
 - c) to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented; and
 - d) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c).
- Financial statements of subsequent periods need not repeat these disclosures.

Comparison of Section 10 with the *IFRS for SMEs Accounting Standard*

Section 10 of INPAS has been drawn from Section 10 of the *IFRS for SMEs Accounting Standard*, with changes mainly to terminology and to align with the statements required by INPAS. The main differences between Section 10 to the Third edition of *IFRS for SMEs Accounting Standard* and Section 10 of INPAS are as follows:

- Additional guidance is provided in INPAS Section 10 in case an NPO has a transaction, event or condition not covered in other Sections of INPAS. The guidance specifies alternative authoritative sources and circumstances that should be considered where appropriate.
- INPAS Section 10 uses different terminology, referring specifically to NPOs, rather than entities more generally and to other Sections of INPAS rather than the *IFRS for SMEs Accounting Standard*. It also refers to income and expenses rather than financial performance.

Section 3 – Financial statement presentation

Background and history

- BC3.1 The format and content of financial statements is fundamental to how the stakeholders understand and interpret financial information. Presentation of the financial statements is particularly important when revenue can only be used for particular purposes. A detailed description of the issue was included as Issue 7: Financial statement presentation in Part 2 of the IFR4NPO Consultation Paper.
- BC3.2 Feedback was sought on how financial statements should be presented to help the user's understanding of an NPO's activities and whether there should be disclosure of material categories of income and expenses and/or transactions. The Consultation Paper also sought views on how unrestricted and restricted funds should be presented in the main financial statements and notes (including reserves), the role of fund accounting and how any requirements might align with donor reporting requirements.
- BC3.3 The Consultation Paper proposed three alternatives for developing guidance for the presentation of NPO financial statements. The first was to retain the requirements in the international standards (IFRS Accounting Standards, the *IFRS for SMEs* Accounting Standard and IPSAS) unchanged and provide supplementary guidance. The second was to build on the *IFRS for SMEs* Accounting Standard and to add the use of fund accounting which would require, as a minimum, that income is split between restricted and unrestricted income on the face of the income statement. The third alternative included a new requirement to provide supplementary donor or project statements for material funds or projects in addition to proposals for fund accounting in alternative two.
- BC3.4 There was no consensus as to the preferred alternative, with roughly a third supporting each alternative, but accountability and meeting users' needs were highlighted as important issues. Approximately two thirds of respondents supported alternatives that included the use of fund accounting. Some responses suggested that fund accounting is essential to ensure the stewardship of funds with restrictions and provide clarity regarding the NPO's free reserves position at year-end. Other responses suggested that fund accounting often results in more complex financial statements that readers find difficult to understand, and that it may not be suitable for all NPOs. It is acknowledged that adopting fund accounting could result in more complex financial statements, but on balance consider this risk is justified by the need to provide information that supports the proper stewardship of funds with restrictions. This information is also needed for a full understanding of NPOs' financial statements.

Restricted and unrestricted funds

- BC3.5 A slight amendment to terminology from the Consultation Paper was proposed in the development of the draft INPAS, as the term 'restricted' can be used alongside other accounting terms (eg restricted cash) and potentially have a different meaning to 'restricted' in the context of NPOs, where the focus is on restrictions placed by fund providers, particularly grantors. As a consequence, the Consultation Paper included proposals for the separation of 'funds with and without restrictions', with a definition provided in Section 2 *Concepts and pervasive principles*. However, there was feedback in the consultation process that this approach made the terminology too cumbersome. The Secretariat agreed with points raised and so reverted to the use of restricted and unrestricted funds for ease of use.
- BC 3.6 Respondents to the consultation raised concerns about the potential complexity and increased length of financial statements that could occur with the introduction of fund

accounting. Consequently, it was proposed to require separate presentation of income and expenses and net assets (and changes in net assets) for the aggregates of restricted funds and unrestricted funds only. Any additional disclosures are to be driven by the usefulness of the information based on the nature of the NPO and the materiality of the information to the understanding of the users of general purpose financial reports.

- BC3.7 The separate presentation of restricted and unrestricted funds is expected to provide useful information to users of the financial statements without imposing the costs associated with full fund accounting on NPOs. Respondents commented that requiring the presentation of restricted and unrestricted funds beyond the Statement of Income and Expenses and net assets could be challenging for some NPOs and would add little value for readers of the financial statements.
- BC3.8 However, some NPOs may have the capacity to implement full fund accounting and may consider that this would improve the usefulness of their financial statements. Such NPOs are permitted to provide this additional information, in line with the additional disclosures permitted for all financial statements.

Revenue

- BC 3.9 The Consultation Paper sought feedback on the approach to deferring revenue as part of considerations about the presentation of the financial statements. The approach to revenue recognition is considered in Section 23 *Revenue*.
- BC3.10 Respondents raised issues about the transparency of capital grants and donated assets. Consequently, additional presentation requirements have been included in the Statement of Income and Expenses and Statement of Cash Flows to provide transparency over such items, where they are material to an NPO's financial statements.

Additional supplementary information

- BC3.11 As discussed in BC3.3, the third alternative for the presentation of financial statements proposed supplementary donor or project information on major funds. Some respondents acknowledged that if a donor statement could be developed that would meet the reporting and auditing requirements of major donors, this could lead to an overall reduction in the reporting burden.
- BC3.12 The INPAS Secretariat agreed that supplementary donor or project statements would be helpful and non-mandatory, additional guidance has been developed. INPAS Practice Guide 1 – *Supplementary statements for donor reporting* (INPAS Practice Guide 1) is non mandatory guidance issued alongside INPAS. INPAS Practice Guide 1 enables NPOs to present key financial information about a specific activity, project or grant (or projects/grants) in a way that could be useful to the grantor for accountability purposes, as well as meaningful to primary users through being reconcilable to general purpose financial reports produced under INPAS.

Compliance with INPAS

- BC3.13 Section 3 specifies that the disclosure requirements when adopting INPAS for the first time are prescribed by Section 38 *Transition to INPAS*. Jurisdictions may permit INPAS to be adopted over time, or an NPO may adopt a transition path for full adoption such that not all requirements of the INPAS are met immediately. This timeline may differ to that permitted in INPAS.

- BC3.14 In such circumstances, the disclosure requirements in Section 38 may not be appropriate, and an NPO should consider what disclosures will be necessary to enable users to understand the financial statements, in addition to any disclosures that are required by the relevant regulator.
- BC3.15 Section 3 requires that financial statements are not described as complying with INPAS unless they comply with all the requirements of this Standard. NPOs in a jurisdiction may not be able or permitted to fully adopt INPAS but might adopt some of its specifications to ensure that a transaction is fairly presented. Where this is the case an NPO will not be able to state that it is compliant with INPAS. However, it will be useful if the material accounting policies of an NPO in such circumstances identify which transactions have followed INPAS requirements and the impact that this has had on the transactions and the individual line items.
- BC3.16 ED1 sought views on the approach to compliance, which was consistent with the *IFRS for SMEs* Accounting Standard, albeit for general purpose financial reports covered by INPAS. Respondents provided suggestions regarding the approach to transition for the narrative reporting requirements, including suggesting separate assurance arrangements. The approach to compliance for both the financial statements and the narrative report was subsequently addressed in the transitional requirements in Section 38.

Comparative information

- BC3.17 Some respondents to the Consultation Paper proposed limiting the comparative information provided in respect of fund accounting (for example, the provision of comparative information for movements in fund balances). Technical Advisory Group (TAG) members questioned the removal of comparatives given the beneficial information they provide.

Identification of the financial statements

- BC3.18 Along with responses from the consultation, the INPAS Secretariat received input from various stakeholders and reviewed a number of academic reports. Collectively, these pointed to concerns about the understandability of financial statements. Consequently, the INPAS Secretariat considered the number and scope of the financial statements.
- BC3.19 Following this review, it was proposed that the Statement of Income and Expenses totals to surplus or deficit and that some of the items that under the *IFRS for SMEs* Accounting Standard are shown in the Statement of comprehensive income (other comprehensive income), are presented in a Statement of Changes in Net Assets. Presenting these items outside the Statement of Income and Expenses is expected to deliver some simplification. As not all Sections of the *IFRS for SMEs* Accounting Standard are being reviewed in the first edition of INPAS, some items, predominantly some changes arising from fair value adjustments will be shown in the Statement of Income and Expenses. Many NPOs will not have these fair value adjustments.
- BC3.20 The Statement of Changes in Net Assets discloses information that is equivalent to that found in statements prepared under the *IFRS for SMEs* Accounting Standard, such as other comprehensive income. It will also show the movement between restricted and unrestricted funds.
- BC3.21 Not all members of the TAG supported the decision to depart from the presentation used in the *IFRS for SMEs* Accounting Standard. Instead, they supported the retention of the Statement of Comprehensive Income. They also had some concerns over the presentation of some items in the Statement of Changes in Net Assets.

- BC3.22 The Consultation Paper proposed the use of the term 'Statement of Financial Performance' for the statement that contains the NPO's income and expenses and sought feedback on this proposal. Around two thirds of those that responded to this question supported the use of this term.
- BC3.23 The main reason given by those that did not support the use of the term was that NPOs' performance is not judged on whether they make surpluses or deficits, but whether they meet their aims and objectives). Using the term 'financial performance' could imply that this is the main measure of NPOs' performance, which is not the case. It is therefore proposed that the term Statement of Income and Expenses is used as it may be better understood.
- BC3.24 Based on feedback, surplus or deficit is preferred to profit or loss to show the difference between income and expenses. This is seen as more relevant for users of NPO financial statements.
- BC3.25 The other key area of terminology where a proposal has been made to add NPO context to a term relates to the description of what is traditionally equity. Equity is a term that is used in for-profit standards. Equity is defined in the for-profit standards as the residual interest in the assets of the entity after deducting liabilities. This will include items that don't meet the definition of a liability such as share capital and will also include retained earnings and reserves, for example the revaluation reserve (sometimes called revaluation surplus).
- BC3.26 In for-profit entities, all the residual interest in the assets of the entity after deducting liabilities are ultimately due to external parties who would be described as owners. This form of ownership with entitlement to all the residual interest of the entity does not exist for NPOs, but it is possible that some entities that meet the definition of an NPO have some form of equity claims on the organisation, either from historic set-up or because of jurisdiction specific legislation/regulation.
- BC3.27 Exposure Draft 1 (ED1) proposed to retain the term equity but describe it in the NPO context and include it as an element that is a component of a Section in NPO financial statements named '**net assets**'. Net assets will typically comprise equity, funds with restrictions, and funds without restrictions. Equity would include all forms of equity claims including any shares that have been issued. However, several respondents disagreed with the term equity and subsequent outreach led to the development of Exposure Draft 3 (ED3) proposals for net assets to replace equity as an element with equity claims being a component of net assets – see BC2.33–BC2.40. This was supported by respondents to ED3.
- BC3.28 Respondents to ED1 significantly supported the new terminology, though comments were made about the use of the term equity (see BC3.19 above). Some respondents indicated the terminology should not be mandatory. However, Section 3 specifically permits the use of different names for the statements provided they are not misleading
- BC3.29 This discussion of these responses to the Consultation Paper are also discussed as appropriate in Sections 4–10.

Section 4 – Statement of Financial Position

Information to be presented in the statement of financial position

Equity/Net Assets

- BC4.1 Significant consideration was given to the term equity and its use. Equity is a term that is used in for-profit standards and is also included in the standards for public sector entities. Equity is defined in the for-profit standards as the residual interest in the assets of the entity after deducting liabilities. This includes items that don't meet the definition of a liability such as share capital and will also include retained earnings and reserves, for example the revaluation reserve (sometimes called revaluation surplus).
- BC4.2 The standards for the public sector recognise that some entities may have share capital. The IPSAS Conceptual Framework does not define equity as a financial statement element but does discuss the terms 'net assets/equity' and 'net financial position' as equivalent terms to the 'equity' section of the balance sheet of for-profit financial statements. IPSAS 1 – *Presentation of Financial Statements* also uses the term 'net assets/equity' which it defines as contributed capital (with ownership contributions and ownership distributions defined as financial statement elements), accumulated surplus or deficit, reserves and non-controlling interests.
- BC4.3 Non-profit organisations have a variety of different legal structures, including incorporated entities, trusts, or various forms of unincorporated entity. It is possible that some entities that meet the definition of an NPO have some form of equity claims on the organisation, either from historical set-up or because of jurisdiction specific legislation/regulation.
- BC4.4 The use of the term contributed capital was considered to describe these arrangements for NPOs, but the retention of the term equity was initially deemed preferable, and included in Exposure Draft 1 (ED1). As with the *IFRS for SMEs* Accounting Standard, equity was defined as a financial statement element but because of the different concept of ownership, equity in the NPO context did not equate to a residual interest encompassing all the NPO's net assets
- BC4.5 Several respondents to ED1 disagreed with the term equity, and together with feedback from subsequent outreach an alternative approach was set out in Exposure Draft 3 (ED3). ED3 proposed that net assets replaced equity as an element with equity claims being a component of net assets – see [BC2.34–BC2.41](#).
- BC4.6 ED3 proposed that equity claims are a component of net assets that refer to distributions of future economic benefits or service potential by the NPO during its life, such distributions being at the discretion of the NPO; and 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. This approach was supported by respondents to ED3.
- BC4.7 To reflect the NPO context and to recognise the various arrangements that might exist, the net assets in an NPO's financial statements comprise equity claims, restricted funds and unrestricted funds, other reserves (for example revaluation reserves) and, exceptionally, non-controlling interests. Net assets includes all forms of equity claims including any shares that have been issued. Restricted and unrestricted funds together represent the accumulated surplus or deficit of the NPO.
- BC4.8 It is considered much less likely, although not impossible for an NPO to have share capital. Consequently, the information required to be presented in the financial statements places less

emphasis on share capital, and it is not a mandatory line description in the Statement of Financial Position. However, disclosures must be made where it is relevant.

BC4.9 Similarly non-controlling interests are expected to be unlikely, but not impossible for NPOs. Given the nature of such interests, the requirement to disclose on the face of the financial statement has been maintained but is expected to be used rarely in practice.

BC4.10 Further information on the definition of net assets is available in Section 2 *Concepts and pervasive principles*.

Endowments

BC4.11 Endowments are typically donations of cash or other assets to an NPO to be used as an investment, with the investment income being made available for the NPO to use, either for a specific purpose or more generally. Because of the complexity associated with endowments, and potentially differing treatments under different legal frameworks, detailed requirements for endowments are not included in the first edition of INPAS.

Information to be presented in the Statement of Financial Position or in the notes

Restricted and unrestricted funds

BC4.12 The Consultation Paper asked whether restricted funds (that can only be used for specific NPO purposes) and unrestricted funds should be presented in the main financial statements and notes (including reserves). It asked for feedback on how this would align with donor reporting requirements and the role of fund accounting.

BC4.13 Respondents to the Consultation Paper supported the split between restricted and unrestricted funds. In addition, consultation respondents supported the provision of information about the purposes for which reserves (funds) are being held as this would be useful to users of the financial statements.

BC4.14 Exposure Draft 1 (ED1) included these requirements. Stakeholders agreed that not all categories of asset and liability balances should be split between those with and those without restrictions.

BC4.15 The level of disclosure in the Statement of Financial Position has therefore been limited to a split between restricted funds and unrestricted funds on the face of the statement. Taking this approach provides users with important information about the level of funds available to the NPO, which is key to financial resilience.

BC4.16 However, some users' needs may only be fully met by providing an analysis of restricted funds, where these exist. Section 36 *Fund accounting* details the disclosure requirements for individual funds. This includes, for material funds, the purpose of the fund and movements on the fund in the financial reporting period.

BC4.17 Technical Advisory Group members agreed that NPOs should not be prevented from presenting an analysis of funds on the face of the statements where they considered this would be useful to the users of their financial statements.

Section 5 – Statement of Income and Expenses

Background and history

- BC5.1 The Consultation Paper covered a number of aspects of financial statement presentation including the term that should be used for the primary statement that covers the income and expenses of an NPO. The Consultation Paper proposed the use of the term 'Statement of Financial Performance'.
- BC5.2 Around two thirds of respondents supported the use of the term 'Statement of Financial Performance' although many of these respondents did not provide a rationale for supporting the term. However, there were a number of disagreements with the proposal. The main reason given by those that did not support the use of the term was that NPOs' performance is not judged on whether they make surpluses or deficits, but whether they meet their aims and objectives.
- BC5.3 Respondents were concerned that using the term 'financial performance' could imply that this is the main measure of an NPOs' performance. Alternative terms proposed by respondents were considered. The most suggested alternative terms were 'income and expenses statement' and 'statement of financial activities' as these terms were better understood by NPO stakeholders.
- BC5.4 Alternatives were discussed with the project advisory groups, and it was agreed that Statement of Income and Expenses was best understood by stakeholders and had the benefit of simplicity.
- BC5.5 Nevertheless, NPOs have the flexibility to use a different term for the Statement of Income and Expenses in their financial statements if an alternative would better explain the financial statement or where this is required to comply with local regulations.

Presentation of income and expenses

Surplus and deficit

- BC5.6 The INPAS Secretariat received a substantial amount of feedback that profit or loss was not an appropriate term for non-profit organisations. In discussion with stakeholders and advisory groups, the term surplus or deficit was considered to be more appropriate. Consequently, this term has been adopted in the financial statements. This removes the implication that there is any profit or loss and is more focused on the arithmetic difference between income and expenses.

Income and expenses with restrictions

- BC5.7 The Consultation Paper sought views on how financial statements should be presented to help the user's understanding of an NPO's activities. This included feedback on the disclosure of material categories of income and expenses and/or transactions. The Consultation Paper also asked about the presentation of restricted and unrestricted funds.
- BC5.8 Most of the feedback received related to the use of fund accounting, which has implications for the presentation of income with, and without, restrictions and its related expenses rather than on the disclosure of material categories of income and expenses.
- BC5.9 The majority of respondents to the Consultation Paper supported the separate presentation or disclosure of restricted and unrestricted funds. Respondents felt that this was an important

aspect of accountability and meeting users' needs. Consequently, Exposure Draft 1 (ED1) proposed that the Statement of Income and Expenses shows separately, through two columns, an aggregation of those incomes and expenses with restrictions and, separately, an aggregation of those incomes and expenses without restrictions.

- BC5.10 Exposure Draft 3 (ED3) subsequently proposed to remove this requirement as the disclosures required by Section 36 supersede the original proposals. It also reflected feedback from the ED1 and associated outreach about the ease of understanding of what could potentially be a complex statement. Removing this requirement is expected to simplify the information presented in the Statement of Income and Expenses.
- BC5.11 The significant majority of respondents to ED3 supported the removal of the mandatory requirement for funds with and without restrictions on the face of the Statement of Income and Expenses. Respondents that disagreed cited the fundamental importance of restricted and unrestricted funds, concerns about the ability to explain the surplus or deficit in a period, the ability to understand the resources available to an NPO, having the information 'at a glance', and compliance with donor and regulatory requirements.
- BC5.12 However, the Statement of Income and Expenses when taken together with the Movement of Funds note and disclosures related to individual funds provides sufficient transparency of restricted and unrestricted funds. However, given this feedback, the Secretariat explored with the Practitioner Advisory Group (PAG) the benefit to having a summary of restricted and unrestricted funds on the face of the Statement of Income and Expenses.
- BC5.13 PAG members provided feedback that this would add clutter to the presentation of the Statement of Income and Expenses. Consequently, fund information is not required on the Statement of Income and Expenses. Further Implementation Guidance illustrates how an NPO could present additional financial information about restricted and unrestricted funds if an NPO is of the view that this would be useful to the primary users of its financial statements.
- BC5.14 There was some discussion in response to the Consultation about the need for comparatives, and concerns about the complexity of the financial statements if comparatives are mandated alongside fund accounting requirements. This was considered by the project advisory groups. While acknowledging the potential for complexity, the advice was that comparative information is important for users to understand the financial statements. However, with the removal of the requirement of a columnar analysis of restricted and unrestricted funds significantly addresses this concern.

Single statement

- BC5.15 In response to issues raised about the understandability of financial statements, the Statement of Income and Expenses gives prominence to the income and expenses in the reporting period and focuses less on the impact of revaluations of items held in the Statement of Financial Position. Income and expenses and the effects of realised gains and losses (such as from the sale of an asset) are the focus of the Statement of Income and Expenses.
- BC5.16 The Statement of Income and Expenses presents components of surplus or deficit by separately showing 'surplus or deficit from operating activities', share of surplus or loss from associates, gains or losses on the disposal of assets, unrealised gains from foreign exchange differences, unrealised gains or loss through fair value adjustments (if any) and then a total surplus or deficit. Although these aggregations are presented differently from the *IFRS for SMEs* Accounting Standard their location is consistent with the income statement and the accounting treatment for items in profit or loss.

BC5.17 Other comprehensive income and expenses items are presented in a Statement of Changes in Net Assets. This statement provides a subtotal of transactions that form other comprehensive income in IFRS based standards. With this approach the equivalent information to the Statement of comprehensive income can be found.

Classification of expenses

BC5.18 The presentation of expense information is included in Section 5 of the *IFRS for SMEs* Standard. This topic was identified as a priority issue for NPOs and was included as topic 8 in the Consultation Paper. This topic is addressed in **Section 24 Part II Classification** of Expenses.

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Section 6 - Statement of Changes in Net Assets

Presentation

- BC6.1 The Consultation Paper did not directly seek feedback on the Statement of Changes in Net Assets. Amendments to this statement arose as a result of feedback on other financial statements and from stakeholder feedback about the understandability of financial statements.
- BC6.2 The Statement of Income and Expenses has been simplified by excluding items referred to in the *IFRS for SMEs* Accounting Standard as 'Other Comprehensive Income'. As a consequence, other INPAS Sections now require some items of income and expenses to be presented in a Statement of Changes in Net Assets rather than in an 'Other Comprehensive Income' section of the Statement of Income and Expenses.
- BC6.3 This approach might mean that information that was previously available in the *IFRS for SMEs* Accounting Standard based statement formats would be harder to find. INPAS addresses this by requiring that the Statement of Changes in Net Assets:
- a) commences with the Surplus or deficit from the Statement of Income and Expenses;
 - b) adds or subtracts the items that would be unrealised gains and losses found in 'Other Comprehensive Income' in the statements prescribed by the *IFRS for SMEs* Accounting Standard; and
 - c) produces a sub total of a) and b).
- BC6.4 This approach generates a subtotal that provides equivalent information to the Statement of Comprehensive Income.
- BC6.5 To support understandability of this statement the Statement of Changes in Net Assets is subdivided into the following sections:
- a) movements arising from unrealised gains and losses (other than those prescribed in this Standard to be taken through the Statement of Income and Expenses);
 - b) movements between funds and reserves (including movements between restricted funds and unrestricted funds);
 - c) movements arising from contributions from holders of equity claims or distributions to holders of equity claims; and
 - d) other changes in net assets.
- These subsections provide a reconciliation of the opening and closing carrying amount of components of net assets.
- BC6.6 The approach to the Statement of Changes in Net Assets was supported by respondents to Exposure Draft 1 (ED1).
- BC6.7 ED1 described the Statement of Changes in Net Assets as presenting an NPO's surplus or deficit for a reporting period and gains or losses that are not taken through the Statement of Income and Expenses. However, during the review process for Section 6 the Secretariat identified a change needed for consistency with the requirements of Part II of **Section 11 Financial instruments**. This relates to some changes in fair values of hedging instruments, where items are subsequently reclassified into surplus or deficit (profit or loss). The *IFRS for SMEs* Accounting Standard requires a separate grouping of these transactions from transactions which aren't reclassified. This amendment has been reflected in Section 6 because of the approach to the treatment of other comprehensive income discussed in paragraphs BC6.2 –BC6.3.

Section 7 – Statement of Cash Flows

Background and history

- BC7.1 No major revisions have been made to the principles established in the *IFRS for SMEs* Accounting Standard for the Statement of Cash Flows. As this Section has not been fully reviewed, any updates have been limited to terminology, use of language specific to NPOs or alignment with updates to other INPAS Sections 1-10.

Reporting to donors

- BC7.2 The Statement of Cash Flows was included in the scope of topic 7 – *Presentation of financial statements* in part 2 of the Consultation Paper, primarily to consider whether the Statement of Cash Flows could be used as a basis for an additional statement for inclusion in general purpose financial reporting to meet the needs of donors and funders. This was based on feedback that donors and funders frequently require cash-based information to meet their reporting requirements.
- BC7.3 The possibility of an additional donor/project statement was included in alternative 3 for this topic. Around one third of respondents supported the development of a donor/project statement. It was acknowledged that if donors are willing to rely on such statements, and not require special-purpose financial reports, this could reduce burdens, costs and complexity. However, other respondents felt that donors' requirements are best met by special-purpose financial reports, not general-purpose financial reports. There was also a concern that any proposals would only be helpful to some NPOs and that this could come at the cost of additional complexity.
- BC7.4 The objective of producing supplementary project/programme information as part of the NPO's general purpose financial statements requires coordinated outreach with donors, which was supported by consultation respondents.
- BC7.5 Respondents to the consultation supported the availability of guidance on the form and content of supplementary information as it would assist consistency. A guidance-based approach would allow each organisation to balance the cost/benefit of preparing supplementary information in its own context. As a consequence, respondents were of the view that reporting on material projects should be optional and not a mandatory requirement. The INPAS Secretariat supported this approach and INPAS Practice Guide 1 – *Supplementary statements for donor reporting* was developed.

Information to be presented in the Statement of Cash Flows

- BC7.6 ED1 included proposals to include cash receipts from grants and donations whose use is restricted to the acquisition or construction of property, plant and equipment, intangible assets and other long-term assets as investing activities. Views from respondents were mixed although overall respondents were supportive. However, based on the feedback Technical Advisory Group members advised that the requirement to include capital grants in investing activities should be removed, and replaced with guidance that such grants, where material, be disclosed separately. This is consistent with international standards approaches to investing activities.

Supplier Finance Arrangements

- BC7.7 The International Accounting Standards Board issued an Addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard on 28 March 2024. This provides new guidance on supplier finance arrangements.
- BC7.8 The majority of respondents agreed with the approach in Section 7, but a concern was raised about the proportionality of the disclosures by one respondent. It was proposed to remove the disclosure of amounts settled by finance providers with suppliers. They noted that having considered it for their national GAAP for entities of a similar size there were, concerns that obtaining the required information and having it audited would be onerous and costly. The Secretariat supported this proposal based on the need for proportionality for INPAS users.

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Section 8 - Notes to the financial statements

Background and history

- BC8.1 Section 8 does not specify the notes to the financial statements required in respect of specific assets, liabilities, revenue, or expenses. Such requirements are set out in the sections of INPAS dealing with those items, and the rationale for any revisions to those requirements is set out in the Basis for Conclusions to those sections.
- BC8.2 The Consultation Paper did not include specific proposals relating to the general requirements for the notes to the financial statements, and where respondents commented on the notes, these comments related to specific disclosures rather than the general principles set out in Section 8.
- BC8.3 The approach to the notes to the financial statements set out in Section 8 of the *IFRS for SMEs* Accounting Standard is consistent with the approach to the notes in full IFRS Accounting Standards and in IPSAS. These requirements have been reviewed, and it was concluded that there are no NPO-specific issues that require addressing. The requirements in the *IFRS for SMEs* Accounting Standard have therefore been retained in INPAS.
- BC8.4 No major revisions have therefore been made to **Section 8**, with any updates limited to terminology or use of language specific to NPOs, or to align with other INPAS sections.

Section 10 - Accounting policies, estimates and errors

Background and history

- BC10.1 The Consultation Paper did not include specific proposals relating to accounting policies, estimates and errors, and respondents did not raise any issues.
- BC10.2 The approach to the accounting policies, estimates and errors set out in **Section 10** of the *IFRS for SMEs* Accounting Standard is consistent with the approach to the issues in full IFRS Accounting Standards and in IPSAS. These requirements have been reviewed, and it was concluded that there are no NPO-specific issues that need addressing. The requirements in the *IFRS for SMEs* Accounting Standard have therefore been retained in INPAS, except for text relating to the use of accounting standards (see paragraphs **BC10.3** to **BC 10.5**). Any other updates have been limited to changes in terminology or use of language specific to NPOs and alignment with other INPAG Sections.

Selection and application of accounting policies

- BC10.3 The *IFRS for SMEs* Accounting Standard permits an entity to refer to full IFRS Accounting Standards in developing accounting policies for transactions, other events, or conditions not addressed in the *IFRS for SMEs* Accounting Standard. This approach has been retained in INPAS, but it is noted that NPOs may encounter transactions, other events or conditions that are not addressed in full IFRS Accounting Standards.
- BC10.4 Transactions, other events, or conditions not addressed in full IFRS Accounting Standards may involve transactions that are not commercial in nature (non-exchange transactions such as grants and donations), which may be addressed in IPSAS.
- BC10.5 NPOs may refer to IPSAS in developing an appropriate accounting policy where there are no specific requirements or guidance in either the *IFRS for SMEs* Accounting Standard or full IFRS Accounting Standards. Permitting NPOs to refer to a relevant IPSAS where there are no requirements or guidance in either the *IFRS for SMEs* Accounting Standard or full IFRS Accounting Standards, is intended to maximise consistency with **Section 2 Concepts and pervasive principles**.
- BC10.6 There may be transactions, other events or conditions that are not addressed in any international standard. In such cases, it was agreed that it would be appropriate for NPOs to refer to national standards that have addressed such transactions, other events or conditions where the accounting treatment in those national standards are consistent with the concepts and principles set out in **Section 2**.

Section 3 - Financial statement presentation

Scope

What is the objective of NPO general purpose financial statements?

- IG3.1 The objective of general purpose financial statements is to provide information about the financial position, income and expenses (financial performance) and cash flows of an NPO that is useful to existing and potential users of their financial reports for accountability and decision making. General purpose financial statements can also provide information useful for predicting the level of resources required for continued operations, the resources that may be generated by continued operations and the associated risks and uncertainties.

Fair presentation

What should an NPO with public accountability consider regarding fair presentation and the use of INPAS?

- IG3.2 Any NPO that has public accountability as defined in the IFRS Standards (see paragraphs G1.6–G1.7) can use INPAS to assist in preparing its financial statements. However, the simplifications and presentational differences in INPAS mean that an NPO with public accountability is unlikely to be able to assert (per paragraph G3.2) a fair presentation in accordance with INPAS, as it may be required to adopt financial reporting standards that differ from these requirements.

Compliance with INPAS

What issues arise in terms of reporting compliance with INPAS?

- IG3.3 Where all requirements of INPAS have been complied with, paragraph G3.3 requires that an NPO makes a statement in the notes to the financial statements that it has complied with the requirements. This statement cannot include any exceptions or caveats to the level of compliance with the Standard, except where an NPO discloses (in accordance with paragraph G3.5) that a departure from this INPAS is necessary to achieve fair presentation. If exceptions or caveats (other than as prescribed in paragraph G3.5) are used, then compliance with INPAS cannot be stated.

Going concern

What factors should an NPO consider to assess whether it should produce its general purpose financial statements using the going concern basis of reporting?

- IG3.4 Before it is appropriate to conclude that the going concern assumption in accordance with paragraphs G3.8–G3.9 is appropriate, those responsible for the preparation of financial statements will need to consider a wide range of factors, including material uncertainties in the operating environment of the NPO. Factors include:
- a) current and future demand for services and goods;
 - b) potential and announced restructurings of organisational units, including decisions to cease any operations;
 - c) political, legal or regulatory changes;
 - d) estimates of revenue or the likelihood of continued funding; and
 - e) potential sources of replacement financing.

- IG3.5 Such considerations will depend on the facts in each case. Assessments of the going concern assumption are not necessarily predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the NPO is nonetheless a going concern. For example, there may be multi-year funding agreements or other arrangements in place that will ensure the continued operation of the NPO.

Consistency of presentation and comparative information

What are the implications for consistency and comparability for NPO general purpose financial statements?

- IG3.6 Comparability is an enhancing qualitative characteristic of useful financial information. It enables users to identify similarities in, and differences between, two sets of items. Comparability is not a characteristic of an individual item of information but rather a quality of the relationship between two or more items of information.
- IG3.7 Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an NPO or in a single period across more than one NPO. Comparability is the goal, and consistency helps in achieving that goal. In some cases, the accounting principles or policies adopted by an NPO may be revised to better represent a particular transaction or event in **general purpose financial statements**. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.
- IG3.8 Information about an NPO's financial position, income and expenses, cash flows, achievement of objectives or operational performance, compliance with relevant legislation or other regulations governing the raising and use of resources, and its future plans is necessary for accountability purposes and useful as an input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:
- prospective financial and non-financial information previously presented for that reporting period or reporting date;
 - similar information about the same NPO for some other period or some other point in time; and
 - similar information about other NPOs (for example, NPOs providing similar services in different jurisdictions) for the same reporting period.

When should comparative information be provided for narrative and descriptive reporting?

- IG3.9 G3.15 requires that comparative information is provided for narrative and descriptive information where it is relevant to an understanding of the current period's financial statements. This will require judgement about how best to meet the objectives of financial reporting and the NPO to assess the information needs of the primary users of its financial statements.
- IG3.10 The judgement about when comparative information should be provided for narrative and descriptive information should take account of the materiality of the information to the delivery of the NPO's performance or financial objectives and the NPO's overall purpose or mission. These considerations include whether the comparative information provides material information about:

- a) the progress that the NPO has made in achieving its purposes or mission;
- b) how the NPO intends to meet its purposes or mission in the future;
- c) the context it provides for to evaluating the financial sustainability of the NPO;
- d) how the NPO has used or intends to use its existing resources (people and assets);
- e) how the NPO is dealing with any legal or regulatory issues;
- f) how the NPO has worked or intends to work with key partners or communities;
- g) how the NPO has impacted or intends to impact on the environment;
- h) how the NPO has generated or intends to generate the financial resources it needs.

Materiality and aggregation

How do materiality and aggregation impact on the presentation of an NPO's financial statements?

- IG3.11 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation is the presentation of summarised information which is classified or aggregated as required by INPAS. This may form line items on the face of the Statement of Financial Position, Statement of Income and Expenses, Statement of Changes in Net Assets, and Statement of Cash Flows or be presented in the notes.
- IG3.12 Paragraphs **G3.15–G3.17** require that in classifying items in the financial statements, similar material items must be separated, and that dissimilar, immaterial items may be aggregated. The presentation of information in the financial statements must take account of materiality. If a line item is not individually material, it can be aggregated with other items, either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.
- IG3.13 The judgement about how to classify items in the financial statements should focus on whether disclosure of information is important to the user's understanding of the financial statements. Items that are material by nature or by amount should be separately disclosed.
- IG3.14 INPAS does not permit the aggregation of each material class of items in any individual financial statement, as it could mislead users of the financial information. Separation is required to help provide an appropriate understanding of the financial position, financial performance and cashflows of the NPO.

Complete set of financial statements

Can an NPO use different names for the each of the financial statements listed in paragraph G3.19 (or labels for headings and line items)?

- IG3.15 The financial statements listed in G3.19 can be referred to different names within and across jurisdictions. The Statement of Financial Position may also be referred to as a balance sheet. The Statement of Income and Expenses may also be referred to as a statement of financial performance, an operating statement, or a statement of financial activities. The notes may include items referred to as schedules. The use of alternative names to those listed in G3.19 is permitted provided the names used would not mislead the users of the financial statements.
- IG3.16 An NPO should use titles, including labels for headings and line item descriptions that are in the NPO's view going to be most meaningful for the users of its financial statements. INPAS expressly permits use of alternative titles, and labels for headings and line items to provide this flexibility. Alternatives may not be used if the overall effect is to mislead the users of its financial statements.

How should an NPO present information in the financial statements?

- IG3.17 INPAS sets out the components of financial statements and minimum requirements for disclosure on the face of the Statement of Financial Position and the Statement of Income and Expenses, as well as for the Statement of Changes in Net Assets. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes.
- IG3.18 The Standard allows for some flexibility over the presentation of the financial statements. Examples of how this flexibility can be used include:
- a) an NPO can choose a different order of the financial statements to that described in G3.19, as long as they have equal prominence;
 - b) an NPO can choose how to sequence the information as long as it complies with other elements of the Standard. For example, non-current assets might appear before current assets, and current liabilities before non-current liabilities to allow working capital to be presented in the financial statement. Judgements about sequencing must reflect the nature of the NPO and the needs of users of the financial statements;
 - c) information in the Statement of Financial Position may be presented to follow a 'vertical' or 'horizontal' presentation;
 - d) an NPOs can choose to present their income before their expenses before arriving at the surplus or deficit from operating activities in the Statement of Income and Expenses. Alternatively, expenses can be presented first with income showing how expenses have been funded. An NPO is required to choose a format that best explains to users of the financial statements the activities, transactions, and events of the NPO.

Section 4 – Statement of Financial Position

Information to be presented in the Statement of Financial Position

What information should be presented in the Statement of Financial Position?

- IG4.1 Paragraph G4.2 sets out the minimum information that must be presented on the face of the Statement of Financial Position. This level of information is consistent with that required in other international financial reporting standards. However, it presumes that the majority of NPOs will not have equity claims in the form of share capital and that this information is not required to be shown on the face of statement. In the unusual circumstances where an NPO has share capital, it can choose to disclose it separately. Otherwise, it will be reported as a part of net assets. Paragraph G4.15 requires further disclosures if an NPO has share capital.
- IG4.2 An NPO's net assets can therefore be a combination of the aggregate of the NPO's accumulated surpluses or deficits and reserves (comprising restricted funds, unrestricted funds) as well as equity claims. The provision of information through additional disclosures and the sequencing of information should reflect an NPO's assessment of the needs of the primary users of its financial statements. Judgements should be made based on the usefulness of the information to users of an NPO's **general purpose financial reports** as outlined in paragraphs G3.15–G3.17
- IG4.3 For private sector entities, it is typical that the balance sheet shows its equity (the equivalent for NPOs being net assets) split between controlling interests (ie that owned by majority equity holders) and non-controlling interests. This requirement (to split controlling and non-controlling interests) has been retained in paragraph G4.2, as some NPOs may have non-controlling interests. However, in most cases, an NPO will have no non-controlling interests and will not need to apply the requirement of G4.2 r).
- IG4.4 In addition to the separation of restricted funds and unrestricted funds, G4.12 requires that the level of restricted cash is presented on the face of the Statement of Financial Position or in the notes to the financial statements. This is intended to identify cash that is restricted for example, due to jurisdictional currency regulation, rather than cash that has been provided by a grantor that limits its use.

Sequencing of items and format of items in the Statement of Financial Position

Does an NPO have to follow a sequence or format for the items in the Statement of Financial Position?

- IG4.5 Paragraph G4.2 does not prescribe the sequence or format in which items are to be presented. However, in line with the principles for presenting financial statements set out in **Section 3 Financial statement presentation**, material items should be presented separately. Items are material if omitting, misstating or obscuring them would make a difference to decisions made by users of the financial statements.
- IG4.6 This may require the inclusion of additional line items in the Statement of Financial Position. An NPO should also consider whether information is being obscured by including insignificant line items that could be aggregated without affecting the economic or other decisions made by users of the financial statements. An NPO should also consider the labels that it uses for line items and the headings for the grouping of line items.

Information to be presented either in the Statement of Financial Position or in the notes

Why is information needed about share capital?

- IG4.7 Many NPOs will not have share capital, having been formed under legislation or regulations that do not require the NPO to have equity holders; for example, an NPO may be a partnership or trust. However, an NPO may have some form of equity claims such as funds that were provided when it was set it up and provides those contributors with an interest in the residual net assets of the NPO. Net assets may include debt or other instruments that give the owners of that debt or instrument rights to the assets of the NPO other than as ordinary loan collateral. Where this exists, G4.16 requires additional disclosures.
- IG4.8 In those situations where an NPO does have share capital, paragraph G4.15 requires disclosure of information about the amount of shares, the amount received and ownership. For the majority of NPOs, the requirement of this paragraph is unlikely to apply.
- IG4.9 Relevant disclosures in G4.15 include:
- a) the reasons for changes during the period (including distributions to holders of equity claims and any new contributions from holders of equity claims); and
 - b) any changes to the rights attached to each category of net assets.

Section 5 – Statement of Income and Expenses

Presentation of income and expenses

What information should be presented in the Statement of Income and Expenses?

- IG5.1 Financial activities, transactions and other events will differ between NPOs as they meet their service delivery obligations. These differences mean that disclosing components of income and expenses that assist in an understanding of the financial activities delivered is important. This information is also useful for making projections of future results.
- IG5.2 Additional line items are therefore included on the face of the Statement of Income and Expenses, and the descriptions used, and the ordering of items is amended when this is necessary to explain the elements of activity. Factors to be considered include:
- a) materiality;
 - b) the nature and function of the components of revenue; and
 - c) the nature and function of the components of expenses.
- IG5.3 Paragraph **G5.7** does not prescribe the sequence or format in which items are to be presented in the Statement of Income and Expenses. However, in line with the principles for presenting financial statements set out in **Section 3 Financial statement presentation**, material items should be presented separately. Items are material if omitting, misstating or obscuring them would make a difference to decisions made by users of the financial statements. This is another reason to include additional line items in the Statement of Income and Expenses. NPOs should also consider whether information is being obscured by including insignificant line items that could be aggregated without affecting decisions made by users of the financial statements.

Should separate columns be used to present restricted and unrestricted funds?

- IG5.4 The use of separate columns to present items in the Statement of Income and Expenses for restricted funds and unrestricted funds is not required. An NPO can choose to present this information.
- IG5.5 To highlight movements on restricted and unrestricted funds in the financial reporting period, an NPO can sequence the order of the complete set of financial statements so that the movements in funds in the Statement of Changes in Net Assets is shown before the other financial statements.
- IG5.6 Alternatively, an NPO may choose to provide a summary of fund information as it relates to income and expenses. This could be presented as a separate note or included as an addendum at the foot of the Statement of Income and Expenses.
- IG5.7 The presentation and related disclosure requirements for income and expenses in funds with restrictions is set out in **Section 36 Fund accounting**. The presentation of information additional to the INPAS requirements should be based on an NPO's assessment of the needs of the primary users of its financial statements.

What information should be provided about revenue?

- IG5.8 Income comprises revenue, interest income and other income (including income from royalties and licences). Paragraph **G5.7** requires that revenue as a component of income is analysed on the face of the financial statement.

IG5.9 NPOs should use the most relevant analysis of revenue. Disaggregation could be made between sources of revenue that affect restricted and unrestricted funds. The analysis could also distinguish between donations, grants for operating activities, grants for and donations of non-current assets, donations in-kind and sales of services and goods. The illustrative financial statements provide examples of the classification of revenue.

How should a transaction not usual for an NPO be disclosed instead of describing it as extraordinary?

IG5.10 Paragraph G5.10 specifies that the Standard does not permit any items to be described as extraordinary. However, there may be circumstances when presenting or disclosing additional line items will be beneficial to users' understandings of the financial statements.

IG5.11 Where material by nature or by amount, transactions that could benefit from separate presentation or disclosure include:

- a) write-downs of inventories to net realisable value, or of property, plant, and equipment to **recoverable amount**, as well as reversals of such write-downs;
- b) restructurings of the activities of an NPO and reversals of any provisions for the costs of restructuring;
- c) disposals of items of property, plant, and equipment;
- d) disposals of investments;
- e) discontinuing operations;
- f) litigation settlements; and
- g) other reversals of provisions.

This list is not exhaustive, and other types of transactions or circumstances may occur that would be helpful to disclose separately. These items should be explained in the notes to the financial statements, whether or not they are explicitly required by an INPAS Section. The narrative report can be used to further explain these items in terms of an NPO's financial performance, objectives and/or strategy.

Analysis of expenses

How should expenses be classified?

IG5.12 Paragraph G5.11 requires that expenses be subclassified. Section 24 Part II Classification of Expenses provides for the approach to the analysis of expenses on the face of the Statement of Income and Expenses.