



**International
Non-Profit
Accounting
Guidance
Part 1**

**Authoritative
Guidance**

**IFRS
PRACTICE
GUIDANCE**

INPAG

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Contents

Section	Status ¹
Preface	Modified
1 Non-profit organisations	Modified
2 Concepts and pervasive principles	Modified
3 Financial statement presentation	Updated
4 Statement of Financial Position	Modified
5 Statement of Income and Expenses	Modified
6 Statement of Changes in Net Assets	Modified
7 Statement of Cash Flows	Updated
8 Notes to the financial statements	Updated
9 Consolidated and separate financial statements	Updated
10 Accounting policies, estimates and errors	Updated
35 Narrative reporting	New

Note: all references to the *IFRS for SMEs* Accounting Standard in the Authoritative Guidance are to the Third edition of the *IFRS for SMEs* Accounting Standard exposed in September 2022 unless otherwise stated.

The International Non-Profit Accounting Guidance (INPAG) is set out in the Preface and Sections 1–36. INPAG includes a glossary in Annex A. Terms defined in the glossary are in bold type the first time they appear in each Section unless defined within the Section. INPAG is accompanied by a Basis for Conclusions and Implementation Guidance which includes illustrative examples and illustrative financial statements.

¹ Status refers to the whether the *IFRS for SMEs* Accounting Standard has been updated to reflect NPO specific requirements. Further explanation can be found in the Invitation to comment.

Preface to INPAG

The International Non-Profit Accounting Guidance (INPAG) – project history, governance and objectives

- GP1 The preparation of **financial statements** is crucial for accountability and decision making and for trust and confidence in non-profit organisations (NPOs). The INPAG has been developed specifically for NPOs and addresses the unique characteristics of NPOs and the types of transactions they undertake.
- GP2 INPAG has been developed as the primary output of the International Financial Reporting for Non-Profit Organisations (IFR4NPO) project. IFR4NPO was founded in 2019 to improve the transparency, consistency, comparability, credibility and reliability of NPO financial statements by developing internationally applicable financial reporting guidance for NPOs.
- GP3 INPAG has been developed to meet the following three objectives:
- To improve the quality, transparency and credibility of NPO financial reports.
 - To support the provision of NPO financial information that is useful for decision making and accountability, balancing the needs of preparers and users.
 - To address specific NPO issues, which will promote the comparability of NPO financial reports.
- GP4 In fulfilling these objectives, INPAG aims to take account of, as appropriate, the needs of a wide range of NPOs operating in diverse settings and with different levels of financial reporting complexity. This supports the adoption, use and application of INPAG, with an initial focus on those NPOs where accrual-based financial reporting is required to account for assets and liabilities and a range of transactions and activities.
- GP5 INPAG and related documents such as Exposure Drafts and other discussion documents are reviewed by the IFR4NPO Technical Advisory Group (TAG)². Their approval is the responsibility of CIPFA, which operates the INPAG secretariat.

International standards

- GP6 INPAG meets the three objectives noted in GP3 by making use of guidance that has been developed for existing international standards that promote the use of **general purpose financial statements** and other financial reporting, with appropriate changes made for the NPO context.
- GP7 Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make decisions.
- GP8 The three international financial reporting frameworks that have been used in developing INPAG are **full IFRS Accounting Standards**, the *IFRS for SMEs* Accounting Standard, and **International Public Sector Accounting Standards** (IPSAS).
- GP9 Full IFRS Accounting Standards are developed and maintained by the International Accounting Standards Board (IASB) and set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. They are intended for use primarily by publicly accountable companies, defined by the IASB as those listed on a stock exchange and financial institutions such as banks that hold financial assets in a fiduciary capacity.
- GP10 The *IFRS for SMEs* Accounting Standard is a separate standard developed and maintained by the IASB. The *IFRS for SMEs* Accounting Standard is intended to apply to the general purpose financial statements and other financial reporting of those entities that jurisdictions often refer to as **small and medium-**

² Membership of the TAG can be found at ifr4npo.org. Members of the TAG provide advice in an individual capacity and are not representing the views of their respective organisations.

sized entities (SMEs), private entities or non-publicly accountable entities. The *IFRS for SMEs* Accounting Standard is based on IFRS Accounting Standards, with modifications to reflect the needs of users of SMEs' financial statements and to reflect cost benefit considerations relevant to SMEs and the user of their financial statements.

- GP11 IPSAS are set by the International Public Sector Accounting Standards Board (IPSASB). IPSASB's objective is to serve the public interest by developing high-quality accounting standards and other material for use by public sector entities around the world in the preparation of general purpose financial reports. IPSAS addresses financial reporting issues relevant to NPOs that are not covered by IFRS or the *IFRS for SMEs* Accounting Standard, such as non-exchange transactions.

General purpose financial reports

- GP12 General purpose financial reports present management commentary and other narrative reporting alongside the financial information contained in the general purpose financial statements. They are likely to comprise multiple reports, each responding to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting.
- GP13 The objective of general purpose financial statements is to provide financial information about the reporting entity that is useful to a wide range of users who are not in a position to demand reports tailored to meet their particular information needs. In the NPO context, this will include those to whom an NPO provides goods and services, providers of resources, those providing oversight functions and the public at large. General purpose financial statements include those that are presented separately or within another public document, including general purpose financial reports.

The basis of INPAG

- GP14 INPAG has been developed to apply to the general purpose financial reports and the general purpose financial statements of NPOs whose broad characteristics are described in Section 1 *Non-profit organisations*. These are entities that have the primary objective of providing a benefit to the public, that direct surpluses for the benefit of the public, and that are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards.
- GP15 NPOs may produce financial reports for some users, including donors, tax authorities or other government authorities, who have the authority to require the preparation of reports tailored to meet their specific needs. Financial reports produced solely for these purposes are unlikely to be general purpose financial statements.
- GP16 Furthermore, tax laws are specific to each jurisdiction, and the objectives of general purpose financial reports differ from the objectives of reporting for taxation purposes. Thus, financial statements prepared in conformity with INPAG are unlikely to comply fully with all the measurements required by a jurisdiction's tax laws and regulations. A similar issue may arise with reporting to donors. 'Dual reporting burdens' of this kind may be reduced by compiling tax or donor reports as reconciliations from those produced in accordance with INPAG and by other means.
- GP17 INPAG is a standalone and complete set of financial reporting guidance that can be applied in preparing the general purpose financial reports of NPOs without access to or knowledge of other financial reporting frameworks. NPO-specific financial reporting issues are being addressed by the IFR4NPO project in stages. Not all NPO-specific financial reporting issues have yet been addressed; the initial focus has been to address those issues identified as priorities following the Consultation Paper.
- GP18 The foundational framework of INPAG is the *IFRS for SMEs* Accounting Standard. This has been incorporated into INPAG without amendment where an NPO-specific reporting solution to an accounting issue is not required, has not been developed, or the financial reporting solution provided by the *IFRS for SMEs* Accounting Standard is comprehensive and provides appropriate guidance for NPOs.

- GP19 Where the *IFRS for SMEs* Accounting Standard does not meet the needs of NPOs, INPAG draws on its own concepts and pervasive principles, full IFRS Accounting Standards, IPSAS and their broader conceptual frameworks to provide sector-specific reporting solutions through changes to the *IFRS for SMEs* Accounting Standard. Jurisdictional-level standards that have been developed for NPO-specific reporting issues may also be drawn upon, particularly where these jurisdictional-level standards have been developed in a manner that is sufficiently consistent with the conceptual frameworks of IFRS Accounting Standards and/or IPSAS.
- GP20 The formal process for determining whether the NPO-specific issue warrants a change to the text of the *IFRS for SMEs* Accounting Standard can be found in **Process for developing the International Non-Profit Accounting Guidance through changes to the IFRS for SMEs Accounting Standard**.

Authority of INPAG

- GP21 The INPAG secretariat has no authority to determine whether INPAG, either in whole or part, should or may apply to any entity. Decisions on which entities are required or permitted to use INPAG rest with legislative and regulatory authorities and standard setters in individual jurisdictions. However, a clear description of the class of entity for which INPAG is intended – as set out in Section 1 of the Guidance – is essential so that the legislative and regulatory authorities, standard setters and NPOs and their auditors will be informed of the intended scope of applicability of INPAG.

Organisation of INPAG

- GP22 INPAG is organised by topic, with each topic presented in a separate numbered Section. Cross-references to paragraphs are identified by Section number, followed by paragraph number. Paragraph numbers are in the form Gxx.yy, where Gxx is the Section number and yy is the sequential paragraph number within that Section. In examples that include monetary amounts, the measuring unit is Currency Units (abbreviated as CU).
- GP23 All the paragraphs in INPAG have equal authority (except as specified in paragraph G2.2). As INPAG is being developed in stages, not all Sections of INPAG have been updated to take account of NPO-specific issues. Where this is the case, the *IFRS for SMEs* Accounting Standard has been incorporated into INPAG without amendment, except for changes to terminology. The table of contents and marking show Sections that have not been updated other than for changes to terminology.
- GP24 Additional support for preparers applying INPAG and users of general purpose financial reports is provided in the Application Guidance that is part of INPAG. The Application Guidance is authoritative and has the same authority as the core text. Support is also provided in the Implementation Guidance (including implementation examples) and Basis for Conclusions that accompany INPAG. They provide further detail on the technical and practical considerations that have been taken into consideration during the development of INPAG. INPAG provides authoritative guidance for NPOs, whereas the Implementation Guidance and implementation examples and Basis for Conclusions are non-authoritative.

Maintenance of INPAG

- GP25 Amendments to INPAG will be proposed by publishing Exposure Drafts periodically, but not more frequently than approximately once every three years, to provide a stable and familiar framework for preparers and users. In developing these Exposure Drafts, the INPAG secretariat will consider amendments to the *IFRS for SMEs* Accounting Standard, as well as new and amended IFRS Accounting Standards, IPSAS and jurisdictional-level standards.
- GP26 Until INPAG is amended, any changes made to the *IFRS for SMEs* Accounting Standard, full IFRS Accounting Standards, IPSAS and jurisdictional-level standards will not apply to INPAG. NPOs shall not anticipate or apply changes in the *IFRS for SMEs* Accounting Standard, IFRS Accounting Standards, IPSAS

and jurisdictional-level standards before these are incorporated into INPAG. If there is an absence of specific guidance in INPAG, NPOs may use guidance and principles from IFRS Accounting Standards, IPSAS, their conceptual frameworks and jurisdictional-level standards intended to be applied by NPOs, provided those principles do not conflict with the requirements in the hierarchy in paragraphs G10.4-G10.5.

Comparison of the Preface with the *IFRS for SMEs Accounting Standard*

The Preface has been largely re-written to allow for the context for the development of INPAG to be described. The main differences between the Preface to the *IFRS for SMEs Accounting Standard* and the Preface to INPAG are as follows:

- INPAG’s Preface provides a description of the history of the IFR4NPO project, the objectives of INPAG and a summary of the governance arrangements associated with its approval.
- INPAG’s Preface describes general purpose financial reports as well as the objectives of general purpose financial statements in an NPO-specific context.
- INPAG’s Preface notes that it has been developed to apply to the general purpose financial reports and general purpose financial statements of NPOs whose broad characteristics are described in Section 1 rather than small and medium-sized entities as defined in the *IFRS for SMEs Accounting Standard*.
- INPAG’s Preface explains the use of the *IFRS for SMEs Accounting Standard* as its foundational framework. It also explains how IFRS Accounting Standards, IPSAS, their broader conceptual frameworks and jurisdictional-level standards are drawn upon for INPAG where the *IFRS for SMEs Accounting Standard* does not meet the needs of NPOs.
- INPAG’s Preface also explains that NPO-specific financial reporting issues are being addressed by the IFR4NPO project in stages and not all NPO-specific issues have yet been addressed.

Specific matter for comment

Question 1: General comments

- Is the structure of INPAG helpful? If not, how could it be improved?
- Do you have any other comments (including regulatory, assurance or cost/benefit) relating to this INPAG Exposure Draft? If so, explain the rationale for any points you wish to make.

References

GP22–GP24

Section 1 – Non-profit organisations

Intended scope of INPAG

G1.1 INPAG is intended for use by NPOs. As there is no common international financial reporting definition of an NPO in law or regulation, a broad characteristics approach has been used to identify the entities that are intended to be within the scope of INPAG. This Section describes the broad characteristics of NPOs, but ultimately the decision on which entities are required or permitted to use INPAG rests with the judgement of relevant authorities in individual jurisdictions.

Description of non-profit organisations

G1.2 For the purposes of INPAG, NPOs are entities that publish **general purpose financial reports** for external users and have all of the following broad characteristics:

- They have the primary objective of providing a benefit to the public;
- They direct surpluses for the benefit of the public; and
- They are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards.

Primary objective of providing a benefit to the public

G1.3 NPOs will have the primary objective of providing a benefit to the public. Through the services and goods delivered in pursuit of its purpose, the public will benefit from an NPO's activities. This primary objective of providing a benefit to the public may be broad, involving the provision of services and/or goods to the general public, a community or for wider societal benefit. Conversely, it may be narrower and relate only to providing services and/or goods to a specific group or members of the NPO. This permits a wide range of entities to potentially be described as NPOs, including those that may be defined by different jurisdictions as charities, social advocacy groups, cooperatives, mutual benefit organisations, professional associations and foundations among other organisational forms. Where an NPO does provide private benefits, as may be the case where it has members or holders of equity or similar ownership claims, these should be incidental to the NPO's primary objective of providing a benefit to the public.

Direct surpluses for the benefit of the public

G1.4 NPOs will direct surpluses for the benefit of the public. NPOs may generate a financial surplus from their activities, particularly where they receive income from the sale of services and/or goods, receive donations that are not subject to restrictions, or have significant **financial assets** earning financial returns. Such financial surpluses will be directed to furthering the NPO's primary objective of providing a benefit to the public and not distributed for private benefit. Organisations that do have a primary objective of distributing surpluses for private benefit to groups and individuals, such as investors and holders of **equity claims**, are likely to be for-profit private sector organisations. These should apply private sector financial reporting standards to meet the needs of the users of their general purpose financial reports.

Not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards

G1.5 Like NPOs, the primary objectives of most government and public sector entities are to deliver services and/or goods that provide a benefit to the public and not to make profits that generate a financial return for investors. However, government and public sector entities have different characteristics, such as the importance of funding through taxation, budgets that are approved and overseen by a legislative body or equivalent, and the existence of redistributive and regulatory powers that can only be exercised with

government authority. The needs of users of government and public sector general purpose financial reports will be met by using public sector financial reporting standards.

Use of INPAG by entities that have public accountability

- G1.6 An entity is defined in **full IFRS Accounting Standards** as having **public accountability** if:
- its debt or equity instruments are traded in a public market, or it is in the process of issuing such instruments for trading in a public market (for example, a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).
- G1.7 An entity with the following characteristics would usually have public accountability:
- there is both a high degree of outside interest in the entity and a broad group of users of the entity's **financial statements** (existing and potential investors, lenders and other creditors) outside the entity (other than owner managers) who have a direct financial interest in or substantial claim against the entity.
 - the users in a) depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves.
- G1.8 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, **customers** or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary **business** (as for example may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit, and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.
- G1.9 Some entities that have public accountability may find INPAG useful. However, it is unlikely that all the needs of users of the general purpose financial reports or **general purpose financial statements** of entities that have public accountability will be met if they are prepared in accordance with INPAG.
- G1.10 If a publicly accountable entity as defined in IFRS Accounting Standards applies this Guidance, its financial statements should disclose this as part of the disclosures required by G3.3–G3.7. The entity should include an explanation as to why the use of INPAG meets the needs of users of its financial statements, even if law or regulation in that entity's jurisdiction permits or requires this Guidance to be used by publicly accountable entities.
- G1.11 An NPO whose **parent** uses **full IFRS Accounting Standards**, or that is part of a consolidated **group** that uses full IFRS Accounting Standards, may use INPAG in its own financial statements if that NPO by itself does not have public accountability without the need to include the explanation required by G1.10.
- G1.12 A parent entity (including the ultimate parent or any intermediate parent) assesses its eligibility to use INPAG in its **separate financial statements** on the basis of its own status without considering whether other group entities have, or the group as a whole has, public accountability. If a parent entity by itself does not have public accountability, it may present its separate financial statements in accordance with INPAG without the explanation required in G1.10 (see Section 9 *Consolidated and separate financial statements*), even if it presents its **consolidated financial statements** in accordance with full IFRS Accounting Standards or another set of generally accepted accounting principles (GAAP) such as its national accounting standards. Any financial statements prepared in accordance with INPAG shall be clearly distinguished from financial statements prepared in accordance with other requirements.

Application Guidance: Section 1 – NPOs (New)

Indicators that an entity might be an NPO

- AG1.1 It may not always be clear if an entity fully displays the broad characteristics of an NPO included in G1.2–G1.5. For example, cooperatives, mutual benefit organisations and other similar organisations exist primarily for the benefit of their members, and those members may be in receipt of private benefits in the form of discounted goods and services that could be deemed as more than incidental.
- AG1.2 In many cases, whether the broad characteristics have been met – particularly with respect to the primary objectives of providing a benefit to the public and directing surpluses for the benefit of the public – is likely to require the exercise of judgement. Where this is the case, the following are indicators that should be applied to assist in determining the existence of these characteristics and applying the requirements of G1.2–G1.5:
- An absence of individuals with rights to financial returns from surpluses;
 - A requirement that the NPO transfer residual net assets upon dissolution to an entity with a similar purpose;
 - Receiving or providing voluntary funding; and
 - Holding and using assets for the benefit of the public.

Absence of individuals with rights to financial returns from surpluses

- AG1.3 If an entity is an NPO, it will generally not have obligations to individuals who have rights to financial returns from any surpluses that it generates. Such rights would ordinarily arise from individuals holding share capital, which is expected to be uncommon if an entity is an NPO. Such rights could imply that financial surpluses are not being directed for the benefit of the public and there are more than incidental private benefits being provided.

A requirement that the NPO transfer residual net assets upon dissolution to an entity with a similar purpose

- AG1.4 If an entity is an NPO, it may have a requirement that upon its dissolution, any residual net assets must be transferred to an entity with a similar primary purpose of providing a benefit to the public, which would usually be an NPO itself. If an entity is not an NPO, it would be more typical that there is a requirement for residual net assets to be distributed to those that have ownership rights to the net assets of the entity. This would generally be indicative of the existence of private benefits that are more than incidental.

Receiving or providing voluntary funding

- AG1.5 It is regularly the case that NPOs provide, or are in receipt of, voluntary funding through donations, grants or volunteering of services, which may be significant. However, such resources and any restrictions on their use should not generally entitle the provider to financial or other economic returns, as this would indicate that the NPO was distributing financial surpluses for private benefit rather than fulfilling a primary objective of providing a benefit to the public.

Holding and using assets for the benefit of the public

- AG1.6 NPOs will regularly hold and use assets primarily to assist in delivering services and/or goods for the benefit of the public and not to generate financial returns to providers of resources. NPOs may control or have access to assets such as buildings or equipment that are used as a part of their operations. NPOs can also have a responsibility for the preservation and enhancement of assets such as artistic works, heritage assets and natural assets. Financial assets such as endowments may also be held by NPOs, which will provide resources to fund the delivery of services and goods.

Comparison of Section 1 with the *IFRS for SMEs Accounting Standard*

Section 1 of INPAG has the same aim as Section 1 of the *IFRS for SMEs Accounting Standard*, but it has been significantly re-written to describe the nature of non-profit organisations as potential users of this guidance. The main differences between Section 1 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 1 of INPAG are as follows:

- INPAG Section 1 explains that it is intended for use by NPOs and that a broad characteristics approach has been used to identify the entities that are intended to be within the scope of INPAG.
- INPAG Section 1 notes that the decision on which entities are required or permitted to use INPAG rests with the judgement of relevant authorities in individual jurisdictions.
- INPAG Section 1 notes that for the purposes of INPAG, NPOs are entities that publish general purpose financial reports for external users and have three broad characteristics.
- INPAG Section 1 explains that entities that have public accountability as defined in IFRS Accounting Standards may find INPAG useful, but it is unlikely to meet the needs of users of their general purpose financial reports. If such entities use INPAG, they are required to disclose this and explain why INPAG meets the needs of users.

Specific matter for comment

Question 2: Description of NPOs and users of INPAG

- a) Do you agree with the description of the broad characteristics of NPOs? Does the term 'providing a benefit to the public' include all entities that might be NPOs? If not, what would you propose and why?
- b) Does Section 1 together with the Preface provide clear guidance on which NPOs are intended to benefit from the use of INPAG? If not, what would be more useful?

References

G1.2–G1.5

Section 2 – Concepts and pervasive principles

Scope of this Section

- G2.1 This Section describes the objective of general purpose financial reports of non-profit organisations (NPOs). It also sets out the concepts and basic principles underlying the general purpose financial reports of NPOs.
- G2.2 In some circumstances, there may be inconsistencies between the concepts and principles in this Section and the requirements of another Section of the Guidance. In these circumstances, the requirements in the other Section take precedence over this Section.

The objective of non-profit organisations' general purpose financial reports

Objective, usefulness and limitations of general purpose financial reports

- G2.3 The objective of general purpose financial reports of an NPO is to provide information about the NPO that is useful for accountability and decision making by users of the financial reports.

Users of general purpose financial reports

- G2.4 NPOs are responsible for the stewardship of the resources entrusted to them. NPOs are accountable for the management and use of these resources. They are accountable to resource providers and to the public that depend on the goods and services provided by NPOs. The interests of resource providers and the public may be served by those fulfilling oversight functions on their behalf.
- G2.5 General purpose financial reports are not developed specifically to respond to any individual information needs.
- G2.6 Users that have rights to demand information tailored to meet their particular information needs, for example, some donors as part of funding arrangements, are not considered to be **primary users** of general purpose financial reports. Similarly, information tailored to a user's individual needs would typically not be included in general purpose financial reports.

Information needs of users for accountability and decision making

- G2.7 The discharge of accountability obligations requires the provision of information about the NPO's management of its resources in meeting its purposes, its capacity to continue to operate in future periods, and its compliance with any regulations that govern its operations.
- G2.8 Information provided in general purpose financial reports for accountability purposes will also contribute to and inform economic and other decision making.

Information provided by general purpose financial reports to meet the needs of users

- G2.9 Core financial information that is presented in the **financial statements** will need to be supported by financial and non-financial information in general purpose financial reports. This supporting information enhances, complements and supplements the core financial information presented in the financial statements to fully describe an NPO's performance.
- G2.10 General purpose financial reports include financial statements that provide information about the financial position of a reporting NPO, which is information about the NPO's **economic resources** and the claims against the NPO. They also provide information about the effects of transactions and other events that change a reporting NPO's economic resources and claims. They allow users to make decisions and develop expectations based on their assessment of the amount, timing and uncertainty of future net cash inflows to the NPO.

- G2.11 Non-financial information should include those items covered in Section 35 *Narrative reporting*.
- G2.12 General purpose financial reports do not and cannot provide all the information that users need. Those users need to consider pertinent information from other sources – for example, general economic conditions and expectations, political events and political climate, and sector and individual NPO-focused outlooks.

Qualitative characteristics of information in general purpose financial reports

- G2.13 The qualitative characteristics of useful financial and non-financial information described in paragraphs G2.14–G2.29 identify the types of information that are likely to be the most useful to users in making decisions about the NPO on the basis of information in its financial reports.

Qualitative characteristics of useful financial and non-financial information

- G2.14 If financial and non-financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial and non-financial information is enhanced if it is comparable, verifiable, timely and understandable.

Fundamental qualitative characteristics

- G2.15 The fundamental qualitative characteristics are relevance and faithful representation.

Relevance

- G2.16 Relevant financial and non-financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources.
- G2.17 Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.

Materiality

- G2.18 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those financial reports, which provide financial and non-financial information about a specific reporting NPO. In other words, materiality is an NPO entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual NPO's financial reports. Consequently, it is not possible to specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

Faithful representation

- G2.19 Financial reports represent economic or other phenomena in words and numbers. To be useful, financial and non-financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic or other phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic or other phenomenon.
- G2.20 To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The objective is to maximise those qualities to the extent possible.

- G2.21 A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.
- G2.22 A neutral depiction is without bias in the selection or presentation of financial and non-financial information. Neutrality is supported by the exercise of **prudence**. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses. Such misstatements can lead to the overstatement or understatement of income or expenses in future periods. The exercise of prudence does not imply a need for asymmetry, although particular Sections may contain asymmetric requirements if these are a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.
- G2.23 Faithful representation does not mean accurate in all respects. Free from error means there are no **errors** or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects.

Applying the fundamental qualitative characteristics

- G2.24 The most efficient and effective process for applying the fundamental qualitative characteristics would usually be as follows (subject to the effects of enhancing characteristics and the cost constraint, which are not considered in this example). First, identify an economic or other phenomenon, information about which is capable of being useful to users of the reporting NPO's financial information. Second, identify the type of information about that phenomenon that would be most relevant. Third, determine whether that information is available and whether it can provide a faithful representation of the economic or other phenomenon. If so, the process of satisfying the fundamental qualitative characteristics ends at that point. If not, the process is repeated with the next most relevant type of information. In some cases, a trade-off between the fundamental qualitative characteristics may need to be made to meet the objective of general purpose financial reports (see paragraph G2.37).

Enhancing qualitative characteristics

- G2.25 Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that both is relevant and provides a faithful representation of what it purports to represent. The enhancing qualitative characteristics may also help determine which of two ways should be used to depict a phenomenon if both are considered to provide equally relevant information and an equally faithful representation of that phenomenon.

Comparability

- G2.26 Information about a reporting NPO is more useful if it can be compared with similar information about other NPOs and with similar information about the same NPO for another period or another date. Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. It is diminished where alternative accounting methods are permitted for the same economic phenomenon.

Verifiability

- G2.27 Verifiability helps assure users that information faithfully represents the economic or other phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single-point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

Timeliness

- G2.28 Timeliness means having information available to users in time to be capable of influencing their decisions. Generally, the older the information, the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

Understandability

- G2.29 Classifying, characterising and presenting information clearly and concisely makes it understandable. However, excluding information from financial reports about phenomena that are inherently complex and cannot be made easy to understand would make these reports incomplete and therefore possibly misleading.

The cost constraint on useful financial reporting

- G2.30 Cost is a pervasive constraint on the information that can be provided by financial reporting and non-financial reporting. Reporting financial and non-financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information.
- G2.31 Providers of financial and non-financial information expend most of the effort involved in collecting, processing, verifying and disseminating financial and non-financial information. Users of financial and non-financial information also incur costs of analysing and interpreting the information provided. If needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it.
- G2.32 Reporting financial and non-financial information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence. However, it is not possible for general purpose financial reports to provide all the information that every user finds relevant.

Undue cost or effort

- G2.33 An undue cost or effort exemption is specified for some requirements in INPAG. This exemption shall not be used for other requirements in this Guidance.
- G2.34 Considering whether obtaining or determining the information necessary to comply with a requirement would involve undue cost or effort depends on the NPO's specific circumstances and on management's judgement of the costs and benefits from applying that requirement. This judgement requires consideration of how the economic and other decisions of those that are expected to use the financial reports could be affected by not having that information. Applying a requirement would involve undue cost or effort by an NPO if the incremental cost (for example, valuers' fees) or additional effort (for example, endeavours by employees) substantially exceeds the benefits that those that are expected to use the NPO's financial report would receive from having the information.
- G2.35 Assessing whether a requirement would involve undue cost or effort on initial recognition in the financial reports – for example, at the date of the transaction – should be based on information about the costs and benefits of the requirement at the time of initial recognition. If the undue cost or effort exemption also applies subsequent to initial recognition – for example, to a subsequent measurement of an item – a new assessment of undue cost or effort should be made at that subsequent date based on information available at that date.
- G2.36 Except for the undue cost or effort exemption in paragraph 19.10G, which is covered by the disclosure requirements in paragraph 19.25, whenever an undue cost or effort exemption is used by an NPO, the NPO shall disclose that fact and the reasons why applying the requirement would involve undue cost or effort.

General purpose financial reports and the reporting NPO

Objective and scope of general purpose financial reports

G2.37 The objective of general purpose financial reports is to provide financial information about the reporting NPO's assets, liabilities, equity, income and expenses, as well as non-financial information that is useful to users for accountability and decision-making purposes, including assessing management's stewardship of the NPO's resources (see paragraph G2.3–2.12).

Reporting period

G2.38 Financial reports are prepared for a specified period of time (reporting period) and provide financial information about:

- a) assets and liabilities, including unrecognised assets and liabilities, equity, and funds with restrictions and funds without restrictions within net assets that existed at the end of the reporting period or during the reporting period
- b) income and expenses for the reporting period.

G2.39 To help users of financial reports identify and assess changes and trends, financial reports also provide comparative information for at least one preceding reporting period, except when this Guidance permits or requires otherwise.

G2.40 Information about possible future transactions and other possible future events is included in financial reports if it:

- a) relates to the NPO's assets or liabilities, including unrecognised assets or liabilities, equity and funds within net assets that existed at the end of the reporting period or during the reporting period, or to income or expenses for the reporting period; and
- b) is useful to users of financial reports.

Perspective adopted in financial reports

G2.41 Financial reports provide information about transactions and other events viewed from the perspective of the reporting entity as a whole, not from the perspective of any particular group of the NPO's users.

Going concern assumption

G2.42 Financial reports are normally prepared on the assumption that the reporting NPO is a going concern and will continue in operation for the foreseeable future. Hence it is assumed that the NPO has neither the intention nor the need to enter liquidation or cease operating. If such an intention or need exists, the financial statements may have to be prepared on a different basis. If so, the financial reports must describe the basis used (see paragraphs G3.8–G3.9).

The reporting NPO

G2.43 A reporting NPO is an NPO that is required or chooses to prepare general purpose financial reports. A reporting NPO can be a single NPO or a portion of an NPO or can comprise more than one NPO. It may operate through trusts or other entities, and some of these may have a separate legal identity, autonomy to operate or otherwise support the provision of goods and services. A reporting NPO is not necessarily a legal entity.

G2.44 A reporting NPO will prepare general purpose financial reports as if it were one economic entity or other complete set of activities related to its purposes.

G2.45 An NPO may have an interest in another entity and be characterised as a **controlling NPO (parent)**, while another entity (that may or may not be an NPO) is characterised as a **controlled entity**. Control

is the power of an NPO to direct the activities of or use the funds of another entity (see paragraphs G9.8–G9.19).

- G2.46 If a reporting NPO comprises both the controlling NPO and its controlled entities, the reporting NPO's financial statements are referred to as **consolidated financial statements**. If the controlling NPO produces financial statements alone, these are referred to as **separate financial statements**. If the reporting NPO comprises two or more entities that are not linked by a controlling NPO-controlled entity relationship, the reporting NPO's financial statements are referred to as **combined financial statements**.
- G2.47 Determining what a reporting NPO can be complex where the potential reporting NPO is not a legal entity or where it does not include legal entities that are governed by controlling NPO-controlled entity relationships.
- G2.48 Where a reporting NPO is not clearly defined (for example, a reporting entity will be clear when it is a legal entity or is controlled by a controlling NPO-controlled entity relationship), determining the boundary of the reporting NPO is driven by the information needs of the users of the reporting NPO's financial statements. Those users need relevant information that faithfully represents what it purports to represent. Faithful representation requires that:
- a) the boundary of the reporting NPO does not contain an arbitrary or incomplete set of economic activities;
 - b) including that set of economic activities within the boundary of the reporting NPO results in neutral information; and
 - c) a description is provided of how the boundary of the reporting NPO was determined and of what constitutes the reporting NPO.
- G2.49 Where a reporting NPO is not clearly defined, it is required to disclose the basis for the reporting NPO boundary, any significant judgements in determining it and its relationship with other entities in the notes to the financial statements.

The elements of financial statements

Introduction

- G2.50 The elements of financial statements defined in this Section are as follows:
- a) Assets and liabilities, which relate to a reporting NPO's Statement of Financial Position.
 - b) Income and expenses, which relate to a reporting NPO's Statement of Income and Expenses if they contribute to surplus and deficit, and to the Statement of Changes in Net Assets if they do not contribute to surplus and deficit.
- G2.51 Those elements are linked to the economic resources (see G2.54), claims and changes in economic resources and claims discussed in paragraphs G2.7–G2.12.
- G2.52 In addition to these elements, further important aspects of NPO financial statements are discussed in this Section. These include:
- a) net assets;
 - b) equity; and
 - c) funds with restrictions and funds without restrictions.

Definition of an asset

- G2.53 An asset is a present economic resource controlled by the NPO as a result of past events.

- G2.54 An economic resource is a right that has the **potential to produce economic benefits** or to provide services and goods in accordance with the NPO's objectives. Economic benefits relate to cash inflows or a reduction in cash outflows. The capacity to provide services and goods that contribute to achieving the NPO's objectives is **service potential**. Service potential enables an NPO to achieve its objectives without necessarily generating net cash inflows.
- G2.55 Rights that have the potential to produce economic benefits or service potential take many forms, including:
- a) rights that correspond to an obligation of another party, for example:
 - i) rights to receive cash
 - ii) rights to receive services or goods or assign services or goods to third parties
 - iii) rights to exchange economic resources with another party on favourable terms. Such rights include, for example, a forward **contract** to buy an economic resource on terms that are currently favourable or an option to buy an economic resource
 - iv) rights to benefit from an obligation of another party to transfer an economic resource if a specified uncertain future event occurs
 - b) rights that do not correspond to an obligation of another party, for example:
 - i) rights over physical objects, such as property, plant and equipment or **inventories**. Examples of such rights are a right to use, or allow others to use, a physical object for the achievement of an NPO's objectives without a corresponding cash inflow or a reduction in cash outflows, or a right to benefit from the residual value of a leased object
 - ii) rights to use intellectual property
- G2.56 Many rights are established by contract, legislation or similar means. For example, an NPO might obtain rights from owning or leasing a physical object, from owning a debt instrument or an equity instrument, or from owning a registered patent. However, an NPO might also obtain rights in other ways, for example:
- a) by acquiring or creating know-how that is not in the public domain; or
 - b) through an obligation of another party that arises because that other party has no practical ability to act in a manner inconsistent with its customary practices, published policies or specific statements.
- G2.57 An economic resource is a right that has the potential to produce economic benefits or service potential. It does not need to be certain, or even likely, that the right will produce economic benefits or service potential. It is only necessary that the right already exists.
- G2.58 Control links an economic resource to an NPO. Assessing whether control exists helps to identify the economic resource for which the NPO accounts. An NPO controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits or service potential that may flow from it. An NPO has the present ability to direct the use of an economic resource if it has the right to deploy that economic resource in its activities, or to allow another party to deploy the economic resource in that other party's activities.

Definition of a liability

- G2.59 A liability is a present obligation of the NPO to transfer an economic resource as a result of past events.
- G2.60 For a liability to exist, three criteria must all be satisfied:
- a) the NPO has an obligation;
 - b) the obligation is to transfer an economic resource; and

c) the obligation is a present obligation that exists as a result of past events.

G2.61 An obligation is a duty or responsibility that an NPO has no practical ability to avoid. An obligation is always owed to another party (or parties). Many obligations are established by contract, legislation or similar means and are legally enforceable by the party (or parties) to whom they are owed. However, obligations can also arise from an NPO's customary practices, published policies or specific statements if the NPO has no practical ability to act in a manner inconsistent with those practices, policies or statements. The obligation that arises in such situations is sometimes referred to as a **constructive obligation**.

G2.62 The second criterion for a liability is that the obligation is to transfer an economic resource.

G2.63 To satisfy this criterion, the obligation must have the potential to require the NPO to transfer an economic resource to another party (or parties). For that potential to exist, it does not need to be certain, or even likely, that the NPO will be required to transfer an economic resource. The transfer may, for example, be required only if a specified uncertain future event occurs. It is only necessary that the obligation already exists and that, in at least one circumstance, it would require the NPO to transfer an economic resource.

G2.64 Obligations to transfer an economic resource include, for example:

- a) obligations to pay cash
- b) obligations to provide services or deliver goods
- c) obligations to exchange economic resources with another party on unfavourable terms
- d) obligations to transfer an economic resource if a specified uncertain future event occurs
- e) obligations to issue a financial instrument if that **financial instrument** will oblige the entity to transfer an economic resource.

G2.65 Instead of fulfilling an obligation to transfer an economic resource to the party that has a right to receive that resource, NPOs sometimes decide to, for example:

- a) settle the obligation by negotiating a release from the obligation;
- b) transfer the obligation to a third party; or
- c) replace that obligation to transfer an economic resource with another obligation by entering into a new transaction.

G2.66 The third criterion for a liability is that the obligation is a present obligation that exists as a result of past events.

G2.67 A present obligation exists as a result of past events only if:

- a) the NPO has already obtained economic benefits or service potential or taken an action; and
- b) as a consequence, the NPO will or may have to transfer an economic resource that it would not otherwise have had to transfer.

G2.68 The economic benefits or service potential obtained could include, for example, goods or services. The action taken could include, for example, undertaking a particular activity for the benefit of the public or operating in a particular geographical area. If economic benefits or service potential are obtained or an action is taken, over time, the resulting present obligation may accumulate over that time.

Assets and liabilities

Unit of account

G2.69 The unit of account is the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations to which recognition criteria and measurement concepts are applied.

G2.70 A unit of account is selected for an asset or liability when considering how recognition criteria and measurement concepts will apply to that asset or liability and to the related income and expenses. In some circumstances, it may be appropriate to select one unit of account for recognition and a different unit of account for measurement. For example, contracts may sometimes be recognised individually but measured as part of a portfolio of contracts. For presentation and disclosure, assets, liabilities, income and expenses may need to be aggregated or separated into components.

Executory contracts

G2.71 An executory contract is a contract, or a portion of a contract, that is equally unperformed. Neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent.

G2.72 An executory contract establishes a combined right and obligation to exchange economic resources. The right and obligation constitute a single asset or liability. The NPO has an asset if the terms of the exchange are currently favourable; it has a liability if the terms of the exchange are currently unfavourable. Whether such an asset or liability is included in the financial statements depends on both the recognition criteria and the measurement basis selected for the asset or liability, including, if applicable, any test for whether the contract is onerous.

Net assets

G2.73 Net assets are not a defined financial statements element but rather are the residual of recognised assets minus recognised liabilities. An NPO may recognise the element of equity within net assets where the holders of **equity claims** have established a financial interest in or entitlement to some of the net assets of the NPO (see paragraphs AG2.6–AG2.9). Net assets may exceptionally also include non-controlling interests. Net assets may be managed by an NPO in separate funds, which may be funds with restrictions and funds without restrictions. These are the funds within net assets.

Funds with restrictions

G2.74 Funds with restrictions are to be used by an NPO when there are externally imposed funding or other legal arrangements placed on the NPO by a resource provider that restrict the financial resources provided to be expended, invested or retained by the NPO for a specific purpose or activity. A breach of these funding or other legal requirements may require the NPO to return the financial resources to the party that originally provided them and/or result in the NPO facing censure from regulators for the misuse of these resources.

Funds without restrictions

G2.75 Funds without restrictions are those that are freely available to be used by an NPO for any of its purposes or activities. An NPO is free to internally designate funds for a specific purpose or activity, but the absence of any externally imposed funding or other legal arrangement means that they are not required to be used for this purpose or activity. Internal designations include those that are made by boards of directors or equivalent bodies that are charged with governance of the NPO.

Definitions of income and expenses

G2.76 Income and expenses are defined as follows:

- a) income is increases in assets or decreases in liabilities that result in increases in net assets other than those relating to **contributions from holders of equity claims**; and
- b) expenses are decreases in assets or increases in liabilities that result in decreases in net assets other than those relating to **distributions to holders of equity claims**.

From these definitions of income and expenses, it follows that contributions from holders of equity claims are not income and distributions to holders of equity claims are not expenses.

- G2.77 Income and expenses are the elements of financial statements that relate to an NPO's financial activity in a reporting period. Users of financial statements need information about both an NPO's financial position and its financial activity in a reporting period. Hence, although income and expenses are defined in terms of changes in assets and liabilities, information about income and expenses is just as important as information about assets and liabilities.
- G2.78 Different transactions and other events generate income and expenses with different characteristics. Providing information separately about income and expenses with different characteristics can help users of financial statements understand the NPO's financial activity in the reporting period.

Recognition and derecognition

The recognition process

- G2.79 Recognition is the process of capturing for inclusion in the Statement of Financial Position, the Statement of Income and Expenses or the Statement of Changes in Net Assets an item that meets the definition of one of the elements of financial statements – an asset, a liability, equity, income or expenses. Recognition involves depicting the item in one of those statements – either alone or in **aggregation** with other items – in words and by a monetary amount, and including that amount in one or more totals in that statement. The amount at which an asset, a liability or equity is recognised in the Statement of Financial Position is referred to as its **carrying amount**.
- G2.80 Recognition links the elements, the Statement of Financial Position, the Statement of Income and Expenses and the Statement of Changes in Net Assets as follows (see Figure 2.1 and Figure 2.2):
- a) in the Statement of Financial Position, at the beginning and end of the reporting period, total assets minus total liabilities is equal to net assets; and
 - b) recognised changes in net assets during the reporting period comprise:
 - i) income minus expenses that contribute to surplus and deficit and that are recognised in the Statement of Income and Expenses; plus
 - ii) income minus expenses that do not contribute to surplus and deficit and that are recognised directly in the Statement of Changes in Net Assets; plus
 - iii) contributions from holders of equity claims minus distributions to holders of equity claims.

Figure 2.1: How recognition links the elements of financial statements

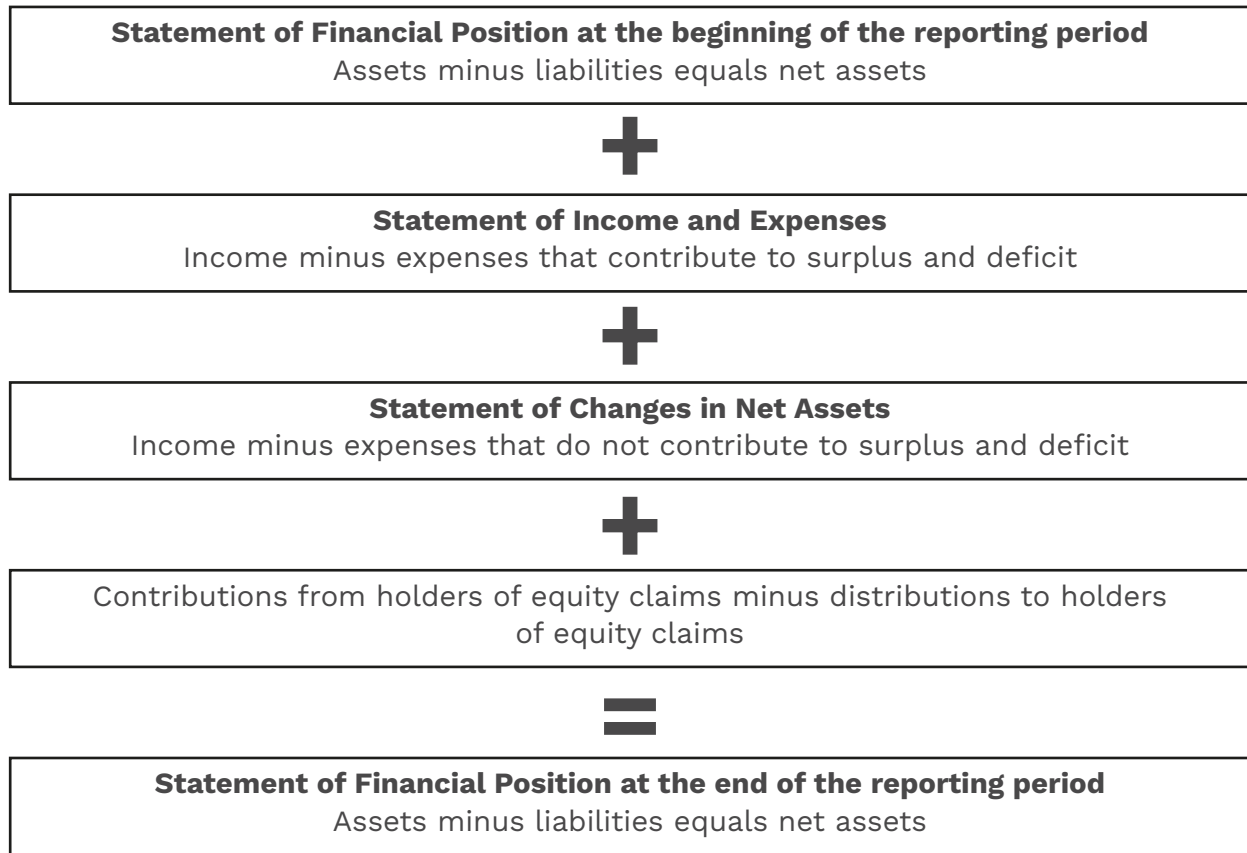


Figure 2.2: How recognition impacts components of net assets

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

Recognition criteria

- G2.81 Only items that meet the definition of an asset, a liability or equity are recognised in the Statement of Financial Position. Items that meet the definition of income or expenses are recognised in the Statement of Income and Expenses or in the Statement of Changes in Net Assets, depending on whether they contribute to surplus and deficit or not. However, not all items that meet the definition of one of those elements are recognised.
- G2.82 The failure to recognise an item that satisfies those criteria is not rectified by disclosure of the **accounting policies** used or by notes or explanatory material.

Relevance

- G2.83 Information about assets, liabilities, equity, income and expenses is relevant to users of financial statements. However, recognition of a particular asset or liability and any resulting income, expenses or changes in net assets may not always provide relevant information. That may be the case if, for example, it is uncertain whether an asset or liability exists, or an asset or liability exists but the probability of an inflow or outflow of economic benefits is low. The presence of one or both factors does not automatically lead to a conclusion that the information provided by recognition lacks relevance, as other factors may need to be taken into account.

Existence uncertainty

- G2.84 In some cases, it may be unclear whether an asset or liability exists. That uncertainty, possibly combined with a low probability of inflows or outflows of economic benefits and an exceptionally wide range of possible outcomes, may mean that the recognition of an asset or liability, necessarily measured at a single amount, would not provide relevant information. Whether or not the asset or liability has been recognised, explanatory information about the associated uncertainties may need to be provided in the financial statements.

Faithful representation

- G2.85 Recognition of a particular asset or liability is appropriate if it provides not only relevant information but also a faithful representation of that asset or liability and of any resulting income, expenses or changes in net assets. Whether a faithful representation can be provided may be affected by the level of measurement uncertainty associated with the asset or liability or by other factors.

Measurement uncertainty

- G2.86 For an asset or liability to be recognised, it must be measured. In many cases, such measures must be estimated and are therefore subject to measurement uncertainty. The use of reasonable estimates is an essential part of the preparation of financial information and does not undermine the usefulness of the information if the estimates are clearly and accurately described and explained.
- G2.87 An item that fails to meet the recognition criteria may qualify for recognition at a later date as a result of subsequent circumstances or events.
- G2.88 Whether or not an asset or liability is recognised, a faithful representation of the asset or liability may need to include explanatory information about the uncertainties associated with the asset or liability's existence or measurement, or with its outcome – the amount or timing of any inflow or outflow of economic benefits that will ultimately result from it.

Derecognition

- G2.89 Derecognition is the removal of all or part of a recognised asset or liability from an NPO's Statement of Financial Position. Derecognition normally occurs when that item no longer meets the definition of an asset or liability:

- a) for an asset, derecognition normally occurs when the NPO loses control of all or part of the recognised asset; and
 - b) for a liability, derecognition normally occurs when the NPO no longer has a present obligation for all or part of the recognised liability.
- G2.90 Accounting requirements for derecognition aim to faithfully represent both any asset and liabilities retained after the transaction or other event that led to derecognition and the change in assets or liabilities as a result of that transaction or other event.
- G2.91 The aim of paragraph G2.90 is normally achieved by:
- a) derecognising any assets or liabilities that have expired or have been consumed, collected, fulfilled or transferred, and recognising any resulting income and expenses; and
 - b) continuing to recognise any retained assets or liabilities.
- G2.92 One or more of the following procedures may be applied to achieve the aims of paragraph G2.90:
- a) present the retained component separately in the Statement of Financial Position;
 - b) present separately in the Statement of Income and Expenses any income and expenses that contribute to surplus and deficit recognised as a result of the derecognition of the transferred component;
 - c) present separately in the Statement of Changes in Net Assets any income and expenses that do not contribute to surplus and deficit recognised as a result of the derecognition of the transferred component; or
 - d) provide explanatory information.

Measurement

- G2.93 Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis.
- G2.94 A measurement basis is an identified feature – for example, historical cost, fair value or fulfilment value – of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.
- G2.95 Different measurement bases may be appropriate for different assets, liabilities, income and expenses.

Measurement bases

Historical cost

- G2.96 Historical cost measures provide monetary information about the assets, liabilities and related income and expenses using information derived, at least in part, from the price of the transaction or other event that gave rise to them.
- G2.97 The historical cost of an asset when it is acquired or created is the value of the costs incurred in acquiring or creating the asset, comprising the consideration paid to acquire or create the asset plus **transaction costs**. The historical cost of a liability when it is incurred or taken on is the value of the consideration received to incur or take on the liability minus transaction costs.
- G2.98 The historical cost of an asset is updated over time to depict, if applicable:
- a) the consumption of part or all of the economic resource that constitutes the asset (**depreciation** or **amortisation**);
 - b) payments received that extinguish part or all of the asset;
 - c) the effect of events that cause part or all of the historical cost of the asset to be no longer recoverable (impairment); and

d) accrual of interest to reflect any financing component of the asset.

G2.99 The historical cost of a liability is updated over time to depict, if applicable:

- a) fulfilment of part or all of the liability – for example, by making payments that extinguish part or all of the liability or by satisfying an obligation to deliver goods.
- b) the effect of events that increase the value of the obligation to transfer the economic resources needed to fulfil the liability to such an extent that the liability becomes onerous. A liability is onerous if the historical cost is no longer sufficient to depict the obligation to fulfil the liability.
- c) accrual of interest to reflect any financing component of the liability.

G2.100 One way to apply a historical cost measurement basis to **financial assets** and **financial liabilities** is to measure them at amortised cost. The **amortised cost of a financial asset or financial liability** reflects estimates of future cash flows, discounted at a rate determined at initial recognition. For variable-rate instruments, the discount rate is updated to reflect changes in the variable rate. The amortised cost of a financial asset or financial liability is updated over time to depict subsequent changes, such as the accrual of interest, the impairment of a financial asset and receipts or payments.

Current value

G2.101 Current value measures provide monetary information about assets, liabilities and related income and expenses using information updated to reflect conditions at the measurement date. Current value measurement bases include:

- a) fair value;
- b) value in use for assets and fulfilment value for liabilities; and
- c) current cost.

G2.102 **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between **market participants** at the measurement date. Because fair value is not derived, even in part, from the price of the transaction or other event that gave rise to the asset or the liability, fair value is not increased by transaction costs incurred when acquiring the asset and is not decreased by the transaction costs incurred when the liability is incurred or taken on.

G2.103 **Value in use** is the **present value** of the cash flows, other economic benefits or service potential that an entity expects to derive from the use of an asset and from its ultimate disposal. **Fulfilment value** is the present value of the cash or other economic resources that an entity expects to be obliged to transfer as it fulfils a liability. As value in use and fulfilment value are usually based on future cash flows, they do not include transaction costs incurred on acquiring an asset or taking on a liability.

G2.104 **The current cost** of an asset is the cost of an equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date plus the transaction costs that would be incurred at that date. The current cost of a liability is the consideration that would be received for an equivalent liability at the measurement date minus the transaction costs that would be incurred at that date.

Information provided by particular measurement bases

G2.105 When selecting a measurement basis, it is important to consider the nature of the information that the measurement basis will produce in the Statement of Financial Position, the Statement of Income and Expenses or the Statement of Changes in Net Assets.

Historical cost

G2.106 Information provided by measuring an asset or liability at historical cost may be relevant to users of financial statements because historical cost uses information derived, at least in part, from the price of the transaction or other event that gave rise to the asset or liability. As historical cost is reduced

to reflect consumption of an asset and its impairment, the amount expected to be recovered from an asset measured at historical cost is at least as great as its carrying amount. Similarly, because the historical cost of a liability is increased when it becomes onerous, the value of the obligation to transfer the economic resources needed to fulfil the liability is no more than the carrying amount of the liability.

Current value

- G2.107 Information provided by measuring an asset or liability at fair value may have predictive value because fair value reflects market participants' current expectations about the amount, timing and uncertainty of future cash flows.
- G2.108 Value in use provides information about the present value of the estimated cash flows or service potential from the use of an asset and from its ultimate disposal. This information may have predictive value because it can be used in assessing the prospects for future net cash inflows or service potential generated by an asset.
- G2.109 Fulfilment value provides information about the present value of the estimated cash flows needed to fulfil a liability. Hence fulfilment value may have predictive value, particularly if the liability will be fulfilled rather than transferred or settled by negotiation.
- G2.110 Updated estimates of value in use or fulfilment value, combined with information about estimates of the amount, timing and uncertainty of future cash flows or service potential, may also have confirmatory value because they provide feedback about previous estimates of value in use or fulfilment value.
- G2.111 Information about assets and liabilities measured at current cost may be relevant because current cost reflects the cost at which an equivalent asset could be acquired or created at the measurement date or the consideration that would be received from incurring or taking on an equivalent liability.

Factors to consider when selecting a measurement basis

- G2.112 In selecting a measurement basis for an asset or liability, and for the related income and expenses, it is necessary to consider the nature of the information that the measurement basis will produce in the Statement of Financial Position, the Statement of Income and Expenses or the Statement of Changes in Net Assets.
- G2.113 In most cases, no single factor will determine which measurement basis should be selected. The relative importance of each factor will depend on facts and circumstances.
- G2.114 The information provided by a measurement basis must be useful to users of financial reports. To achieve this, the information must be relevant, and it must faithfully represent what it purports to represent. In addition, the information provided should, as far as possible, be comparable, verifiable, timely and understandable.

Relevance

- G2.115 The relevance of information provided by a measurement basis for an asset or liability and for the related income and expenses is affected by:
- a) the characteristics of the asset or liability, in particular whether they are held for their service potential rather than to generate cash flows, the variability of cash flows, and whether the value of the asset or liability is sensitive to market factors or other risks; and
 - b) how that asset or liability contributes to future cash flows.
- G2.116 If the value of an asset or liability is sensitive to market factors or other risks, or if the asset is held for its service potential, its historical cost might differ significantly from its current value. Consequently, historical cost may not provide relevant information if information about changes in value is important to users of financial statements. For example, amortised cost cannot provide relevant information about a financial asset or financial liability that is a derivative.

- G2.117 For assets and liabilities that produce cash flows directly, such as assets that can be sold independently and without a significant economic penalty (for example, without a significant disruption to an NPO's activities), the measurement basis that provides the most relevant information is likely to be a current value that incorporates current estimates of the amount, timing and uncertainty of the future cash flows. For assets and liabilities that do not produce cash flows directly, such as assets held for their service potential, the principles of relevance and faithful representation should be considered to the extent that they apply to the facts and circumstances.
- G2.118 When an NPO's activity involves managing financial assets and financial liabilities with the objective of collecting contractual cash flows, amortised cost may provide relevant information that can be used to derive the margin between the interest earned on the assets and the interest incurred on the liabilities.

Faithful representation

- G2.119 In some circumstances, avoiding an accounting mismatch by using the same measurement basis for related assets and liabilities may provide users of financial reports with information that is more useful than the information that would result from using different measurement bases. This may be particularly likely when the cash flows from one asset or liability are directly linked to the cash flows from another asset or liability.
- G2.120 As noted in paragraph G2.23, although a perfectly faithful representation is free from error, this does not mean that measures must be perfectly accurate in all respects.
- G2.121 When a measure cannot be determined directly by observing prices in an **active market** and must instead be estimated, measurement uncertainty arises. The level of measurement uncertainty associated with a particular measurement basis may affect whether information provided by that measurement basis provides a faithful representation of an NPO's financial position and income and expenses. A high level of measurement uncertainty does not necessarily prevent the use of a measurement basis that provides relevant information. However, in some cases, the level of measurement uncertainty is so high that information provided by a measurement basis might not provide a sufficiently faithful representation. In such cases, it is appropriate to consider selecting a different measurement basis that would also result in relevant information.
- G2.122 Measurement uncertainty is different from both outcome uncertainty and existence uncertainty:
- a) outcome uncertainty arises when there is uncertainty about the amount or timing of any inflow or outflow of economic benefits or service potential that will result from an asset or liability.
 - b) existence uncertainty arises when it is uncertain whether an asset or a liability exists. Paragraphs G2.83–G2.84 discuss how existence uncertainty may affect decisions about whether an NPO entity recognises an asset or liability when it is uncertain whether that asset or liability exists.

Enhancing qualitative characteristics and the cost constraint

- G2.123 The enhancing qualitative characteristics of comparability, understandability and verifiability, and the cost constraint have implications for the selection of a measurement basis. The enhancing qualitative characteristic of timeliness has no specific implications for measurement.
- G2.124 Consistently using the same measurement bases for the same items, either from period to period within a reporting NPO or in a single period across NPOs, can help make financial reports more comparable.
- G2.125 A change in measurement basis can make financial reports less understandable. However, a change may be justified if other factors outweigh the reduction in understandability – for example, if the change results in more relevant information. If a change is made, users of financial reports may need explanatory information to enable them to understand the effect of that change.
- G2.126 Understandability depends partly on how many different measurement bases are used and on whether they change over time. In general, if more measurement bases are used in a set of financial

reports, the resulting information becomes more complex and hence less understandable, and the totals or subtotals in the Statement of Financial Position, the Statement of Income and Expenses or the Statement of Changes in Net Assets become less informative. However, it could be appropriate to use more measurement bases if that is necessary to provide useful information.

- G2.127 Verifiability is enhanced by using measurement bases that result in measures that can be independently corroborated, either directly – for example, by observing prices – or indirectly – for example, by checking inputs to a model. If a measure cannot be verified, users of financial reports may need explanatory information to enable them to understand how the measure was determined. In such cases, it may be necessary to specify the use of a different measurement basis.

Measurement of net assets and equity

- G2.128 Net assets equal the total of the carrying amounts of all recognised assets less the total of the carrying amounts of all recognised liabilities.
- G2.129 In the rare circumstances where an NPO has equity, it may be appropriate to directly measure the carrying amount of some individual classes and/or components of equity.

Presentation and disclosure

Presentation and disclosure as communication tools

- G2.130 A reporting NPO communicates information about its assets, liabilities, equity and funds with and without restrictions in net assets, income and expenses by presenting and disclosing information in its financial reports.
- G2.131 Effective communication of information in financial reports makes that information more relevant and contributes to a faithful representation of an entity's assets, liabilities, equity and funds with and without restrictions in net assets, income and expenses. It also enhances the understandability and comparability of information in financial reports.
- G2.132 Decisions on selection, location and organisation of information are made in response to the information needs of users. User information needs should underpin:
- a) information selection for the financial reports, in particular information about the financial position, income and expenses and cash flows of an NPO;
 - b) the location of information in the financial reports, which may affect the way that users interpret information; and
 - c) organisation of information, including decisions on the use of cross-referencing, tables, graphs, headings, numbering and the arrangement of items within a particular component of a report, including decisions on item order.
- G2.133 Just as cost constrains other financial reporting decisions, it also constrains decisions about presentation and disclosure. Hence, in making decisions about presentation and disclosure, it is important to consider whether the benefits provided to users of financial reports by presenting or disclosing particular information are likely to justify the costs of providing and using that information.

Classification

- G2.134 Classification is the sorting of assets, liabilities, equity, funds with restrictions and funds without restrictions within net assets, income or expenses on the basis of shared characteristics for presentation and disclosure purposes. Such characteristics include but are not limited to the nature of the item, its role (or function) within the activities conducted by the NPO and how it is measured.
- G2.135 Classifying dissimilar assets, liabilities, equity, funds with restrictions and funds without restrictions within net assets, income or expenses together can obscure relevant information, reduce

understandability and comparability, and may not provide a faithful representation of what it purports to represent.

- G2.136 Classification is applied to the unit of account selected for an asset or liability. However, it may sometimes be appropriate to separate an asset or liability into components that have different characteristics, and to classify those components separately when this would enhance the usefulness of the resulting financial information.
- G2.137 Income and expenses are classified and included in either:
- a) the Statement of Income and Expenses if they contribute to surplus and deficit; or
 - b) the Statement of Changes in Net Assets if they do not contribute to surplus and deficit.
- G2.138 The Statement of Income and Expenses is the primary source of information about an NPO's financial activity for the reporting period. All income and expenses are, in principle, included in that statement if they contribute to surplus and deficit. Income or expenses are to be included in the Statement of Changes in Net Assets if they do not contribute to surplus and deficit when explicitly permitted or required by this Guidance. This results in the Statement of Income and Expenses providing more relevant information or providing a more faithful representation of the NPO's financial activity for that period.
- G2.139 Individual Sections of this Guidance may describe situations where income and expenses resulting from the changes in the current value of assets and liabilities are included in the Statement of Income and Expenses or the Statement of Changes in Net Assets.

Offsetting

- G2.140 Offsetting occurs when an NPO recognises and measures both an asset and liability as separate units of account but groups them into a single net amount in the Statement of Financial Position. Offsetting classifies dissimilar items together and therefore is generally not appropriate unless required or permitted by a specific Section of this Guidance.

Classification of components of equity and funds in net assets

- G2.141 To provide useful information, it may be necessary, where relevant to an NPO, to classify components of equity separately if those components of equity have different characteristics or are subject to particular legal, regulatory or other requirements.
- G2.142 Similarly, to provide useful information, where an NPO manages net assets in separate funds, classifying net assets between funds with restrictions and funds without restrictions and providing an explanation of the nature and purpose of the funds and any restrictions will provide useful information.

Aggregation

- G2.143 **Aggregation** is the adding together of assets, liabilities, equity, funds with restrictions and funds without restrictions within net assets, income or expenses that have shared characteristics and are included in the same classification.
- G2.144 Aggregation makes information more useful by summarising a large volume of detail. However, aggregation conceals some of that detail. Hence, a balance needs to be found so that relevant information is not obscured either by a large amount of insignificant detail or by excessive aggregation.

Application Guidance: Section 2 – Concepts and pervasive principles (New)

Qualitative characteristics of financial and non-financial information

- AG2.1 Applying the qualitative characteristics of financial and non-financial information may appear difficult for the many NPOs that have access to limited technical accounting resources. However, it will not be necessary for NPOs to have to consciously consider each of them when accounting for many transactions and economic events and reporting on them in their general purpose financial reports. Rather the guidance in the most appropriate Section will be used to determine the accounting treatment and how the transaction or economic event is recognised, measured, presented and disclosed.
- AG2.2 Ensuring accounting systems and processes are in place that are well designed and operating effectively will assist in enabling NPOs to gather and process the financial and non-financial information needed to apply the qualitative characteristics to transactions and economic events and comply with the relevant requirements of INPAG.
- AG2.3 From a reporting perspective, the needs of users should guide how NPOs present and disclose financial and non-financial information. Materiality and whether the information is required by users for accountability and decision-making purposes is a key consideration. NPOs also need to ensure that where information is material and is to be reported, users' abilities to understand the information provided is also considered. Some transactions and economic events necessarily require complex accounting treatments. For users to understand these, it may be necessary to provide additional explanatory disclosures. Additional disclosures may also be required to enable users to understand material unrecognised assets and liabilities or longer-term trends.

Restrictions

- AG2.4 Externally imposed restrictions on financial resources provided to NPOs may take many forms. The key decision is whether the economic substance of the funding or other legal arrangement means that the resources are in practice freely available to the NPO for use in any of its purposes or activities.
- AG2.5 Where there are specific conditions attached to resources provided with restrictions, these may be sufficient to not only require that resources are recognised within funds with restrictions but also the recognition of a liability rather than revenue. Further guidance is provided in Section 23 *Revenue* (to be provided in Exposure Draft 2).

Equity in the NPO context

- AG2.6 Equity in the NPO context is not expected to be common, and where it does exist, it is unlikely to be material by magnitude but may be material by nature. It is future economic benefits or service potential that have been contributed to the NPO by external parties other than those that result in liabilities of the NPO and that establish a financial interest in the net assets of the NPO, which:
- a) conveys entitlement to both:
 - i) distributions of future economic benefits or service potential by the NPO during its life, such distributions being at the discretion of the NPO, and to
 - ii) distributions of any excess of assets over liabilities in the event of the NPO being wound up; and/or
 - b) can be sold, exchanged, transferred or redeemed.

Movements in equity are comprised of contributions from holders of equity claims and distributions to holders of equity claims.

- AG2.7 Contributions from holders of equity claims are an inflow of resources to the NPO contributed by external parties that establish or increase a financial interest in the net assets of the NPO. Examples would include the purchase by external parties of share capital issued by the NPO or funds contributed by members that entitle them to a share of net assets. The provision of funding by an external party that provides governance rights but does not establish a financial interest in the net assets of the NPO is not a contribution from holders of equity claims and does not lead to the recognition of equity.
- AG2.8 Distributions to holders of equity claims are outflows of resources from the NPO distributed to external parties that return or reduce a financial interest in the net assets of the NPO. Examples would include the repurchase from external parties of shares issued by the NPO or paying funds back to members, so that they no longer have a further entitlement to a share of net assets.
- AG2.9 Inflows of resources from contributions from holders of equity claims and outflows of resources from distributions to holders of equity claims are related to transactions with holders of equity claims in their capacity as holders of equity claims. Such transactions are different to transactions that give rise to income and expenses (see paragraphs G2.76–G2.78).

Identification of the reporting NPO

- AG2.10 There may be circumstances where a reporting NPO is not easily identified. This might be where:
- the organisational structures are complex or hard to define; or
 - the potential reporting entity might be a part of a legal entity; or
 - the potential reporting entity may be a combination of two or more legal entities.
- Complexities may also come from the existence of branches, which are considered further below.
- AG2.11 Paragraphs G2.43–G2.46 set out the requirements relating to the identification of a reporting NPO, including the need to prepare general purpose financial reports as if it were one economic entity or other complete set of activities.
- AG2.12 An economic entity or other complete set of activities is likely to exist where there is an identifiable and integrated set of activities and assets that is capable of being operated to raise or manage funds and resources for the NPO. These collective resources are used by the NPO to provide services and goods for the benefit of the public.
- AG2.13 If difficulties remain in identifying the reporting NPO, NPOs will also need to apply paragraph G2.48, which requires the determination of the boundary of the reporting NPO by examining the existence of users and their information needs. These users of the reporting NPO's general purpose financial reports will include:
- the public, to whom the NPO provides services and goods;
 - providers of resources to the NPO; and
 - those fulfilling oversight functions on behalf of the public, to whom the NPO provides services and goods, and resource providers.
- AG2.14 Users of the general purpose financial reports are expected to be able to take economic or other decisions based on the information provided in these reports. The reports should also provide transparency over how an NPO has demonstrated accountability in relation to a range of obligations. In many cases, the range of users who are dependent on the general purpose financial reports for accountability purposes, making decisions or allocating resources will be obvious. However, to determine who the users might be and their need for financial reporting, it may be necessary to consider such factors as:
- whether management is acting on behalf of others providing resources;
 - impacts of the entity's activity on the welfare of external parties; and
 - the financial characteristics of the entity, including its size.

- AG2.15 In considering size, account should be taken of all relevant information, including the level of any indebtedness, the number of transactions, the amount of financial and other resources it receives, and the number of members of the public who benefit from the services and goods provided by the NPO. The larger the size of the NPO, the more likely that users will exist who use the financial or other reported information for decision-making and accountability purposes.
- AG2.16 When assessing the boundary of a reporting NPO based on the existence and information needs of users, it is essential that it:
- does not contain an arbitrary set of economic activities (or other set of activities related to its purposes) that is incomplete (ie if the financial information provided would be incomplete and lack neutrality, this would not meet the requirements for faithful representation of transactions); and
 - results in information for the users of the general purpose financial reports that is neutral, in accordance with the requirements for faithful representation (this means that information provided is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated).

Branches as a reporting entity

Introduction

- AG2.17 NPOs may operate through a system of branches, which are administrative arrangements whereby the operating structure of the NPO is arranged according to function, location or other factor to facilitate its administration. These branches may include supporters' groups, members' groups or offices in different locations, and they may operate nationally or internationally. Where the branch is a part of a reporting NPO (for example, an internal subdivision of a reporting entity), the activities of the branch should be included in the general purpose financial reports of the reporting NPO. For the purposes of this Guidance, such internal subdivisions are described as internal branches.
- AG2.18 A branch may produce a separate general purpose financial report as a result of legal or other regulatory requirements. However, INPAG requires that the NPO still considers its relationship, if any, with that branch or other reporting NPO entity for financial reporting purposes.

Identification of internal branches

- AG2.19 The following are examples of indicators that an operational structure is an internal branch of an NPO and not a separate reporting entity. This list is not exhaustive. The operational structure:
- is not a separate legal structure;
 - is not required to provide separate general purpose financial reports;
 - uses the name of the reporting NPO in its title, its letterheads, on its website or as a part of its publicity;
 - raises funds solely for the reporting NPO;
 - presents itself to the public as a local or other form of representative of the reporting NPO; and/or
 - receives financial and administrative support, instruction and advice from the reporting NPO.
- AG2.20 Consideration of these indicators will require judgement. Displaying just one of the indicators may not mean that an organisation meets the definition of a branch, but in combination with another might lead the reporting NPO to decide that it is an internal branch.

Recognition of assets/liabilities, net assets and income and expenses of branches

- AG2.21 There might be occasions when an internal branch produces separate regulatory general purpose financial reports but may still be an internal branch, and therefore where all the income, expenses, assets and liabilities need to be recognised in the reporting NPO's financial statements. This is unlikely to be regularly the case but might happen where, for example, an international NPO has internal branches in separate jurisdictions and where one or more of those jurisdictions requires that the organisation (which would otherwise be deemed to be an internal branch of the international NPO) produce separate general purpose financial reports.

- AG2.22 All transactions of an internal branch shall be accounted for as gross within its general purpose financial reports and not netted off against other transactions within its own separate general purpose financial report unless such netting off is allowed within another Section in this Guidance. Where a reporting NPO consists of multiple branches any intra-branch transactions should be netted off within the financial statements of the reporting NPO.
- AG2.23 Some branches may hold separate bank accounts and/or produce financial statements for their own purposes. However, the transactions of an internal branch or branches including its assets, liabilities, equity and funds with and without restriction in net assets and income and expenses shall be included in the general purpose financial reports of the reporting NPO.
- AG2.24 For example, all funds raised by internal branches shall be recognised as income where they meet revenue recognition criteria in the reporting NPO's financial statements.

Comparison of Section 2 with the *IFRS for SMEs Accounting Standard*

Section 2 of INPAG has been drawn from Section 2 of the *IFRS for SMEs Accounting Standard*. The main differences between Section 2 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and Section 2 of INPAG are as follows:

- INPAG Section 2 provides a description of the primary users of NPO general purpose financial reports, their information needs for accountability and decision-making purposes, and how the information provided by general purpose financial reports meets the needs of users.
- INPAG Section 2 describes the reporting NPO and provides additional guidance on how to determine the reporting NPO and its reporting boundary.
- INPAG Section 2 introduces the concept of service potential in the definition of elements, where service potential relates to the capacity to provide services that contribute to achieving the NPO's objectives without necessarily generating net cash inflows.
- INPAG Section 2 provides guidance for applying the element of equity in the NPO context.
- INPAG Section 2 provides a description of net assets and how separate funds with restrictions and funds without restrictions are the funds within net assets. Funds with restrictions and funds without restrictions are also described, including the importance of externally imposed restrictions.
- INPAG Section 2 amends the *IFRS for SMEs Accounting Standard's* recognition process for income and expenses to reflect that some income and expenses contribute to surplus and deficit, and some are instead recognised in the Statement of Changes in Net Assets.
- INPAG Section 2 includes some presentation principles from IPSAS in relation to decisions on the selection, location and organisation of information in response to users' information needs.

Specific matters for comment	
Question 3: Concepts and pervasive principles	References
a) Do you agree with the range of primary users and the description of their needs? If not, what would you propose and why?	G2.3–G2.12
b) Do you agree with the qualitative characteristics of useful information? If not, what would you change and why?	G2.13–G2.32, AG2.1–AG2.3
c) Do you agree with the proposed components of net assets? If not, why not?	G2.73, Figure 2.2
d) Do you agree with the inclusion of equity as an element? If not, what would you propose and why? What type of equity might an NPO have?	G2.141, AG2.6–AG2.9
e) Do you agree with the categorisation of funds between those with restrictions and those without restrictions in presenting accumulated surpluses and deficits? If not, what would you propose and why?	G2.74–G2.75, AG2.4–AG2.5
f) Do you agree that funds set aside from accumulated surpluses for the holders of equity claims can be part of funds with restrictions and funds without restrictions, and that they should be transferred to equity prior to distribution? If not, what would you propose and why?	G2.142, AG2.8–AG2.9
g) Do you agree that ‘service potential’ should be introduced into Section 2? If not, why not?	G2.51, G2.54, G2.58, G2.67–G2.68, G2.103, G2.108–G2.110, G2.115–G2.117, G2.122
h) Do you agree that the provisions for ‘undue cost and effort’ used in the <i>IFRS for SMEs</i> Accounting Standard should be retained? If not, why not?	G2.33–G2.36
i) Is the NPO as a reporting entity clear? Does the process for identifying branches in the Application Guidance support the principles? If not, what would be more useful?	G2.43–G2.49, AG2.10–AG2.24

Section 3 – Financial statement presentation

Scope of this Section

G3.1 The objective of Section 3 is to prescribe the manner in which **general purpose financial statements** are to be presented to ensure comparability both with an NPO's **financial statements** from previous periods and with the financial statements of other NPOs. This Section explains **fair presentation** of financial statements, what compliance with the INPAG requires and what a complete set of financial statements is.

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 INPAG, 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 Guidance by an NPO with **public accountability** is unlikely to result in a fair presentation in accordance with this Guidance (see paragraph G1.9).

The additional disclosures referred to in a) are necessary when compliance with the specific requirements in this Guidance 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 INPAG

G3.3 An NPO whose financial statements comply with INPAG shall make an explicit and unreserved statement of such compliance in the **notes**. Financial statements shall not be described as complying with INPAG unless they comply with all the requirements of this Guidance. Where an NPO is transitioning to INPAG, it shall comply with the disclosure requirements in Section 36 *Transition to the Guidance*.

G3.4 In the extremely rare circumstances when management concludes that compliance with this Guidance 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 Guidance 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 INPAG, 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 INPAG 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 INPAG 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 INPAG 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 INPAG 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 INPAG 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; or
 - b) this Guidance 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 Guidance 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 Guidance, 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. The 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.

Complete set of financial statements

G3.18 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.

G3.19 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.

G3.20 In a complete set of financial statements, an NPO shall present each financial statement with equal prominence.

G3.21 An NPO may use titles for the financial statements other than those used in this Standard, as long as they are not misleading.

Identification of the financial statements

- G3.22 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 entity 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.
- G3.23 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

- G3.24 This Guidance 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.

Application Guidance: Section 3 – Financial statement presentation (New)

Objective of financial statements

- AG3.1 The objectives of general purpose financial statements are to provide information about the financial position, income and expenses (financial performance) and cash flows of an entity that is useful to a wide range of users. Specifically, the objectives of general purpose financial reporting for NPOs are to provide information useful for decision making and to demonstrate accountability for the resources entrusted to it. 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

- AG3.2 Any NPO that has public accountability as defined in the IFRS Standards (see G1.6–G1.7) can use this Guidance to assist in preparing its financial statements. However, the simplifications and presentational differences in this Guidance mean that an NPO with public accountability is unlikely to be able to assert (per G3.2) a fair presentation in accordance with this Guidance, as it may be required to adopt financial reporting standards that differ from the requirements of this Guidance.

Compliance with INPAG

- AG3.3 Where all requirements of INPAG have been complied with, the NPO shall make a statement in the notes to the financial statements that it has complied with the requirements. Except where an NPO discloses (in accordance with paragraph G3.5) that a departure from this Guidance is necessary to achieve fair presentation, this statement cannot include any exceptions or caveats to the level of

compliance with the Guidance. If exceptions or caveats (other than as prescribed in paragraph G3.5) are needed, then compliance with INPAG cannot be stated.

- AG3.4 Paragraph G3.3 sets out the disclosure requirements when adopting INPAG for the first time per [Section 36 *Transition to the Guidance* (to be provided in ED3)]. Jurisdictions may permit INPAG to be adopted over a period of time, or an NPO may adopt a transition path for full adoption of the Guidance such that not all requirements of the Guidance are met immediately. This timeline may differ to that permitted in INPAG.
- AG3.5 In such circumstances, the disclosure requirements in Section 36 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.

Going concern

- AG3.6 Financial statements are normally prepared on the assumption that the NPO is a going concern per paragraphs G3.8–G3.9 and will continue in operation and meet its obligations for the foreseeable future.
- AG3.7 Before it is appropriate to conclude that the going concern assumption is appropriate, those responsible for the preparation of financial statements shall 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.
- AG3.8 Such considerations will depend on the facts in each case. Assessments of the going concern assumption are not 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 and comparability

- AG3.9 Paragraphs G3.11–G3.14 set out requirements related to consistency and comparability. Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information but rather a quality of the relationship between two or more items of information.
- AG3.10 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 reports**. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.
- AG3.11 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 input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:

- a) prospective financial and non-financial information previously presented for that reporting period or reporting date;
- b) similar information about the same entity for some other period or some other point in time; and
- c) similar information about other entities (for example, NPOs providing similar services in different jurisdictions) for the same reporting period.

Materiality and aggregation

- AG3.12 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** and classification is the presentation of condensed and classified data, which 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 in the notes.
- AG3.13 Paragraphs G3.15–G3.17 require that in classifying items in the financial statements, that similar material items should 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.
- AG3.14 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.
- AG3.15 Aggregating material items in any individual financial statement is not permitted, as it could mislead users of the financial information. Separation is required to help provide an appropriate understanding of the financial position, activities and cashflows of the NPO. Guidance on revenue (Section 23) and the classification of expenses (Section 24) [to be provided in Exposure Draft 2 and Exposure Draft 3 respectively] will provide additional guidance on the classification of revenues and expenses.

Complete set of financial statements

- AG3.16 The financial statements listed in G3.18 can be referred to by a variety of names both 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. Alternative names to those listed in G3.18 can be used as long as in doing so it would not mislead the users of the financial statements.

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

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

- INPAG Section 3 uses different terminology, referring specifically to NPOs rather than entities more generally.
- INPAG 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.
- INPAG 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.
- INPAG 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 draft Third edition of the *IFRS for SMEs Accounting Standard* that relates to when the statements are required has been removed to reflect the changes to the statements.
- INPAG Section 3 includes additional commentary in relation to the transitional guidance to be contained in Section 36 of INPAG. This Section will be updated in Exposure Draft 3 of the of INPAG.
- INPAG 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.

Specific matter for comment

Question 4: Principles to enable comparability of financial statements	References
a) Do you agree with the proposed changes to terminology from the <i>IFRS for SMEs Accounting Standard</i> ? If not, what would you propose and why?	Sections 3–10
b) Do you agree that comparatives should be shown on the face of the primary statements? In particular, do you agree with the proposed comparatives for the Statement of Income and Expenses? If not, what do you propose?	G3.14, G3.19, AG3.9–AG3.11, BC5.11
c) Do the proposals for expressing compliance with INPAG create unintended consequences? If so, what are your key concerns?	G3.3–G3.7, AG3.3–AG3.5

Section 4 – Statement of Financial Position

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 **funds with restrictions, funds without restrictions**, any **equity**, 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 non-current);
- q) **provisions**;
- r) **non-controlling interest**, presented within net assets;
- s) equity, 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 funds with restrictions; and
- u) the aggregate of funds without restrictions.

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:
- it expects to realise the asset, or intends to sell or consume it, in the NPO's normal operating cycle;
 - it holds the asset primarily for the purpose of its **operating activities**;
 - it expects to realise the asset within twelve months after the **reporting date**; or
 - 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:
- it expects to settle the liability in the NPO's normal operating cycle;
 - it holds the liability primarily for the purpose of its operating activities;
 - the liability is due to be settled within twelve months after the reporting date; or
 - 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 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 Guidance 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:
- 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
 - 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:
- the amounts, nature and liquidity of assets;
 - the function of assets within the NPO; and
 - 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 from related parties, amounts due 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
 - 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 funds with restrictions and funds without restrictions is not required, but an NPO may choose to do so if this will provide useful information to users of the **financial statements**.

G4.14 An NPO shall disclose an analysis of net assets, either on the face of the Statement of Financial Position or in the notes, showing separately material individual reserves or funds, including a description of the nature and purpose of each reserve or fund.

G4.15 In addition to the disclosures in 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 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 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.

Application Guidance: Section 4 – Statement of Financial Position (New)

Information to be presented in the Statement of Financial Position

- AG4.1 The nature of the net assets of an NPO can be a combination of equity and the aggregate of the entity's accumulated surpluses or deficits and reserves that are the funds with restrictions and funds without restrictions. The provision of information through additional disclosures and sequencing should take account information needs of **service beneficiaries**.
- AG4.2 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 in the form of share capital. As a consequence, this information is not required to be shown on the face of statement. An NPO can choose, where it has share capital, to disclose it separately; otherwise, it will be part of equity. G4.15 requires further disclosures if an NPO has share capital.
- AG4.3 For private sector entities, it is typical that the balance sheet shows equity split between controlling interests (ie that owned by 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).

Current/non-current distinction

- AG4.4 When an NPO supplies services or goods within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the Statement of Financial Position provides useful information. It distinguishes between those net assets that are continuously circulating as working capital from those used in the entity's long-term operations. There is a rebuttable presumption that an NPO's operating cycle is twelve months. However, where an NPO does not supply services or goods within a clearly identifiable operating cycle, G4.4 allows a presentation of assets and liabilities in ascending or descending order of liquidity that may provide information that is faithfully representative and is more relevant than a current/non-current presentation.

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

- AG4.5 Paragraphs G4.14 and G4.15 require an NPO to disclose information about the components of its net assets. Paragraph G4.14 requires that funds with restrictions and funds without restrictions are disaggregated to show material funds or reserves. Within funds with restrictions, this would require that either individual or aggregates of similar related items are disclosed. For example, this could include aggregate of funds related to a particular donor or grantor or aggregate of funds related to a particular programme. Judgements should be made based on the usefulness of the information to users of an NPO's **general purpose financial reports** as outlined in G3.15–G3.17.
- AG4.6 Within funds without restrictions, an NPO might disclose any reserves that management has earmarked for particular purposes. Judgements on disclosures should mirror the approach in AG4.5.
- AG4.7 Other components of net assets, other than equity and non-controlling interests (for example, reserves relating to the revaluation of assets or liabilities, pension reserves, etc.) should be included within funds with restrictions or funds without restrictions according to their nature.

- AG4.8 Many NPOs will not have share capital, having been formed under legislation or regulations that do not require the NPO to be an incorporated structure; for example, an NPO may be a partnership or trust. However, an NPO may have some form of equity such as funds that have been provided to set it up and that provide an interest in the residual net assets of the NPO. Equity 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.
- AG4.9 The aforementioned disclosures must include the nature and amount of equity, disaggregated by material category. Relevant disclosures are likely to include:
- opening and closing balances;
 - the reasons for changes during the period (including distributions to holders of equity claims and any new contributions from holders of equity claims); and
 - any changes to the rights attached to each category of equity.
- AG4.10 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.
- AG4.11 In addition to the separation of funds with restrictions and funds without restrictions, 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.

Sequence and format of items in the Statement of Financial Position

- AG4.12 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, 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 may require the inclusion of additional line items in the Statement of Financial Position. 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.

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

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

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

Specific matter for comment	
Question 5: Scope and presentation of the Statement of Financial Position	References
a) Do you agree that all asset and liability balances should be split between current and non-current amounts (except where a liquidity-based presentation has been adopted)? If not, why not?	G4.5–G4.9, AG4.4
b) Do you agree with the proposal that not all categories of asset and liability balances should be split between those with and those without restrictions? If not, which categories of asset and/or liability should be split?	G4.13–G4.14, AG4.5–AG4.7

Section 5 – Statement of Income and Expenses

Scope of this Section

- G5.1 This Section requires an NPO to present its **income and expenses** for a period – ie its financial 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 Guidance.
- G5.3 Aggregated income and expenses with restrictions shall 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).
- G5.5 The Statement of Income and Expenses shall include all items of income and expense recognised in a period unless this Guidance 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 should 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 outside of surplus or deficit when prescribed by this Guidance:
- 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 An NPO shall include, in the Statement of Income and Expenses, line items that present the following amounts for the period:
- revenue**;
 - finance costs;
 - 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;
 - tax expense**, excluding tax allocated to items e), g) and h) (see paragraph 29.35);

- e) a single amount comprising the total of:
 - i) the post-tax surplus or deficit of a **discontinued operation**; and
 - ii) the post-tax gain or loss attributable to an **impairment**, or reversal of an impairment, of the **assets** in the discontinued operation (see Section 27 *Impairment of assets*), both at the time and subsequent to being classified as a discontinued operation and to the disposal of the net assets constituting the discontinued operation;
- f) surplus or deficit from operating activities;
- 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 surplus or loss 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 relevant. This analysis may be presented either in the Statement of Income and Expenses or in the notes. [Section 24 will contain further guidance on the **classification** of expenses that will be published in Exposure Draft 3].

Application Guidance: Section 5 – Statement of Income and Expenses (New)

Information to be presented in the Statement of Income and Expenses

AG5.1 The effects of an NPO's various financial activities, transactions and other events differ in terms of its ability to meet its service delivery obligations. Disclosing the components of income and expenses assists in an understanding of the financial activities delivered and in making projections of future results.

AG5.2 Additional line items are included on the face of the Statement of Income and Expenses, and the descriptions used and ordering of items are amended when this is necessary to explain the elements of activity. Factors to be considered include:

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

AG5.3 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, 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 may require the inclusion of 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.

Income and expenses with restrictions

- AG5.4 Paragraph G5.3 requires that the face of the Statement of Income and Expenses shows the **aggregation** of income and expenses with restrictions shall be presented in a separate column to the aggregation of income and expenses without restrictions. In determining restrictions, regard should be given to the definition of restricted funds in Section 2, paragraph G2.74 and to the requirements of other parts of this Guidance [Sections 23 and 24, to be updated in Exposure Draft 2].
- AG5.5 All income that meets the definition of a restriction in G2.74 shall be shown in the 'with restrictions' column. The expenses that relate to the activities being funded by income with restrictions are to be separately identified and included in the 'with restrictions' column.
- AG5.6 An NPO should disaggregate the 'with restrictions' column into the individual funds, or a subgrouping of funds or programmes, in the notes to the accounts, where this provides information that is useful to the users of the financial statements. An NPO may present this analysis on the face of the Statement of Income and Expenses.

Classification of income

- AG5.7 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. The illustrative financial statements provide examples of the classification of revenue, which if relevant might include an analysis between general grants and donations, grants for and donations of non-current assets, and sales of services and goods.

Classification of expenses

- AG5.8 Paragraph G5.11 requires that expenses be subclassified. Expenses are subclassified to highlight the costs and cost recoveries of particular programmes, activities or other relevant segments of an NPO. NPOs are required to present an analysis of expenses on the face of the Statement of Income and Expenses. [Section 24 will contain further guidance on the classification of expenses that will be published in Exposure Draft 3].

Additional disclosures

- AG5.9 The Guidance does not permit any items to be described as extraordinary as outlined in G5.10. However, there may be circumstances when disclosing additional line items that will be beneficial to users' understandings of the financial statements. Where material by nature or by amount, the circumstances that would give rise to the separate disclosure of items of income and expense include:
- a) write-downs of inventories to net realisable value, or of property, plant, and equipment to **recoverable amount**, 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 circumstances may occur that would give rise to the separate disclosure of items of income and expenses.

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

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

- INPAG 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 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. References to the choice between these two statements have been removed throughout Section 5.
- The terms surplus and deficit are used in INPAG Section 5 rather than profit and loss.
- INPAG Section 5 requires that unrealised gains and losses arising from 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.
- INPAG Section 5 refers to holders of equity claims instead of ‘owners of the parent’ used in the draft Third edition of the *IFRS for SMEs* Accounting Standard.
- Detailed requirements relating to the classification of expenses are not included in Section 5, as a new Section provides NPO-specific guidance [to be published in Exposure Draft 3].
- INPAG Section 5 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other Sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.

Specific matter for comment

Question 6: Scope and presentation of the Statement of Income and Expenses	References
a) Do you agree with the name of the primary statement being ‘Statement of Income and Expenses’? If not, why not?	BC5.1–BC5.5
b) Do you agree that the terms surplus and deficit should be used instead of profit or loss? If not, why not?	G5.5, BC5.6
c) Do you agree that amounts on each line of revenue and expenses should be split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why?	G5.3, AG5.4–AG5.6, BC5.9–BC5.12
d) Do you agree that NPOs should be able to choose whether to present either income items or expense items first to get to a surplus or deficit? If not, what alternative approach would you propose and why?	Implementation Guidance

Section 6 – Statement of Changes in Net Assets

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** not taken through the Statement of Income and Expenses, 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, funds with restrictions, funds without restrictions** 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:

- a) surplus or deficit;
- b) the effects of changes in accounting policies and corrections of errors recognised in accordance with Section 10 *Accounting policies, estimates and errors*;
- c) changes resulting from gains or losses that are recognised directly in net assets (see paragraph G5.6);
- d) total income and expenses to be a subtotal of a) b) and c), showing separately any amount relating to a non-controlling interest;
- e) changes resulting from movements between funds with restrictions and funds without restrictions, and any of the other identified components; and
- f) changes resulting from movements in equity, including **distributions to holders of equity claims** and **contributions from holders of equity claims**.

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 funds with restrictions and funds without restrictions) in the notes to the accounts, which aggregate to the components shown on the primary statement.

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

Section 6 of INPAG 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 draft Third edition of the *IFRS for SMEs Accounting Standard*. The main differences between Section 6 of the draft Third edition of the *IFRS for SMEs Accounting Standard* and the Section 6 of INPAG are as follows:

- INPAG Section 6 replaces the statement of changes in equity with a Statement of Changes in Net Assets and does not include any requirement for a statement of income and retained earnings.
- INPAG 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.
- INPAG 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.
- INPAG Section 6 requires a reconciliation of the opening and closing carrying amounts of any material subcomponent of equity, funds with restrictions, funds without restrictions and non-controlling interests in the notes to the accounts.
- INPAG Section 6 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other Sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Specific matter for comment

Question 7: Scope and presentation of the Statement of Changes in Net Assets	References
a) Do you agree with the proposal that there is no 'Other Comprehensive Income' (OCI) and that an expanded Statement of Changes in Net Assets would allow an equivalent to the OCI being produced. If not, why not?	G6.2, BC5.13–BC5.16, BC6.1–BC6.5,
b) Do you agree that funds are split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why?	G6.4

Section 7 – Statement of Cash Flows

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 (excluding grants and donations whose use is restricted to the acquisition or construction of **property, plant and equipment, intangible assets** and other long-term assets);
 - 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.

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 grants and donations whose use is restricted to the acquisition or construction of property, plant and equipment, intangible assets and other long-term assets;
- c) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
- d) 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);
- e) 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);
- f) 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);
- g) 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);
- h) 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
- i) 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 equity and borrowings 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;
 - 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.

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 30.19 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:
- a) the receipt of donated assets;
 - b) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;
 - c) the acquisition of an entity by means of an equity issue; and
 - d) 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:
- a) changes from financing cash flows;
 - b) changes arising from obtaining or losing control of subsidiaries or other businesses;
 - c) the effect of changes in foreign exchange rates;
 - d) changes in **fair values**; and
 - e) other changes.

Components of cash and cash equivalents

- G7.21 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

G7.22 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.

Application Guidance: Section 7 – Statement of Cash Flows (New)

Reporting cash flows from operating activities

Indirect method

AG7.1 An NPO may receive donations of non-cash items, for example donated inventory. Because these items are not cash items, they should not be included in the statement of cash flow.

The revenue recognition requirements and consequential impacts on cashflow will be developed in ED2.

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

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

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

Specific matter for comment	
<p>Question 8: Scope and presentation of the Statement of Cash Flows</p> <p>a) Do you agree with the separate presentation of cash donations and grants on the face of the statement? If not, what alternative approach would you propose and why?</p> <p>b) Do you agree that donations or grants received for the purchase or creation of property, plant and equipment should be treated as investing activities? If not, what alternative would you propose and why?</p> <p>c) Do you agree that both the direct method and indirect methods for the cash flow statement should be permitted? If not, why not?</p>	<p>References</p> <p>G7.4 a)</p> <p>G7.5 b)</p> <p>G7.7–G7.9</p>

Section 8 – Notes to the financial statements

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 Guidance requires disclosures that are normally presented in the notes.

Structure of the notes

G8.2 The notes shall:

- a) 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;
- b) disclose the information required by this Guidance that is not presented elsewhere in the financial statements; and
- c) 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) a statement that the financial statements have been prepared in compliance with INPAG (see paragraph G3.3);
- b) material accounting policy information (see paragraph G8.5);
- c) supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and
- d) 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.

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 INPAG 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 INPAG. The main differences between Section 8 to the draft Third edition of *IFRS for SMEs Accounting Standard* and Section 8 of INPAG 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 INPAG.
- INPAG Section 8 uses different terminology, referring specifically to NPOs, rather than entities more generally and to other Sections of INPAG rather than the *IFRS for SMEs Accounting Standard*.

Specific matter for comment

Question 9: Principles underpinning the notes to the financial statements

- a) Do you agree that there are no additional NPO specific considerations for this Section? If not, what changes would you propose and why?

Section 9 – Consolidated and separate financial statements

Scope of this Section

G9.1 This Section defines the circumstances in which an NPO applying this Guidance presents **consolidated financial statements** and the procedures for preparing those statements in accordance with this Guidance. It also includes guidance on **separate financial statements** and **combined financial statements** if they are prepared in accordance with this Guidance. A **controlling NPO (parent)** entity by itself may present its separate **financial statements** in accordance with this Guidance, even if it presents its consolidated financial statements in accordance with **full IFRS Accounting Standards** or another set of generally accepted accounting principles (GAAP).

Requirement to present consolidated financial statements

G9.2 Except as permitted or required by paragraphs G9.3 and G9.6, a controlling NPO entity shall present consolidated financial statements in which it consolidates its controlled entities. Consolidated financial statements shall include all controlled entities of the controlling NPO.

G9.3 A controlling NPO need not present consolidated financial statements if both of the following conditions are met:

- a) the controlling NPO is itself a **controlled entity**; and
- b) its ultimate parent (or any intermediate parent) produces consolidated **general purpose financial reports** that comply with an international or national financial reporting framework, or with this Guidance.

G9.4 Subject to paragraph G9.5, a controlled entity is not consolidated if it is acquired and is held with the intention of selling or disposing of it within one year from its acquisition date (see paragraph 19.10 A). Such a controlled entity is accounted for in accordance with the requirements in Section 11 *Financial Instruments* as for investments in paragraph 11.8 d), instead of in accordance with this Section. The controlling NPO shall also provide the disclosure in paragraph G9.40.

G9.5 If a controlled entity previously excluded from consolidation in accordance with paragraph G9.4 is not disposed of within one year from its acquisition date:

- a) the controlling NPO shall consolidate the controlled entity from the acquisition date unless it meets the condition in paragraph G9.5 b). Consequently, if the acquisition date was in a prior period, the relevant prior periods shall be restated.
- b) if the delay is caused by events or circumstances beyond the controlling NPO's control and there is sufficient evidence at the reporting date that the controlling NPO remains committed to its plan to sell or dispose of the controlled entity, the controlling NPO shall continue to account for the controlled entity in accordance with paragraph G9.4.

G9.6 If a controlling NPO has no controlled entities other than controlled entities that are not consolidated in accordance with paragraphs G9.4–G9.5, it shall not present consolidated financial statements. However, the controlling NPO shall provide the disclosure in paragraph G9.40.

G9.7 A controlled entity is an entity that is controlled by an NPO (the controlling NPO). An NPO, regardless of the nature of its involvement with the other entity, shall determine whether it is a controlling NPO by assessing whether it controls the other entity.

G9.8 An NPO controls an entity when the NPO is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

- G9.9 Thus, an NPO controls an entity if, and only if, the NPO has all the following:
- a) power over the entity;
 - b) exposure, or rights, to variable returns from its involvement with the entity; and
 - c) the ability to use its power over the entity to affect the amount of its returns.
- G9.10 An NPO shall consider all the relevant facts and circumstances when assessing whether it controls an entity. The NPO shall reassess whether it controls the entity if those facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph G9.9.
- G9.11 An NPO has power over an entity when the NPO has existing rights that give it the current ability to direct the **relevant activities**, that is the activities that significantly affect the entity's returns. Rights which allow the NPO to:
- a) direct the policies of the governing body of another entity;
 - b) significantly amend or veto service or capital budgets relating to the relevant activities of another entity; or
 - c) direct the transactions of another entity that relate to the relevant activities of that entity may individually, or in combination or together with other factors, give the controlling NPO the ability to direct the relevant activities of another entity.
- G9.12 Relevant activities include, but are not limited to:
- a) selling and purchasing of goods and services;
 - b) selecting, acquiring or disposing of assets;
 - c) providing services in line with the NPO's objectives; and
 - d) fundraising.
- G9.13 An NPO with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the NPO has been directing relevant activities can help determine whether the NPO has power, but is not, in itself, conclusive in determining whether the NPO has power over an entity.
- G9.14 If two or more potentially controlling entities (which may or may not both be NPOs) each have existing rights that give them the unilateral ability to direct different relevant activities, the entity that has the current ability to direct the activities that most significantly affect the returns of the controlled entity has power over the controlled entity.
- G9.15 An NPO is exposed, or has rights, to variable returns or variable benefits to the public and service beneficiaries from its involvement with the other entity when the NPO's returns from its involvement have the potential to vary as a result of the other entity's performance. The NPO's returns can be only positive, only negative or both positive and negative.
- G9.16 For an NPO to control an entity, the NPO must not only have power over the entity and exposure or rights to variable returns from its involvement with the entity, but also the ability to use its power to affect the NPO's returns from its involvement with the other entity.
- G9.17 When an NPO with decision-making rights (a decision maker) assesses whether it controls an entity, it shall determine whether it is a principal or an agent. An NPO shall also determine whether another entity with decision-making rights is acting as an agent for the NPO. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the a third entity when it exercises its decision-making authority. Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal. A decision maker is not an agent simply because other parties can benefit from the decisions that it makes.
- G9.18 Control is presumed to exist when the NPO owns, directly or indirectly through controlled entities, the majority of the voting rights of an entity. That presumption may be overcome if it can be clearly demonstrated that the NPO does not have one or more of the elements of control listed in paragraph G9.5. Control will exist if voting rights are held, not as a result of ownership, but because of a governance

arrangement established to deliver an NPO's objectives or purposes. Control also exists when the NPO holds half or less of the voting power of an entity but it has:

- a) power over more than half of the voting rights by virtue of an agreement with other investors;
- b) power to govern the financial and operating policies of the entity under a statute, as a consequence of a **contract** or other agreement;
- c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body where control of the entity is exercised by that board or body; or
- d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

- G9.19 When assessing control, an NPO considers its potential voting rights, as well as potential voting rights held by other parties, to determine whether it has power. Potential voting rights are usually currently exercisable rights to obtain voting rights of an entity, such as those arising from convertible instruments or options, including forward contracts. Those potential voting rights are considered only if the holder of the right has the practical ability to exercise that right.
- G9.20 If an NPO also has voting or other decision-making rights relating to another entity's relevant activities (such as those identified in G9.11), the NPO assesses whether those rights, in combination with potential voting rights, give the NPO power.
- G9.21 A controlled entity is not excluded from consolidation because its **operating activities** are dissimilar to those of the other entities within the consolidation. Relevant information can be provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different operating activities of controlled entities.
- G9.22 A controlling NPO shall consider the fundamental characteristics of faithful representation and relevance. If, exceptionally, excluding an entity from consolidation would provide the most relevant information available about a controlling NPO and its controlled entities, then an NPO should not consolidate that entity.
- G9.23 Where an NPO does not consolidate a controlled entity it shall disclose;
- a) why consolidation would impact faithful representation or relevance;
 - b) the relationship between the entities including, how the entities work together for the purposes of the controlling NPO's purposes, and the economic relationship between the entities;
 - c) the governance arrangements in place between the entities; and
 - d) **related party** information as required by Section 33 *Related Party Disclosure*.
- G9.24 A controlled entity is not excluded from consolidation because it operates in a jurisdiction that imposes restrictions on transferring **cash** or other **assets** out of the jurisdiction.

Consolidation procedures

- G9.25 The **consolidated financial statements** present financial information about the **group** as a single reporting entity or other complete set of activities related to an NPO's purposes. In preparing consolidated financial statements, an NPO shall:
- a) combine the **financial statements** of the controlling NPO and its controlled entities line by line by adding together like items of **assets, liabilities, equity, income** and **expenses**.
 - b) eliminate the **carrying amount** of the controlling NPO's investment or **beneficial interest** in each controlled entity and the controlling NPO's portion of funds or equity of each controlled entity.
- G9.26 If any controlled entity has a **non-controlling interest** an NPO shall:

- a) measure and present non-controlling interest in the **surplus or deficit** of consolidated controlled entities for the **reporting period** separately from holders of **equity claims** of the controlling NPO.
- b) measure and present non-controlling interest in the net assets of consolidated controlled entities separately from the controlling NPO's interest in them. Non-controlling interest in the net assets consists of:
 - i) the amount of the non-controlling interest at the date of the original combination calculated in accordance with Section 19 Business Combinations and Goodwill; and
 - ii) the non-controlling interest's share of changes in equity since the date of the combination.

G9.27 If a controlling NPO needs to allocate amounts between non-controlling interests and other interests, the proportions of surplus or deficit and changes in equity and funds with and without restriction of the controlling NPO and to the non-controlling interest are determined on the basis of existing controlling interests and do not reflect the possible exercise or conversion of potential voting rights.

Intragroup balances and transactions

G9.28 Intragroup balances and transactions, including income, expenses and **dividends**, are eliminated in full. Surpluses or deficits resulting from intragroup transactions that are recognised in assets, such as **inventory** and **property, plant and equipment**, are eliminated in full. Intragroup deficits may indicate an **impairment** that requires **recognition** in the consolidated financial statements (see Section 27 *Impairment of Assets*). Section 29 *Income Tax* applies to **temporary differences** that arise from the elimination of surpluses or deficits resulting from intragroup transactions.

Uniform reporting date

G9.29 The financial statements of the controlling NPO and its controlled entities used in the preparation of the consolidated financial statements shall be prepared as of the same **reporting date** unless it is **impracticable** to do so. If it is impracticable to prepare the financial statements of a controlled entity as of the same reporting date as the controlling NPO, the controlling NPO shall consolidate the financial information of the controlled entity using the most recent financial statements of the controlled entity, adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

Uniform accounting policies

G9.30 Consolidated financial statements shall be prepared using uniform **accounting policies** for like transactions and other events and conditions in similar circumstances. If a controlled entity uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Acquisition and disposal of controlled entities

G9.31 The income and expenses of a controlled entity are included in the consolidated financial statements from the acquisition date until the date on which the controlling NPO loses control of the controlled entity. When a controlling NPO ceases to control a controlled entity, the difference between the proceeds from the disposal of the controlled entity and its carrying amount at the date that control is lost is recognised in surplus or deficit in the consolidated **Statement of Income and Expenses** as the gain or loss on the disposal of the controlled entity. The cumulative amount of any exchange differences that relate to a foreign controlled entity recognised in the Statement of Income and Expenses in accordance with Section 30 *Foreign Currency Translation* is not reclassified to surplus or deficit on disposal of the controlled entity.

G9.32 If a controlling NPO loses control of a controlled entity, the controlling NPO:

- a) derecognises:
 - i) the assets (including any **goodwill**) and liabilities at their carrying amounts at the date control is lost in the former controlled entity from the consolidated **Statement of Financial Position**; and
 - ii) the carrying amount of any non-controlling interests in the former controlled entity at the date when control is lost;
- b) recognises:
 - i) the **fair value** of the consideration received, if any, from the transaction or event that resulted in the loss of control; and
 - ii) any investment or beneficial interest retained in the former controlled entity at its fair value on the date control is lost; and
- c) recognises the surplus or deficit associated with the loss of control attributable to the former controlling interest.

G9.33 If a controlling NPO loses control of a controlled entity, the controlling NPO shall account for all amounts previously recognised in the Statement of Changes in Net Assets for that controlled entity, except for the cumulative amount of any exchange differences that relate to a foreign controlled entity, on the same basis as would be required if the controlling NPO had directly disposed of the related assets or liabilities. The cumulative amount of any exchange differences that relate to a foreign controlled entity recognised in the Statement of Income and Expenses in accordance with Section 30 *Foreign Currency Translation* is not reclassified to surplus or deficit on disposal of the subsidiary.

G9.34 If a controlling NPO loses control of a controlled entity but continues to hold an investment or beneficial interest in the former controlled entity, that investment or beneficial interest shall be accounted for in accordance with other Sections of INPAG. If the retained interest is a **financial asset** Section 11 *Financial Instruments* applies; if it is an **associate** Section 14 *Investments in Associates* applies; if is a **jointly controlled entity** Section 15 *Joint Arrangements* applies. The fair value at the date when control is lost shall be regarded as the fair value on initial recognition of a financial asset or cost on initial recognition of an investment in an associate or jointly controlled entity, if applicable.

Non-controlling interests in controlled entities

G9.35 It is expected to be uncommon for an NPO to have non-controlling interests. Where an NPO has controlling interests, it shall apply paragraphs G9.36–G9.39.

G9.36 An NPO shall present non-controlling interest in the consolidated Statement of Financial Position within net assets, separately from the interests of the holders of equity claims of the controlling NPO, as required by paragraph G4.2 r).

G9.37 An NPO shall treat changes in a controlling NPO's controlling interest in a controlled entity that do not result in a loss of control as transactions with owners in their capacity as owners. Accordingly, the carrying amount of the non-controlling interest shall be adjusted to reflect the change in the controlling NPO's interest in the controlled entity's net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, shall be recognised directly in equity and/or funds with or without restriction. An NPO shall not recognise any gain or loss on these changes. Also, an NPO shall not recognise any change in the carrying amounts of assets (including goodwill) or liabilities as a result of such transactions.

G9.38 An NPO shall disclose non-controlling interest in the surplus or deficit of the group separately in the Statement of Income and Expenses, as required by paragraph G5.8.

G9.39 Surplus or deficit shall be attributed to the interests of the holders of equity claims and to the non-controlling interest, even if this results in the non-controlling interest having a deficit balance.

Disclosures in consolidated financial statements

- G9.40 The following disclosures shall be made in consolidated financial statements:
- the fact that the financial statements are consolidated financial statements;
 - the basis for concluding that control exists when the controlling NPO does not hold, directly or indirectly through controlled entities, a majority of the voting rights over the other entity;
 - any difference in the **reporting date** of the financial statements of the controlling NPO and its controlled entities used in the preparation of the consolidated financial statements; and
 - the nature and extent of any significant restrictions (for example resulting from borrowing arrangements or regulatory requirements) on the ability of controlled entities to transfer funds to the controlling NPO in the form of cash dividends or to repay loans.
- G9.41 If applicable, in addition to the disclosure requirements in Section 11 *Financial Instruments*, a controlling NPO shall disclose the carrying amount of its investment or beneficial interest in controlled entities that are not consolidated (see paragraphs G9.3–G9.5) at the reporting date, in total, either in the Statement of Financial Position or in the **notes**.
- G9.42 If applicable, an NPO shall disclose the gain or loss, if any, calculated in accordance with paragraphs G9.31–G9.32, and:
- the portion of that gain or loss attributable to measuring any investment retained in the former controlled entity at its fair value at the date when control is lost, and
 - the line items in surplus or deficit in which the gain or loss is recognised (if not presented separately).

Separate financial statements

Presentation of separate financial statements

- G9.43 This Guidance does not require presentation of separate financial statements for the controlling NPO or for the individual controlled entities.
- G9.44 Separate financial statements are a second set of financial statements presented by an NPO in addition to any of the following:
- consolidated financial statements prepared by a controlling NPO;
 - financial statements prepared by a controlling NPO exempted from preparing consolidated financial statements by paragraph G9.5; or
 - financial statements prepared by an NPO that is an investor in an associate or has **joint control** in a **jointly controlled entity**.

Accounting policy election

- G9.45 When a controlling NPO, an NPO investing in an associate or with an interest in a jointly controlled entity prepares separate financial statements and describes them as conforming to INPAG, those statements shall comply with all of the requirements of this Guidance, except as follows. The NPO shall adopt a policy of accounting for its investment or beneficial interests in controlled entities, associates and **jointly controlled entities** in its separate financial statements either:
- at cost less impairment;
 - at **fair value** with changes in fair value recognised in surplus or deficit; or
 - using the equity method following the procedures in paragraph 14.8.

The NPO shall apply the same accounting policy for all investments in a single class (controlled entities, associates or jointly controlled entities), but it can elect different policies for different classes.

Disclosures in separate financial statements

- G9.46 When a controlling NPO, an NPO investing in an associate or with an interest in a jointly controlled entity prepares separate financial statements, those separate financial statements shall disclose:
- a) that the statements are separate financial statements; and
 - b) a description of the methods used to account for the investment or beneficial interest in the controlled entities, jointly controlled entities and associates; and
 - c) either
 - i) the consolidated financial statements or other primary financial statements to which they relate; or
 - ii) if the NPO has elected not to prepare consolidated financial statements, in accordance with paragraph G9.3, the name and principal place of business (and country of incorporation, if different) of the entity whose consolidated financial statements that comply with full IFRS Accounting Standards, another set of national GAAP or with INPAG have been produced for public use.

Combined financial statements

- G9.47 Combined financial statements are the financial statements of a reporting entity that comprises two or more entities that are not all linked by a controlling NPO – controlled entity relationship. This Guidance does not require combined financial statements to be prepared.
- G9.48 If the controlling NPO prepares combined financial statements and describes them as conforming to INPAG, those statements shall comply with all of the requirements of this Guidance. Inter-entity transactions and balances shall be eliminated; surpluses or deficits or profits or losses resulting from inter-entity transactions that are recognised in assets such as inventory and property, plant and equipment shall be eliminated; the financial statements of the entities included in the combined financial statements shall be prepared as of the same reporting date, unless it is impracticable to do so; and uniform accounting policies shall be followed for like transactions and other events in similar circumstances

Disclosures in combined financial statements

- G9.49 The combined financial statements shall disclose the following:
- a) the fact that the financial statements are combined financial statements;
 - b) the reason why combined financial statements are prepared;
 - c) the basis for determining which entities are included in the combined financial statements;
 - d) the basis of preparation of the combined financial statements; and
 - e) the related party disclosures required by Section 33 *Related Party Disclosures*.

Application Guidance: Section 9 – Consolidated and separate financial statements (New)

The basis of control

- AG9.1 NPOs control other entities for a variety of reasons. NPOs may control other entities (including NPOs and non-NPOs) specifically to provide services to the public. They may also create trading entities, or may invest in non-NPOs with the intention of generating a surplus which will be used to support activities for the benefit of the public. Unlike for-profit entities, the purpose of acquiring control over another entity or establishing another entity as part of an economic group of undertakings is not to generate a financial return for distribution to providers of risk capital.

AG9.2 Paragraphs G9.7–G9.20 set out the basis of control. This basis of control, which includes power, returns and the linkage between power and returns, have aspects and nuances for NPOs. Control, power and return also need to be interpreted in the context of benefit to the public and activities that further the purposes of the NPO parent for the benefit of the public. These wider considerations are explained below, and specific guidance is provided on each.

Power

AG9.3 Paragraph G9.11 says that a parent NPO (controlling NPO) has power over an entity when the controlling NPO has existing rights that give it the current ability to direct the activities of the entity, or direct the use of the funds of the entity.

AG9.4 Where the other entity is an incorporated for-profit entity, power is likely to mainly be achieved through voting rights, as the entity will have issued share capital or capital instruments that give rise to voting rights. Power is presumed to exist where the controlling NPO owns, directly or through other controlled entities, the majority of the voting rights relating to the entity. Power will also be presumed to exist when the controlling NPO does not own the majority of voting rights, but can exercise voting rights held by others, or can exercise other decision-making rights, which may include:

- a) the ability to exercise the majority of voting rights (through voting rights owned by the entity, and contractual arrangements with other vote holders); or
- b) the right to appoint the majority of board members; or
- c) the right to appoint the majority of the key management personnel; or
- d) a right to reject any or all of the activities which the entity might choose to undertake; or
- e) a right to reject any or all of the uses to which the funds of the entity may be put.

AG9.5 Where the other entity is a non-profit entity (including an entity in the public sector), power is less likely to depend on voting rights. The ability to direct the activities of the entity or the use of the entity's funds are more likely to give rise to power than voting rights. Therefore, power is presumed to exist where the parent NPO has:

- a) the right to appoint the majority of the governing body of the entity directly; or
- b) the right to appoint the majority of the key management personnel; or
- c) a right to reject any or all of the activities which the entity might choose to undertake; or
- d) a right to reject any or all of the uses to which the funds of the entity may be put; or
- e) the ability to exercise the majority of any voting rights where these exist separately from the governing body; or
- f) the right to achieve any of the above through a combination of the controlling NPO's own rights, and the rights of other entities which the parent NPO controls.

AG9.6 Some rights to direct the use of funds may not give rise to the level of power required to exercise control. For example, where an NPO makes grants to other entities, grant agreements may set out conditions that a grant recipient only uses the funds provided to undertake the activities for which the grant was made and for no other purpose. The agreement though is only relating to one aspect of the recipient entity's purposes and activities. It does not generally provide a right to the grant-making NPO to direct all the activities of the grant receiving entity. In this situation, the expectation is the recipient is not in substance an entity controlled by the grant-making NPO.

Returns

AG9.7 For NPOs delivering activities for the benefit of the public, including making social investments in entities to deliver benefits to the public, the notion of financial returns is sometimes relevant, but in other cases is simply not appropriate. Instead of financial returns, the focus in considering return is on benefits that the controlling NPO receives. This approach allows for non-financial as well as financial benefits.

- AG9.8 A controlling NPO is exposed, or has rights, to variable benefits from its involvement with a controlled entity when, as a result of its interest, the controlling NPO is exposed to both the positive and negative effects of the controlled entity's activities and performance. These effects relate to the impact on and ability of the controlling NPO to further its purposes.
- AG9.9 A return from an interest in another entity is therefore not necessarily a matter of obtaining funds or a financial return from the entity. Rather the return can be a non-financial benefit that the controlling NPO derives from the activities of the entity. These non-financial benefits would exist where they lead to the direct or partial fulfilment of one or more of the purposes of the controlling NPO. For example, NPO A provides access to safe drinking water and has a relationship with Entity B that provides research into water borne diseases. The type of research carried out by Entity B could have a direct bearing on the purposes of NPO A) For a control relationship to exist then, in addition to having power over NPO B, NPO A would need to be directly impacted by the activities of Entity B on a day-to-day basis (have continuous exposure) rather than, for example, being the beneficiary of a specific one-off piece of research.
- AG9.10 Whether contractual or not, it is possible that a significant amount of the obligations that an entity has to a potential controlling NPO may not be carried out at market value, for example where goods or services are provided at below market prices or for nominal consideration. In such situations a controlling NPO may have an interest in a for-profit entity to further a social purpose for the benefit of the public. A controlling NPO's interest in this situation is not held primarily for a financial return, but for benefit in furthering its objectives.

Linking power and returns

- AG9.11 As set out in paragraph G9.16, in order for a controlling NPO to have control over an entity, it must have power, it must be exposed to variable returns, and it must be able to use its power over the other entity to influence the amount of the controlling NPO's returns. Power and returns must therefore be linked. Entities that provide a return to a controlling NPO, but where the controlling NPO has no interest or has a minority interest, are not controlled entities under this guidance. It would be unusual for a controlling NPO to have power over other entities that do not provide a relevant return (either financial or non-financial). However, where this is the case, these entities are not controlled entities.
- AG9.12 Both for-profit and non-profit entities may invest in other undertakings to generate a return (financial or non-financial) or have a participating interest in joint activities or hold a minority interest in an entity. Such collaborative activities in a for-profit context are associated with equity stakes and a formal contractual relationship. Similar considerations may apply for NPOs. In general, these participating and minority interests will not confer the required power to direct returns, and therefore do not confer control.
- AG9.13 Additionally, due to their wider purposes NPOs often collaborate with other NPOs in a co-operative and non-contractual way to further these purposes. While the effect of collaboration with entities with aligned or substantially the same objectives may result in similar returns to those which would be achieved through control, such voluntary arrangements do not represent control unless there are other factors which have the effect of conferring power.
- AG9.14 Therefore there is no control relationship where:
- a) an NPO has a voluntary collaboration agreement with another entity; or
 - b) there is a coincidence of activities with another entity; or
 - c) there is a **joint arrangement** with another entity where another entity has discretion as to the nature and extent of any benefit the controlling NPO might obtain.

This is because the NPO would not be exercising power over any of the entities to obtain benefit. Control arises where power is used to directly benefit a controlling NPO.

Determining whether consolidation of all entities is appropriate

- AG9.15 Full consolidation of all controlled entities provides a consistent basis for reporting, and provides a consistent metric for the economic volume of group transactions and balances. These factors may be important for some readers of NPO financial statements, including institutional funders, but may be less relevant to other readers.
- AG9.16 It may sometimes be that full consolidation results in financial statements that are less understandable. This might be because there is information the statements do not provide, or perhaps because they are providing more information than is needed to the extent that key information is obscured.
- AG9.17 Exceptionally, paragraph G9.22 permits the exclusion of an entity from consolidation where it may provide the most relevant information available about a controlling NPO and its controlled entities. When making such a determination, the parent NPO should have regard to both the fundamental characteristics of relevance of the financial information provided by the consolidated financial statements, and the extent to which this achieves faithful representation.
- AG9.18 Faithful representation means that a depiction of relevant economic or other phenomena is sufficiently complete, neutral and free from error. In the context of consolidated financial statements, consolidation would be expected to provide a depiction that is complete and free from error. Although consolidation will not normally introduce bias, an NPO may wish to examine whether consolidation would result in a depiction that is not neutral.
- AG9.19 Financial information is relevant if it is capable of making a difference to the decisions made by users; that is, if it has predictive value which helps users consider likely outcomes, or confirmatory value that provides feedback on previous considerations. An NPO shall consider the benefits of providing consolidated financial information, how it presents consolidated financial information in its financial statements to promote understandability and evidence to support the information needs of the users of its financial statements.
- AG9.20 When making a judgement about whether a controlled entity should be excluded from consolidation, an NPO should therefore have regard to the effect on the overall readability of financial reports for users of its financial statements. Judgements about the exclusion of an entity from consolidation must not be based on convenience and must be backed by evidence to support management's judgement.
- AG9.21 Where an NPO does not consolidate a controlled entity it is required to provide the disclosures in paragraph G9.23. In determining the information to be disclosed, the controlling NPO should draw on its analysis of the needs of the users of the financial statements that informed its judgement to exclude an entity. This analysis is expected to provide details of the judgements that the NPO has made about the information that users require to meet their needs. These information needs must be met through the disclosures.

Consolidation procedures

- AG9.22 Paragraph G9.25 sets out the procedures to be followed when producing consolidated financial statements. The processes carried out to effect consolidation will need to include the consolidation of the accumulated funds of any controlled entities. Where the entity being consolidated is a for-profit entity, accumulated funds are to be included in **funds without restrictions**. Where the entity being consolidated is an NPO, their **funds with restrictions** are to be consolidated into the controlling NPO's funds with restrictions, and their funds without restrictions are to be consolidated into the controlling NPO's funds without restriction. The notes to the financial statements shall disclose the funds with restrictions and funds without restrictions that belong to the parent separately from the controlled entities.
- AG9.23 Equity in the NPO context is not expected to be common. In the rare situations where a controlling NPO issues equity instruments these will be shown as equity in the Statement of Financial Position. A more common situation will be where a controlling NPO holds equity instruments in for-profit

entities, either to achieve a financial return, or to help support the objectives of the controlling NPO; much less often, a controlling NPO may control an NPO through an equity interest. In either case, the controlling NPO's investment or beneficial interest will be eliminated on consolidation with controlled entity equity. Where the controlled entity is 100 per cent owned or controlled by the controlling NPO, these will exactly balance. Where there are other equity interests in the controlled entity, there will be a residual non-controlling interest.

- AG9.24 Where a controlling NPO is consolidating a for-profit entity, consideration will need to be given to any items that in a for-profit set of financial statements appear in **OCI**. INPAG covers the same transactions, but requires that certain unrealised gains and losses be shown in the Statement of Changes in Net Assets. A controlling NPO will need to map any items of OCI in for-profit financial statements to the correct financial statement. This will not impact either the carrying value or the accounting policy choice of the mapped item, only its location in the financial statements.
- AG9.25 Paragraphs G9.36–G9.39 provide that, if appropriate, group results should be allocated proportionally between controlling and non-controlling interests. This is intended to provide a split between results of the controlling NPO and any controlled entities, separate to the results of any interests that a controlling NPO may have in an entity that it doesn't control. Given the focus of NPOs on furthering their objectives for public benefit, it is less likely that an NPO will have non-controlling interests in other entities as it would not be able to affect the returns (non-financial benefits) in a way that would meet its objectives. It is possible that an NPO holds a non-controlling interest for purely financial return, but it is not anticipated that this will frequently occur. As a consequence, it is expected that the majority of NPO groups do not have any non-controlling interests and the requirements of paragraph G9.35–9.39 are not frequently applied.

Comparison of Section 9 with the *IFRS for SMEs Accounting Standard*

Section 9 of INPAG has been drawn from Section 9 to the *IFRS for SMEs Accounting Standard*. The main differences between Section 9 to the draft Third edition of *IFRS for SMEs Accounting Standard* and Section 9 of INPAG are as follows:

- INPAG Section 9 is designed to produce consolidated financial statements which follow the format set out in INPAG Sections 3–7, using the terminology developed in those Sections, and reflecting the wider scope of reporting NPO set out in INPAG Section 2.
- INPAG Section 9 uses the term controlling NPO rather than parent, controlled entity rather than subsidiary and beneficial interest instead of (certain uses of) investment, to better represent the nature of relationships between NPOs and other entities.
- INPAG Section 9 contains additional material and application on the basis of control which determines which entities should be consolidated, having regard to the different governance arrangements and other mechanisms through which power may be exercised, and the wider nature of return encompassing the wider purposes of NPOs working for the benefit of the public.
- INPAG Section 9 references international financial reporting frameworks and national GAAP rather than referencing only IFRS, reflecting the fact that consolidations under INPAG may involve entities reporting under other frameworks.
- INPAG Section 9 sets out guidance on adjustments which may need to be made when consolidating controlled entities reporting under IFRS, reframing material expressed by reference to other comprehensive expenditure which is not reflected in INPAG.
- INPAG Section 9 sets out specific guidance on consolidation procedures for funds with and without restrictions.
- INPAG Section 9 uses different terminology, referring specifically to NPOs, rather than entities more generally and to other Sections of INPAG, rather than the *IFRS for SMEs Accounting Standard*.

Specific matter for comment	
<p>Question 10: Approach to consolidated and separate financial statements</p> <p>a) Is the Application Guidance to apply the control principles sufficient? If not, what changes or additions would you propose and why?</p> <p>b) Do you agree that a rebuttable presumption relating to control should be retained? Is the current drafting sufficient? If not, what additions would you propose and why?</p> <p>c) Is the Application Guidance sufficient to apply the fundamental characteristics of faithful representation and relevance to consolidation? If not, what additions would you propose and why?</p> <p>d) Do you agree with the use of the terms ‘controlling entity’, ‘controlled entity’ and ‘beneficial interest’ instead of ‘parent’, ‘subsidiary’ and ‘investment’? If not, what would you propose and why?</p>	<p>References</p> <p>AG9.1–AG9.14</p> <p>G9.17</p> <p>G9.21–G9.22, AG9.17–AG9.19</p> <p>G9.7, G9.24</p>

Section 10 – Accounting policies, estimates and errors

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

G10.4 If this Guidance 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 the 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 Guidance 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, **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 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 INPAG).

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 Guidance specifically requires or permits categorisation of items for which different policies may be appropriate. If this Guidance 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 Guidance; 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 Guidance would otherwise require or permit to be measured at fair value.

G10.10 If this Guidance 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 Guidance 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, the 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, the 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 Guidance 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:
- the nature of the change in accounting policy;
 - 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;
 - the amount of the adjustment relating to periods before those presented, to the extent practicable; and
 - 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:
- the nature of the change in accounting policy;
 - the reasons why applying the new accounting policy provides reliable and more relevant information;
 - to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:
 - for the current period;
 - for each prior period presented; and
 - in the aggregate for periods before those presented.
 - 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, an 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 *Property, Plant and Equipment*) 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:
- the period of the change, if the change affects that period only; or
 - 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:
- was available when financial statements for those periods were authorised for issue; and
 - 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:
- restating the comparative amounts for the prior period(s) presented in which the error occurred; or
 - 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 INPAG 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 INPAG. The main differences between Section 10 to the draft Third edition of *IFRS for SMEs Accounting Standard* and Section 8 of INPAG are as follows:

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

Specific matters for comment

Question 11: Approach to accounting policies, construction of estimates and accounting for errors

- a) Do you agree with the updates made to Section 10 and that there are no additional NPO specific considerations that need to be addressed in this Section? If not, what changes or additions would you propose and why?

Sections 11–34 and Section 36

Sections 11–34 and Section 36 are not published in this Exposure Draft. These Sections will be first published in either Exposure Draft – Part 2 (ED2) and Exposure Draft – Part 3 (ED3).

ED2 (expected to be published Q2 2023) will contain:

Section	Title	Expected Status
11	Financial instruments	Editorial
21	Provisions and contingencies	Editorial
22	Liabilities and equity	Editorial
23a	Non-exchange revenue [Subject to change]	New
23b	Exchange revenue [Subject to change]	Updated
24a	Grant expenses	New
25	Borrowing costs	Editorial
26	Share based payments	Editorial
28	Employee benefits	Editorial
29	Income tax	Editorial
30	Foreign currency translation	Updated
31	Hyperinflation	Editorial
32	Events after the reporting period	Editorial

ED3 (expected to be published Q4 2023) will contain:

Section	Title	Expected status
12	Fair value	Editorial
13	Inventories	Updated
14	Investment in associates	Editorial
15	Joint arrangements	Editorial
16	Investment property	Editorial
17	Property, plant and equipment	Editorial
18	Intangible assets other than goodwill	Editorial
19	Business combinations and goodwill	Editorial
20	Leases	Editorial
24b	Classification of expenses	New
24c	Fundraising costs	New
27	Impairment of assets	Editorial
33	Related party disclosures	Editorial
34	Specialised advice	Editorial
36	Transition to the Guidance	Modified

Section 35 – Narrative reporting (New)

Scope of this Section

- G35.1 This Section sets out narrative reporting requirements for NPOs. It provides guidance on the **performance information** and **financial statement commentary** that is to be presented by an NPO in the same general purpose financial report as its **financial statements**.
- G35.2 This Section sets out the minimum narrative reporting requirement for NPOs applying INPAG. Where an NPO is able to go beyond this minimum requirement and present additional information to meet the needs of users of its general purpose financial report, it may do so provided that this minimum requirement has been met.

Principles

- G35.3 An NPO shall present performance information and financial statement commentary that is useful for accountability and decision-making purposes in the same general purpose financial report as its financial statements. Performance information and financial statement commentary will enable users to assess the performance of the NPO and provide context to the information included in the financial statements.
- G35.4 The performance information and financial statement commentary presented shall be for the same reporting NPO and reporting period as the financial statements.
- G35.5 When selecting and presenting performance information and financial statement commentary in a general purpose financial report, an NPO shall apply the qualitative characteristics and the pervasive constraints on information identified in Section 2 *Concepts and pervasive principles*. The narrative report shall:
- provide **faithful representation** of the NPO's operations and activities;
 - provide **relevant** information that is capable of making a difference in the decisions made by users, ie it is material;
 - provide information that is **comparable** between reporting periods;
 - provide information that can be **verified**;
 - be provided on a **timely** basis; and
 - be **understandable** by the users of the **general purpose financial reports**.

This will result in performance information and financial statement commentary that is useful to users of the NPO's general purpose financial report.

- G35.6 An NPO shall also ensure that the performance information and financial statement commentary presented is fair and balanced. The information presented should provide an objective view and assessment of the NPO's performance and financial statements for the reporting period.
- G35.7 Exceptionally an NPO shall not disclose aspects of performance information and financial statement commentary that would compromise the safety or wellbeing of individuals working/volunteering for the NPO, or those to whom it provides goods and services, because the information is sensitive and/or could prejudice the ability of the NPO to deliver its mission. An NPO will remain in compliance with the requirements of INPAG where this exception is utilised. When a sensitive information exception has been used, the NPO should disclose that the narrative report has been prepared in accordance with the requirements of this paragraph but is not required to provide any information that would have the effect of highlighting the nature or substance of the sensitive information. An NPO shall present performance information and financial statement commentary related to those operations and activities that does not result in sensitive information.

Performance information and financial statement commentary to be reported

- G35.8 An NPO shall:
- a) present information to enable users to understand what the performance objectives of the NPO are and what it has done during the reporting period in working towards those performance objectives; and
 - b) present commentary to discuss and analyse the NPO's financial statements.
- G35.9 In providing performance information and financial statement commentary, an NPO shall provide users with information related to the following topics.

An overview of the NPO

- G35.10 An NPO shall provide contextual information that enables users to understand the NPO. The information provided as part of the overview should include:
- a) **Who are we?** – a description of the legal form of the NPO, how it is structured and what governance arrangements apply to it.
 - b) **What do we exist for?** – a description of the purpose for which the NPO exists, including any formal mission and vision statements.
 - c) **What do we do?** – a description of the NPO's main activities, including significant relationships the NPO has with other entities.

Performance information

- G35.11 An NPO shall present information to enable users to understand:
- a) what the performance objectives of the NPO are and what it intended to achieve during the reporting period; and
 - b) what it has done in working towards those performance objectives and what it has achieved during the reporting period.
- G35.12 The NPO shall provide performance measures and descriptions that enable the NPO to demonstrate to its users its performance for the reporting period. The performance measures and descriptions will depend on the NPO and its performance objectives, but must have regard to:
- a) **Quantitative measures** that provide a numerical measurement by which to assess performance – for example the quantity of a particular good or service provided by an NPO, or ratings by service users on a scale of 1–10.
 - b) **Qualitative measures** that provide a non-numerical measurement by which to assess performance – for example whether the goods and services provided by an NPO were in accordance with a particular quality standard, or ratings by service users of high/medium/low.
 - c) **Qualitative descriptions** that provide a non-numerical description by which to assess performance – for example descriptions by individuals supported by the NPO of improvements made to their wellbeing from open-ended questions in interviews.
- G35.13 An NPO will need to exercise judgement to ensure that it provides information that is useful for accountability and decision-making purposes to users of the general purpose financial report.

Financial objectives and strategies

- G35.14 An NPO shall discuss its objectives and strategies relating to its financial position, income and expenses, net assets and **cash flows**. This should be done in a way that enables users of the financial statements:
- a) to understand the NPO's financial objectives and strategies;

- b) to identify the resources that must be managed by the NPO to achieve them; and
- c) how these financial objectives and strategies support the achievement of the NPOs performance objectives.

G35.15 Where relevant, an NPO should also discuss significant changes in its financial objectives and strategies from the previous period or periods, and the impact this may have on the achievement of its performance objectives.

Analysis of the NPO's financial statements

G35.16 An NPO shall include an analysis of significant changes and trends in its financial position, income and expenses, net assets and cash flows. Judgement should be applied to ensure a focus on significant and important financial statement items, and the NPO should not simply reiterate the information presented in the financial statements. Specifically, the analysis should not repeat the disclosures made in accordance with Section 8, but these disclosures may inform the analysis.

G35.17 As part of this analysis, the NPO should provide information on the impact that these significant changes and trends in its financial position, income and expenses, net assets and cash flows have on the achievement of its performance objectives.

Risks and uncertainties

G35.18 An NPO shall discuss the principal risks and uncertainties that affect the achievement of its performance objectives and its financial position, income and expenses, net assets and cash flows. This should include:

- a) an explanation of how these risks and uncertainties relate to the performance objectives and financial objectives and strategies of the NPO;
- b) an explanation of changes in those risks and uncertainties since the last **reporting date**; and
- c) how the NPO manages risks and uncertainties.

G35.19 This information will help users to evaluate the impact of those risks and uncertainties on the achievement of the NPO's performance objectives and its financial position, income and expenses, net assets and cash flows in the current period, as well as expected longer term outcomes.

Presentation

G35.20 Performance information and financial statement commentary shall be clearly identified and distinguished from the financial statements.

G35.21 NPOs should develop a format that meets the information needs of their users while complying with the requirements of this Section.

G35.22 Cross-referencing of performance information and financial statement commentary to the financial statements will enable users to understand and assess the performance information and financial statement commentary within the context of the financial statements.

G35.23 In addition to cross-referencing of information to the financial statements within the general purpose financial report, an NPO may also consider it beneficial to cross-reference to information that is held outside of the general purpose financial report. For example, it may be appropriate to provide users with additional detail on performance objectives and to reduce the volume of information provided in the general purpose financial reports.

G35.24 Where an NPO does cross-reference to information held outside of the general purpose financial report, it must ensure that:

- a) a complete set of performance information and financial statement commentary is provided to users in the general purpose financial report in accordance with this Section – an NPO shall not simply provide references to information held elsewhere; and
- b) the cross-referenced information held outside of the general purpose financial report is, and will remain, unchanged and available to users of the general purpose financial report.

Comparative information and consistency of reporting

- G35.25 The usefulness of performance information and financial statement commentary to users is improved through the provision of comparative information and consistent reporting by an NPO.
- G35.26 Comparative information shall be provided by an NPO for the preceding period for amounts and descriptive information reported in the current period.
- G35.27 Performance information and financial statement commentary shall also be reported consistently by an NPO. Where changes are made to what or how an NPO reports its performance information and financial statement commentary, the reasons for and the nature and effect of these changes shall be explained.
- G35.28 If an NPO becomes aware of material prior period **errors**, be this related to numerical or descriptive information, it shall correct these by restating the comparative information for any prior period(s) presented in the general purpose financial reports and disclose an explanation of the error.

Disclosure of judgements

- G35.29 An NPO will use judgement in the selection and presentation of performance information and financial statement commentary that is reported in accordance with this Section. An NPO shall disclose those judgements that are most relevant to users' understanding of the NPO's performance information and financial statement commentary.

Reporting of other information

- G35.30 An NPO may choose or be required to present additional information in its general purpose financial report beyond the performance information and financial statement commentary included in this Section. Where it does so, the additional information shall, as far as possible, be presented in compliance with the requirements of this Section (principles, presentation, comparative information, consistency of reporting, and disclosure of judgements).

Application Guidance: Section 35 – Narrative reporting (New)

- AG35.1 Section 35 *Narrative Reporting* sets out the principles and high-level requirements for reporting performance information and financial statement commentary by NPOs. As INPAG will be applied internationally by a diverse range of NPOs, it is impractical to determine a detailed set of requirements and a specific reporting format for a narrative report that would be appropriate for all NPOs. The principles and high-level requirements of the Section instead permit a flexible approach. NPOs are able to report in a manner that best meets the needs of their users. At the same time all NPOs are required to report a base level of information that is useful to users.

Performance information and objectives

- AG35.2 Performance information required by paragraphs G35.11–G35.13 gives an NPO the opportunity to provide users with an understanding of why the NPO exists, what it intends to achieve now and in the longer term, and how it goes about doing this, including what it has done in the reporting period

to achieve its objectives. Performance information is best supported by performance measures and descriptions (see paragraph IG35.17). These can be presented in a variety of ways including charts, maps, tables and infographics, and need not just rely on narrative descriptions.

- AG35.3 Performance objectives should be linked to the discussion of what the NPO exists for that is included within the overview. They will be derived from the purpose of the NPO, and should indicate what the NPO intends to achieve now and in the longer term and how it goes about doing this. Reporting should be on the objectives that the NPO executive/management has set to monitor the activities or performance of the NPO. Performance objectives should not be created purely for the purpose of the narrative report.
- AG35.4 A key decision will be deciding on which aspects of performance the NPO wishes to report. NPOs should focus on the needs of users of the general purpose financial report to make this judgement. The principles in paragraph G35.5 will guide these judgements, particularly the relevance of the information. Many NPOs will already provide performance information outside of their general purpose financial report to groups such as donors. While NPOs may be able to use the information that is contained in such reports, they should ensure that the information presented is not too detailed and that it complies with the high-level reporting principles.

Financial objectives and strategies

- AG35.5 As per paragraphs G35.14 and G35.15, NPOs should provide sufficient information on financial objectives and strategies so that users can understand the NPO's financial priorities, the resources it needs to achieve them, and how these relate to its performance objectives. Given that NPOs exist primarily to deliver a benefit to the public rather than to generate financial returns for investors, financial objectives and strategies are likely to be derived from the NPO's performance objectives.
- AG35.6 For example, an NPO may have a performance objective of delivering a certain volume of services over a financial period and has volatile incoming resources. To ensure that the NPO has sufficient resources to deliver this volume of services, it may have a reserves policy that requires it to hold six months equivalent of expenditure in unrestricted reserves or funds. To achieve this the NPO may have a strategy of increasing both the amount and percentage of unrestricted donations it receives compared to those that can only be spent on a specific project.

Discussion and analysis of the financial statements

- AG35.7 Financial statement commentary required by paragraphs G35.16 and G35.17 gives an NPO the opportunity to discuss and analyse the financial statements. The commentary can focus on the significant items, transactions and events that are presented in the NPO's financial statements and the factors that have influenced them. This provides context to the financial statements for users, thus ensuring that they are useful for accountability and decision-making purposes.
- AG35.8 The focus of the analysis of financial statements should be on significant changes and trends, and the achievement of its performance objectives, both in this period and the future. An explanation should be provided of the impact that these changes and trends have on the NPO's:
- financial position;
 - income and expenses;
 - net assets; and
 - cash flows.

For example, how a significant amount of income from holding **financial assets** has enabled the NPO to increase its unrestricted cash reserves and how this will permit it to increase the number of members of the public it can support in the next financial year.

AG35.9 The NPO should not simply reiterate or replicate the information in the financial statements. The focus should be on enabling the **primary users** of the general purpose financial reports to gain a better understanding of the financial position, income and expenses and cash flows of the NPO. Judgement will be required to identify and present the significant items, transactions and events that will provide this understanding, with users provided with a clear link between the financial statement analysis and items within the financial statements. Any adjustments to information from the financial statements in producing the financial statement analysis must be disclosed along with the nature and reasons for the adjustment.

Comparative information and consistency of reporting

AG35.10 Comparative information is required by paragraphs G35.25–G35.28. Users understanding of performance and financial information is usually improved when comparative information for the preceding reporting period is included. Where the information provided is numerical, it should be relatively easy for an NPO to provide the comparative information. Where it cannot provide comparative information an NPO must follow the requirements of Section 3 regarding consistency. Where the information is narrative or descriptive, judgement may be required in determining what and how to disclose comparative information.

AG35.11 Users' understanding of performance and financial information is also improved when an NPO reports in a consistent manner over time what it reports and how it reports it. Consistency of reporting can be supported by thinking carefully about what users require when first considering the performance and financial information that will be reported and how it will be presented. Where changes are required, for example if an NPO changes its primary objective or measures performance in a different way, consistency of reporting is supported if the reason for the change and its impact on reporting is explained.

AG35.12 An item is material if its exclusion or misstatement would affect the decision and assessments made by users of the general purpose financial report. As such materiality depends not just on size but also on nature. A material prior period error occurs either where performance information or financial statement commentary has either been materially misstated or omitted altogether in a previous general purpose financial report. Where an NPO becomes aware that a material prior period error has occurred it needs to correct this in the next general purpose financial report it produces by restating comparative information for any prior periods presented and by disclosing an explanation of the error.

Reporting of other information

AG35.13 Paragraph G35.30 permits the inclusion of additional information beyond the mandatory core in paragraphs G35.8–G35.19. Where possible, an NPO should disclose other relevant information to enhance understanding for the users of the financial report, that goes beyond the minimum core requirement of this Guidance. This could include environmental, social and governance (ESG) information, climate related disclosures, and/or broader sustainability reporting.

Judgements

AG35.14 As required by paragraph G35.29, NPOs should disclose the judgements that have had the most significant effect on the selection, measurement and presentation of performance information and financial statement commentary. Only those that are most significant to the information reported and are relevant to the users understanding of the information provided. This might include for example a decision by an NPO to disclose performance information by region or activity, or why an NPO utilises a certain financial ratio to determine if it has sufficient funds to continue to provide services.

Specific matter for comment	
<p>Question 12: Scope and content of narrative reporting</p> <p>a) Do you agree with the principles proposed to underpin narrative reporting? If not, what would you propose to change and why?</p> <p>b) Do you agree with the scope of the minimum mandatory requirement, with additional information, such as sustainability reporting to be optional? If not, what changes should be made and why?</p> <p>c) Do you agree with the proposals that sensitive information can be excluded from narrative reports? If not, what alternative would you propose and why?</p> <p>d) Should a two-year transition period for narrative reporting be permitted to assist in overcoming any implementation challenges? If not, what approach would you propose and why?</p>	<p>References</p> <p>G35.3–G35.7</p> <p>G35.8–G35.19, G35.30, AG35.2–AG35.13</p> <p>G35.7</p>

Glossary of terms

This glossary is an integral part of INPAG.

Not all of the terms included in this glossary are used in ED1. Additional terms may be added as INPAG is developed. All terms will be used in the final INPAG.

accounting estimates	Monetary amounts in financial statements that are subject to measurement uncertainty.
accounting policies	The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
accounting profit	Profit or loss for a period before deducting tax expense.
accumulating compensated absences	Compensated absences that are carried forward and can be used in future periods if the current period's entitlement is not used in full.
active market	A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
acquiree	The business or businesses that the acquirer obtains control of in a business combination.
acquirer	The entity that obtains control of the acquiree.
aggregation	The adding together of assets, liabilities, equity, income or expenses that have shared characteristics and are included in the same classification.
agricultural activity	The management by an entity of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets.
agricultural produce	The harvested product of the entity's biological assets.
amortisation	The systematic allocation of the depreciable amount of an asset over its useful life.
amortised cost of a financial asset or financial liability	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.
asset	A present economic resource controlled by the entity as a result of past events.
associate	An entity, including an unincorporated entity such as a partnership, over which the controlling NPO has significant influence and that is neither a controlled entity nor an interest in a joint arrangement.
bearer plant	A bearer plant is a living plant that: <ol style="list-style-type: none">is used in the production or supply of agricultural produce;is expected to bear produce for more than one period; andhas a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.
beneficial interest	An interest resulting from the control of another entity that arises other than through equity ownership.
biological asset	A living animal or plant.
borrowing costs	Interest and other costs incurred by an entity in connection with the borrowing of funds.
business	An integrated set of activities and assets that is capable of being conducted and managed for the purpose: <ol style="list-style-type: none">providing goods or services to customers;generating investment income (such as dividends or interests); orgenerating other income from ordinary activities.
business combination	A transaction or other event in which an acquirer obtains control of one or more businesses.
carrying amount	The amount at which an asset, or liability or equity is recognised in the Statement of Financial Position.
cash	Cash on hand and demand deposits.
cash equivalent	Short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

cash flows	Inflows and outflows of cash and cash equivalents.
cash-generating unit	The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
cash-settled share-based payment transaction	A share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity.
class of assets	A grouping of assets of a similar nature and use in an entity's operations.
classification	The sorting of assets, liabilities, equity, funds in net assets, income or expenses on the basis of shared characteristics for presentation and disclosure purposes.
close members of the family of a person	Those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity, including: <ul style="list-style-type: none"> a) that person's children and spouse or domestic partner; b) children of that person's spouse or domestic partner; and c) dependents of that person or that person's spouse or domestic partner.
combined financial statements	Financial statements of a reporting entity that comprises two or more entities that are not all linked by a parent–subsidiary (controlling NPO-controlled entity) relationship.
component of an entity	Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.
compound financial instrument	A financial instrument that, from the issuer's perspective, contains both a liability and an equity element.
consolidated financial statements	The financial statements of a controlling NPO and its controlled entities presented as those of a single economic entity.
construction contract	A contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.
constructive obligation	An obligation that derives from an entity's actions where: <ul style="list-style-type: none"> a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
contingent asset	A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
contingent consideration	Usually, an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.
contingent liability	<ul style="list-style-type: none"> a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or b) a present obligation that arises from past events but is not recognised because: <ul style="list-style-type: none"> i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or ii) the amount of the obligation cannot be measured with sufficient reliability.
contract	An agreement between two or more parties that creates enforceable rights and obligations.
contract asset	An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance).
contract liability	An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.
contributions from holders of equity claims	An inflow of resources to an NPO, contributed by parties external to the NPO, which establishes or increases a financial interest in the net assets of the NPO.

control (of an entity)	A controlling NPO controls an investee (controlled entity) when the controlling NPO is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
controlled entity	An entity that is controlled by another entity.
controlling NPO	The NPO that has control of an entity as a result of the application of the principles of control.
credit loss	The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (that is, all cash shortfalls), discounted at the original effective interest rate.
current tax	The amount of income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period or past periods.
customer	A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.
date of initial application	The date an entity first applies the First edition of INPAG.
date of transition to INPAG	The beginning of the earliest period for which an entity presents full comparative information under INPAG in its first financial statements that comply with INPAG.
deductible temporary differences	Temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
deferred tax	Income tax payable (recoverable) in respect of the taxable profit (tax loss) for future periods as a result of past transactions or events.
deferred tax assets	The amounts of income tax recoverable in future periods in respect of: <ul style="list-style-type: none"> a) deductible temporary differences b) the carryforward of unused tax losses; and c) the carryforward of unused tax credits.
deferred tax liabilities	The amounts of income tax payable in future periods in respect of taxable temporary differences.
defined benefit liability	The present value of the defined benefit obligation at the reporting date minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.
defined benefit obligation	The expected future payments, without deducting any plan assets, required to settle the obligation resulting from employee service in the current and prior periods.
defined benefit plans	Post-employment benefit plans other than defined contribution plans.
defined contribution plans	Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
depreciable amount	The cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value.
depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
derecognition	The removal of all or part of a recognised asset or liability from an entity's Statement of Financial Position.
development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.
discontinued operation	A component of an entity that either has been disposed of, or is held for sale, and: <ul style="list-style-type: none"> a) represents a separate major line of business or geographical area of operations; b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or c) is a controlled entity acquired exclusively with a view to resale.
distributions to holders of equity claims dividends	An outflow of resources from an NPO, distributed to parties external to the NPO, which returns or reduces a financial interest in the net assets of the NPO. It may also be an inflow of resources to an NPO in return for its financial interest in the net assets of another entity (for example, a dividend received). Distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital.

economic phenomena	Economic phenomena are economic resources, claims against those resources, and the effects of transactions and other events and conditions that change those resources and claims.
economic resource	A right that has the potential to produce economic benefits or service potential.
effective interest method	A method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
effective interest rate	The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.
effectiveness of a hedge	The degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.
employee benefits	All forms of consideration given by an entity in exchange for service rendered by employees.
enhancing qualitative characteristic	A qualitative characteristic that makes useful information more useful. The enhancing qualitative characteristics are comparability, verifiability, timeliness and understandability.
equity	The residual interest in the assets of an entity after deducting all its liabilities.
equity claim	A claim on the residual interest in the assets of an entity after deducting all its liabilities.
equity-settled share-based payment transaction	A share-based payment transaction in which the entity: <ul style="list-style-type: none">a) receives goods or services as consideration for its own equity instruments (including shares or share options), orb) receives goods or services but has no obligation to settle the transaction with the supplier.
errors	Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: <ul style="list-style-type: none">a) was available when financial statements for those periods were authorized for issue; andb) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
executory contract	A contract, or a portion of a contract, that is equally unperformed– neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent.
existence uncertainty	Uncertainty about whether an asset or liability exists.
expenses	Decreases in assets or increases in liabilities that result in decreases in net assets, other than those relating to distributions to holders of equity claims.
fair presentation	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.
fair value	The price that would be received to sell, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.
finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. A lease that is not a finance lease is an operating lease.
financial asset	Any asset that is: <ul style="list-style-type: none">a) cash;b) an equity instrument of another entity;c) a contractual right:<ul style="list-style-type: none">i) to receive cash or another financial asset from another entity; orii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; ord) a contract that will or may be settled in the entity's own equity instruments and:<ul style="list-style-type: none">i) under which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; orii) that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

financial guarantee contract	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
financial instrument	A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
financial liability	Any liability that is: <ul style="list-style-type: none"> a) a contractual obligation: <ul style="list-style-type: none"> i) to deliver cash or another financial asset to another entity; or ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or b) a contract that will or may be settled in the entity's own equity instruments and: <ul style="list-style-type: none"> i) under which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments, or ii) will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.
financial position	The relationship of the assets, liabilities and equity of an entity as reported in the Statement of Financial Position.
financial statements	Structured representation of the financial position, income and expenses and cash flows of an entity.
financing activities	Activities that result in changes in the size and composition of the equity and borrowings of the entity.
firm commitment	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.
first-time adopter of INPAG	An entity that presents its first annual financial statements that conform to INPAG, regardless of whether its previous accounting framework was full IFRS Accounting Standards or another set of accounting standards.
forecast transaction	An uncommitted but anticipated future transaction.
foreign operation	An entity that is a controlled entity, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.
full IFRS Accounting Standards	Standards and Interpretations issued by the International Accounting Standards Board (IASB). They comprise: <ul style="list-style-type: none"> a) International Financial Reporting Standards; b) International Accounting Standards; c) IFRIC Interpretations; and d) SIC Interpretations.
functional currency	The currency of the primary economic environment in which the entity operates.
functional currency normalisation date	The date when an entity's functional currency no longer has either, or both, of the two characteristics of severe hyperinflation, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.
fundamental qualitative characteristic	A qualitative characteristic that financial information must possess to be useful to the primary users of general purpose financial reports. The fundamental qualitative characteristics are relevance and faithful representation.
funding (of post-employment benefits)	Contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid.
funds with restrictions	Funds that are required to be expended, invested or retained by the NPO for a specific purpose or activity as a consequence of externally imposed funding or other legal arrangements placed on the NPO by a resource provider.

funds without restrictions	Funds that are freely available to be used by an NPO for any of its purposes or activities. An NPO is free to internally designate funds for a specific purpose or activity (including designation by the NPO's board of directors), but the absence of any externally imposed funding or other legal arrangement means that they are not required to be used for this purpose or activity and are therefore not funds with restrictions.
general purpose financial statements	Financial statements directed to the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.
general purpose financial reports	Financial reports that present management commentary and other narrative reporting alongside the financial information contained in the general purpose financial statements and that are directed to the general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.
going concern	An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
goodwill	An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.
government	Government, government agencies and similar bodies whether local, national or international.
government grants	Assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.
grant date	The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At the grant date, the entity confers on the counterparty the right to cash, other assets or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), the grant date is the date when that approval is obtained.
gross investment in a lease	The aggregate of: <ul style="list-style-type: none">a) the minimum lease payments receivable by the lessor under a finance lease; andb) any unguaranteed residual value accruing to the lessor.
group	A parent (controlling NPO) and all its controlled entities.
hedged item	For the purpose of special hedge accounting by SMEs under Part II of Section 11 of this Standard, a hedged item is: <ul style="list-style-type: none">a) interest rate risk of a debt instrument measured at amortised cost;b) foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction;c) price risk of a commodity that it holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; ord) foreign exchange risk in a net investment in a foreign operation.
hedging instrument	For the purpose of special hedge accounting by SMEs under Part II of Section 11 of this Standard, a hedging instrument is a financial instrument that meets all of the following terms and conditions: <ul style="list-style-type: none">a) it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in paragraph 11.65 that is designated as the hedged risk;b) it involves a party external to the reporting entity (ie external to the group, segment or individual entity being reported on);c) its notional amount is equal to the designated amount of the principal or notional amount of the hedged item;d) it has a specified maturity date not later than:<ul style="list-style-type: none">i) the maturity of the financial instrument being hedged;ii) the expected settlement of the commodity purchase or sale commitment; oriii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedgede) it has no prepayment, early termination or extension features.
highly probable	Significantly more likely than probable.

impairment (loss)	The amount by which the carrying amount of an asset exceeds: <ul style="list-style-type: none"> a) in the case of inventories, its selling price less costs to complete and sell, or b) in the case of other non-financial assets, its recoverable amount.
impracticable	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
imputed rate of interest	The more clearly determinable of either: <ul style="list-style-type: none"> a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.
income	Increases in assets, or decreases in liabilities, that result in increases in net assets, other than those relating to contributions from holders of equity claims.
income statement	A financial statement that presents all items of income and expense recognised in a reporting period, excluding the items of other comprehensive income.
income tax	All domestic and foreign taxes that are based on taxable profits. Income tax also includes taxes, such as withholding taxes, that are payable by a controlled entity, associate or joint arrangement on distributions to the reporting entity.
insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
intangible asset	An identifiable non-monetary asset without physical substance. Such an asset is identifiable when it: <ul style="list-style-type: none"> a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
interest rate implicit in the lease	The discount rate that, at the inception of the lease, causes the aggregate present value of a) the minimum lease payments and b) the unguaranteed residual value to be equal to the sum of i) the fair value of the leased asset and ii) any initial direct costs of the lessor.
interim financial report	A financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period.
interim period	A financial reporting period shorter than a full financial year.
International Public Sector Accounting Standards (IPSAS)	Standards and Interpretations issued by the International Public Sector Accounting Standards Board (IPSASB) for use by public sector entities other than government business enterprises. They comprise: <ul style="list-style-type: none"> a) International Public Sector Accounting Standards; and b) International Recommended Practice Guidelines.
intrinsic value	The difference between the fair value of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares. For example, a share option with an exercise price of CU15, on a share with a fair value of CU20, has an intrinsic value of CU5.
inventories	Assets: <ul style="list-style-type: none"> a) held for sale in the ordinary course of business b) in the process of production for such sale, or c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.
investment property	Property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, instead of for: <ul style="list-style-type: none"> a) use in the production or supply of goods or services or for administrative purposes; or b) sale in the ordinary course of business.
joint arrangement	An arrangement of which two or more parties have joint control. Joint arrangements can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities.

joint control	The contractually agreed sharing of control of an arrangement. It exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
jointly controlled entity	A joint arrangement that involves the establishment of a corporation, partnership or other entity in which each party has an interest. The entity operates in the same way as other entities, except that an arrangement between the parties establishes joint control.
lease	An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
lessee's incremental borrowing rate of interest	The rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.
liability	A present obligation of the entity to transfer an economic resource as a result of past events.
loans payable	Financial liabilities other than short-term trade payables on normal credit terms.
market participants	Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics: <ul style="list-style-type: none"> a) they are independent of each other, that is, they are not related parties as defined in Section 33; b) they are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information; c) they are able to enter into a transaction for the asset or liability; and d) they are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.
market vesting condition	A performance condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group), such as: <ul style="list-style-type: none"> a) attaining a specified share price or a specified amount of intrinsic value of a share option, or b) achieving a specified target that is based on the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group) relative to an index of market prices of equity instruments of other entities. <p>A market condition requires the counterparty to complete a specified period of service (that is, a service condition); the service requirement can be explicit or implicit.</p>
material	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 entity.
measure	The result of applying a measurement basis to an asset or liability and related income and expenses.
measurement basis	An identified feature – for example, historical cost, fair value or fulfilment value – of an item being measured.
measurement uncertainty	Uncertainty that arises when monetary amounts in financial reports cannot be observed directly and must instead be estimated.
minimum lease payments	The payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with: <ul style="list-style-type: none"> a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or b) for a lessor, any residual value guaranteed to the lessor by: <ul style="list-style-type: none"> i) the lessee; ii) a party related to the lessee; or iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.
monetary items	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.
most advantageous market	The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

multi-employer (benefit) plans	Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that: <ul style="list-style-type: none"> a) pool the assets contributed by various entities that are not under common control; and b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.
net investment in a lease	The gross investment in a lease discounted at the interest rate implicit in the lease.
non-controlling interest	The equity in a controlled entity not attributable, directly or indirectly, to a controlling NPO.
notes (to financial statements)	Notes contain information in addition to that presented in the Statement of Financial Position, Statement of Income and Expenses, Statement of Changes in Net Assets and 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.
notional amount	The quantity of currency units, shares, bushels, pounds or other units specified in a financial instrument contract.
objective of financial statements	To provide information about the financial position, income and expenses and cash flows of an entity that is useful for decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.
observable inputs	Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.
offsetting	Grouping an asset and liability that are recognised and measured as separate units of account into a single net amount in the Statement of Financial Position.
onerous contract	A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.
operating activities	The principal activities of the entity that are not investing or financing activities.
operating lease	A lease that does not transfer substantially all the risks and rewards incidental to ownership. A lease that is not an operating lease is a finance lease.
orderly transaction	A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).
other comprehensive income	Items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by the <i>IFRS for SMEs</i> Accounting Standard.
outcome uncertainty	Uncertainty about the amount or timing of any inflow or outflow of economic benefits that will result from an asset or liability.
parent	An entity that has one or more subsidiaries or controlled entities. The term 'controlling NPO' is used where an NPO is a parent.
performance condition	A vesting condition that requires: <ul style="list-style-type: none"> a) the counterparty to complete a specified period of service (that is, a service condition); the service requirement can be explicit or implicit; and b) specified performance target(s) to be met while the counterparty is rendering the service required in a). <p>The period of achieving the performance target(s):</p> <ul style="list-style-type: none"> a) shall not extend beyond the end of the service period; and b) may start before the service period on the condition that the commencement date of the performance target is not substantially before the commencement of the service period. <p>A performance target is defined by reference to:</p> <ul style="list-style-type: none"> a) the entity's own operations (or activities) or the operations or activities of another entity in the same group (that is, a non-market condition); or b) the price (or value) of the entity's equity instruments or the equity instruments of another entity in the same group (including shares and share options) (that is, a market condition). <p>A performance target might relate either to the performance of the entity as a whole or to some part of the entity (or part of the group), such as a division or an individual employee.</p>
plan assets (of an employee benefit plan)	Assets held by a long-term employee benefit fund and qualifying insurance policies.

post-employment benefits	Employee benefits (other than termination benefits) that are payable after the completion of employment.
post-employment benefit plans	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.
potential to produce economic benefits	Within an economic resource, a right that already exists and that, in at least one circumstance, would produce for the entity economic benefits or service potential beyond those available to all other parties.
present value	A current estimate of the present discounted value of the future net cash flows in the normal course of business.
presentation currency	The currency in which the financial statements are presented.
primary users	Existing and potential investors, lenders and other creditors.
principal market	The market with the greatest volume and level of activity for the asset or liability.
probable	More likely than not.
profit or loss	The total of income less expenses, excluding the components of other comprehensive income of for-profit entities.
projected unit credit method	An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method).
promise (in a contract with a customer)	An obligation to transfer a good or service (or bundle of goods or services) that is distinct.
property, plant and equipment	Tangible assets that: <ul style="list-style-type: none"> a) are held for use in the production or supply of goods or services, for rental to others or for administrative purposes; and b) are expected to be used during more than one period.
prospective application (of a change in accounting policy)	Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed.
provision	A liability of uncertain timing or amount.
prudence	The exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses.
public accountability	An entity has public accountability if: <ul style="list-style-type: none"> a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).
publicly traded (debt or equity instruments)	Traded, or in process of being issued for trading, in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
recognition	The process of capturing for inclusion in the Statement of Financial Position or the statement(s) of financial performance an item that meets the definition of one of the elements of financial statements – an asset, a liability, equity, income or expenses. Recognition involves depicting the item in one of those statements – either alone or in aggregation with other items – in words and by a monetary amount, and including that amount in one or more totals in that statement.
recoverable amount	The higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use.

related party	<p>A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity):</p> <ul style="list-style-type: none"> a) a person or a close member of that person's family is related to a reporting entity if that person: <ul style="list-style-type: none"> i) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity; ii) has control or joint control over the reporting entity; or iii) has significant influence over the reporting entity. b) an entity is related to a reporting entity if any of the following conditions applies: <ul style="list-style-type: none"> i) the entity and the reporting entity are members of the same group (which means that each controlling NPO, controlled entity and fellow controlled entity is related to the others) ii) one entity is an associate or jointly controlled entity of the other entity (or an associate or jointly controlled entity of a member of a group of which the other entity is a member) iii) both entities are jointly controlled entities of the same third entity iv) one entity is a jointly controlled entity of a third entity and the other entity is an associate of the third entity v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity vi) the entity is controlled or jointly controlled by a person identified in a) vii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity viii) a person identified in a)ii) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
related party transaction	A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.
relevance	Relevant financial information is capable of making a difference in the decisions made by users.
relevant activities (of an investee)	The activities that significantly affect the investee's returns.
reliability	The quality of information that makes it free from material error and bias and represent faithfully that which it either purports to represent or could reasonably be expected to represent.
reporting date	The end of the latest period covered by the financial report or by an interim financial report.
reporting entity	An entity that is required, or chooses, to prepare general purpose financial reports.
reporting NPO	A reporting NPO is a single NPO, part of an NPO or a combination of NPOs that is required, or chooses, to prepare general purpose financial reports.
reporting period	The period covered by a financial report or by an interim financial report.
research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
residual value (of an asset)	The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
retrospective application (of a change in accounting policy)	Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.
revenue	Income arising in the course of an entity's ordinary activities.
separate financial statements	Those presented by an entity, in which the entity could elect, in accordance with paragraphs 9.25–9.26, to account for its investments in controlled entities, jointly-controlled entities and associates either at cost less impairment, at fair value with changes in fair value recognised in profit or loss or using the equity method following the procedures in paragraph 14.8.
service beneficiary	Individual, group of individuals or organisation that is in receipt of services, goods, or advocacy of an NPO.
service concession arrangement	An arrangement whereby a government or other public sector body contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals.

service condition	A vesting condition that requires the counterparty to complete a specified period of service during which services are provided to the entity. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, it has failed to satisfy the condition. A service condition does not require a performance target to be met.
service potential	The capacity to provide services that contribute to achieving the NPO's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.
severe hyperinflation	The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics: <ul style="list-style-type: none"> a) a reliable general price index is not available to all entities with transactions and balances in the currency; and b) exchangeability between the currency and a relatively stable foreign currency does not exist.
share-based payment arrangement	An agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive: <ul style="list-style-type: none"> a) cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity; or b) equity instruments (including shares or share options) of the entity or another group entity; provided the specified vesting conditions, if any, are met.
share-based payment transaction	A transaction in which the entity: <ul style="list-style-type: none"> a) receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment arrangement; or b) incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.
small and medium-sized entities	Entities that: <ul style="list-style-type: none"> a) do not have public accountability; and b) publish general purpose financial statements for external users. An entity has public accountability if: <ul style="list-style-type: none"> a) it files, or it is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; or b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
societal accountability	An expansive view of accountability that recognises a general accountability to society at large due to the importance of NPO goods and services, the funding environment, the preferential treatment that NPOs can receive compared to other organisations, and the need to ensure the effective operation of the wider sector.
state (employee benefit) plan	Employee benefit plans established by legislation to cover all entities (or all entities in a particular category, for example a specific industry) and operated by national or local government or by another body (for example an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity.
Statement of Cash Flows	A financial statement that provides information about the changes in cash and cash equivalents of an entity for a period, showing separately changes during the period from operating, investing and financing activities.
Statement of Changes in Net Assets	A financial statement that presents the surplus or deficit for a period, items of income and expense not recognised directly in Statement of Income and Expenses for the period, the effects of changes in accounting policy and corrections of errors recognised in the period, the amounts of changes in equity and movements between funds.
Statement of Financial Position	A financial statement that presents the relationship of an entity's assets, liabilities and interests of holders of equity claims as of a specific date (also called the balance sheet).
Statement of Income and Expenses	A financial statement that presents all items of income and expense recognised in the period, except for items of income and expense explicitly required to be recognised in the Statement of Changes in Net Assets and totals to the surplus or loss for a period.

surplus or deficit from operating activities	The difference between items of income and expenses in the reporting period that do not include those items to be shown separately on the Statement of Income and Expenses or in the Statement of Changes in Net Assets.
subsidiary	An entity that is controlled by another entity.
tax base	The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.
tax expense	The aggregate amount included in total comprehensive income or equity for the reporting period in respect of current tax and deferred tax.
taxable profit (tax loss)	The profit (loss) for a reporting period upon which income taxes are payable or recoverable, determined in accordance with the rules established by the taxation authorities. Taxable profit equals taxable income less amounts deductible from taxable income.
taxable temporary differences	Temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
temporary differences	Differences between the carrying amount of an asset or liability in the Statement of Financial Position and its tax base.
termination benefits	Employee benefits payable at the earlier of the following dates: <ul style="list-style-type: none"> a) when an entity can no longer withdraw the offer of those benefits; and b) when the entity recognises costs for a restructuring that is within the scope of Section 21 and involves the payment of termination benefits.
timing differences	Income or expenses that are recognised in surplus or deficit in one period but, under tax laws or regulations, are included in taxable income in a different period.
timeliness	Having information available to decision-makers in time to be capable of influencing their decisions.
total comprehensive income	The change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners (equal to the sum of profit or loss and other comprehensive income) as defined by the <i>IFRS for SMEs</i> Accounting Standard.
transaction costs	The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria: <ul style="list-style-type: none"> a) they result directly from and are essential to that transaction; and b) they would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made.
treasury shares	An entity's own equity instruments, held by the entity or other members of the consolidated group.
understandability	Classifying, characterising and presenting information clearly and concisely makes it understandable.
unit of account	The right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations, to which recognition criteria and measurement concepts are applied.
unobservable inputs	Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.
useful life	The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.
value in use	The present value of the future cash flows or service potential expected to be derived from an asset or cash-generating unit.
vest	Become an entitlement. Under a share-based payment arrangement, a counterparty's right to receive cash, other assets or equity instruments of the entity vests when the counterparty's entitlement is no longer conditional on the satisfaction of any vesting conditions.
vested benefits	Benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.
vesting conditions	A condition that determines whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. A vesting condition is either a service condition or a performance condition.
vesting period	The period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.



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