

Think Ahead

ACCA



Companion Guide for
Not-for-profits to the
International Financial
Reporting Standard
for Small and
Medium-sized Entities
(IFRS for SMEs)

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. It offers business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its **178,000** members and **455,000** students in **181** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **92** offices and centres and more than **7,110** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. ACCA's core values are aligned to the needs of employers in all sectors and it ensures that through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers. More information is available at: www.accaglobal.com



The objective of this Guide is to provide assistance to not-for-profit entities that may wish to prepare reports on the basis of the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).



NIGEL DAVIES – PRINCIPAL AUTHOR

Nigel Davies, is Head of Accountancy Services at the Charity Commission and since July 2014 Joint Chair of the Charities SORP Committee. He regularly speaks at UK events and conferences on charity accounting issues and publishes articles on charity accountancy matters. He also responds on behalf of the Charity Commission to IPSASB and IASB consultations. Nigel was also the Technical Secretary to the UK Charities SORP Committee (2006-2014).



RICHARD MARTIN – EDITOR

Richard Martin is Head of Corporate Reporting at ACCA. He is a member of the Accounting Working Party of the Federation of European Accountants (FEE) and of FEE's Corporate Reporting Policy Group. He is Chairman of the Accounting Expert Group at EFAA the European Federation of Accountants and Auditors for SMEs. For the ISAR group at UNCTAD he was a member of the working party which developed their accounting guidance for SMEs.

Companion Guide for Not-for-profits to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)

Including a foreword from the International Accounting Standards Board (IASB)

Nigel Davies

Head of Accountancy Services, Charity Commission for England and Wales

Richard Martin

Head of Corporate Reporting, ACCA

Financial reporting provides preparers, investors, regulators and other stakeholders with a consistent way to describe and understand the financial performance of an entity.

INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES (THE SME STANDARD)

Financial reporting provides preparers, investors, regulators and other stakeholders with a consistent way to describe and understand the financial performance of an entity. However, this reporting is not just about presenting the measurement of the activities of that entity. It also facilitates more directly beneficial activities such as the raising of capital, the granting of financing and the enhancement of accountability, as well as providing a starting point for the broader measurement of activities within an economy. *International Financial Reporting Standards* (IFRS Standards) provide preparers of financial statements with a globally consistent set of principles to use when preparing an entity's accounts, facilitating standardisation both within, and across, markets.

The *SME Standard*, issued in 2009, recognises the need for smaller, non-publicly accountable entities, to prepare financial statements, but acknowledges that these entities may need simpler Standards. The *SME Standard* represents a considerable simplification over the full *IFRS Standards*, is self-contained, tailored to the needs and capabilities of smaller businesses, and is understandable across borders. The International Accounting Standards Board (IASB) has developed, and continues to develop, educational and other supplementary material to assist entities in applying the *SME Standard*.

The International Financial Reporting Standards Foundation (the Foundation) has in recent years developed and posted profiles about the use of *IFRS Standards* in individual jurisdictions. By June 2015, the Foundation had completed profiles for 140 jurisdictions, including all the G20 jurisdictions. 73 of those jurisdictions require or permit the use of the *SME Standard*. The *SME Standard* is also currently under consideration in a further 14 jurisdictions. This widespread uptake for a standard that has only been in existence for six years is evidence both that the *SME Standard* addresses a real need, and that it is successful in doing so.

IFRS STANDARDS FOR NOT-FOR-PROFIT ENTITIES (NFPs)

The focus of the IASB to date has been to develop standards for private sector for-profit entities. In 2012, the Trustees of the Foundation, the body that oversees the IASB, published a report following a thorough review, acknowledging the need for standardised reporting for NFPs. However, it concluded that, given resource limitations, the Foundation would only consider developing such standards at a later date. At the time, the Trustees noted that their next review would provide an opportunity to reconsider an expansion of the scope of the *IFRS Standards*.

In its most recent strategic review, published in July 2015, the Trustees noted that, in developing the *SME Standard*, the IASB had already accepted the relevance of differentiated reporting, concluding that supporting the objective of a single set of standards was not inconsistent with agreeing that circumstances can differ depending on the type and size of entities. The Trustees also stated their own continued strong support of the need for transparent financial reporting requirements for the not-for-profit sector, and given the demand for standards for that sector, requested constituent views on whether the scope of the organisation's mandate should be expanded to encompass not-for-profit reporting.

USE OF IFRS FOR SMEs

Although not written for NFPs, it is clear that the *SME Standard* contains principles for recognition, measurement and presentation that are relevant to the preparation of financial statements by these entities. Since the *SME Standard* requires additional disclosures when compliance with its specific requirements are insufficient to enable users to understand the effect of particular transactions, events and conditions, providing additional not-for-profit specific information forms part of compliance with the *SME Standard*. Finally, the simplicity of the *SME Standard* lends itself to application in this sector.

The SME Standard provides a well supported, well understood, simplified and almost wholly appropriate set of accounting standards for the not-for-profit sector.

These factors, together with the credibility and ease of use which comes from applying a recognised international standard, has resulted in a significant number of NFPs choosing to use the *SME Standard* for reporting their financial results. This has, over time, had the desirable consequence that a body of practice is developing to assist in the application of the *SME Standard* in this sector. Additionally, some private and public bodies are adding mandatory or voluntary guidance, which together with development of practice, is encouraging a greater degree of consistency in the application of the *SME Standard*.

In a limited number of circumstances, applying the recognition and measurement requirements of the *SME Standard* in an NFP does not provide appropriate accounting. This is because, in those circumstances, the activities of the NFP are so different to that of a for-profit entity, that the recognition and measurement outcomes may have the potential to create confusion. This confusion is generally overcome using the tools available in the *SME Standard*, including descriptions of the activities and enhanced disclosures. None the less, this is not an optimal outcome.

COMPANION GUIDE FOR NFPs

This Companion Guide addresses these gaps. The guide uses as its foundation the existing *IFRS for SMEs*, allowing NFPs to benefit from the robustness of an internationally accepted accounting framework, and from the considerable body of supporting and educational material that accompanies the Standard. For most of the activities of NFPs, the *SME Standard* will be applied as written.

ADHERENCE WITH THE IFRS FOR SMEs

Entities that follow the guide may not be able to claim adherence with the *SME Standard*. This is because, in certain circumstances, applying the guide will involve specifically overriding requirements of the Standard. None the less, applying this guide allows entities to continue to achieve many of the benefits of applying the *SME Standard*.

CONCLUSION

The *SME Standard* provides a well supported, well understood, simplified and almost wholly appropriate set of accounting standards for the not-for-profit sector. However, as a consequence of the IASB's focus on for-profit organisations, there are times when the outcome of applying the *SME Standard* to NFPs will not provide a perfect representation of the results of those entities. The Foundation is currently (September 2015) in the process of considering whether it would be appropriate for the IASB to expand its mandate to include the not-for-profit sector, however, this decision, and its consequential change to the *IFRS Standards*, is likely to take time.

In the meantime, there continues to be a lack of formal guidance to help these organisations prepare their financial accounts under a robust, but appropriate framework. I welcome any initiatives that seek to fill this gap and foster the development of reporting in the NFP sector.

Darrel Scott

IASB Board Member
International Accounting Standards Board
London, September 2015

The following terms are used in this Guide but are not found in the glossary to the IFRS for SMEs.

Donated services and facilities include gifts of facilities or services as well as the contributions of volunteers. Donated services and facilities can also be referred to as intangible income.

Donations comprise gifts that will not provide any economic return to the donor other than the knowledge that someone will benefit from the donation. Income from donations includes gifts that must be spent on some particular area of work (ie restricted income funds). Donations will normally include gifts in kind and donated services.

General volunteer is a term used for a person who is giving unremunerated assistance to the not-for-profit organisation of any kind other than assistance that is related to their trade or profession.

Governing body is a term used to describe those persons who direct and control the not-for-profit organisation, including delegating any authority to others and the setting of the financial and operating policies of the organisation.

Governor is a term for a person who is a member of the governing body.

Grant income is any voluntary income (or other transfer of property) received by the not-for-profit organisation from a person or institution. The income or transfer may be for the general purposes of the charity, or for a specific purpose. It may be unconditional or be subject to conditions that, if not satisfied by the recipient, might lead to the reclamation by the grant-maker of all or part of the grant property acquired with the aid of the grant.

Entitlement to grant income may be subject to performance conditions, in which case the grant is classified as a performance-related grant and is recognised when the performance conditions are met.

Grant payments are any voluntary payments (or other transfer of property) in favour of a person or institution made by a not-for-profit organisation in furtherance of its social purposes. The payment or transfer may be for the general purposes of the recipient, or for some specific purpose such as the supply of a particular service. It may be unconditional, or be subject to conditions which, if not satisfied by the recipient, may lead to the reclamation by the not-for-profit organisation of all or part of the grant or property acquired with the aid of the grant.

Heritage assets are tangible and intangible assets with historic, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Reserves is a term used for that portion of those retained funds that can be used for any social purpose of the organisation, which has been held back at the discretion of the governing body to cover future financial uncertainties or is held as part of the day-to-day working capital of the organisation. Restricted funds are not included within reserves.

Social purposes are purposes that aim to advance social benefit rather than to make profits for distribution to owners/members; the social purpose is advanced through the provision of goods and services to beneficiaries and the public.

Unit is the term used for the currency unit used in the financial statements.

The objective of this Guide is to provide assistance to not-for-profit entities that may wish to prepare reports on the basis of the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

It is not a stand-alone guide to not-for-profit reporting and it is intended to work in conjunction with IFRS for SMEs – hence the title ‘Companion Guide’. The ‘Intended users of the Companion Guide’ (page 8 sets this out more fully).

ACCA considers that the financial reporting of not-for-profits raise issues that are specific to the sector because these organisations have a different business/operations model and objectives from those of profit-oriented entities. These are set out in the ‘Summary of additional not-for-profit issues to be addressed by reference to IFRS for SMEs’ (see table 1 on page 9).

In some jurisdictions there is little or no guidance to help with the preparation of financial reports of not-for-profit entities. The lack of existing suitable guidance has been highlighted by, among others, a report commissioned by the UK Consultative Council of Accountancy Bodies (CCAB) (see Annexe I) and in the experience of ACCA members in different countries.

In addition, there are cases where reporting is required between entities in different jurisdictions, and here a recognised international basis would be of assistance in raising the efficiency and effectiveness of that reporting. In the context of not-for-profit entities this is often associated with the accountability of recipients to donors for the grants and aid received.

The Companion Guide starts with IFRS for SMEs 2015 as a recognised international basis for financial reporting that is required or allowed in many countries around the world. (ACCA is grateful to the IFRS Foundation for permission to use elements of that standard.)

IFRS for SMEs is freely available and is supported by extensive educational and supporting material, also freely available (see Annexe I). Although IFRS are designed for application by profit-oriented entities, not-for-profit entities can and do use IFRS for SMEs as the standard for their reporting. This guide is intended to help with that and answer some questions that may arise for entities that do so. In this way, this Guide may support:

- regulators in jurisdictions that require or allow IFRS for SMEs to be used in the not-for-profit sector
- international donors and others, in asking for reports based on IFRS for SMEs.

This Guide draws on the UK experience as one of the countries that has developed accounting standards based on IFRS for SMEs:

in this case FRS102, published by the Financial Reporting Council. The UK not-for-profit sector must use this for reporting and to that end there is a Statement of Recommended Practice (SORP) *Accounting and Reporting by Charities* (see Annexe I). In preparing this Companion Guide it seemed sensible to make use of that and so it is partly compiled from text taken from that publication, hereafter referred to as the Charities SORP (FRS 102). That publication may provide more guidance on some issues than is included in this Guide and users may find it helpful to consult it. Nonetheless, it must be remembered that the Charities SORP (FRS 102) is based both on a UK standard not identical in all respects to IFRS for SMEs and on other elements of UK GAAP. The author and ACCA acknowledge with thanks the permission of the Charity Commission and the Office of the Scottish Charity Regulator for the use of the charities SORP (FRS 102). Use of this material is in accordance with the requirements of Crown copyright (see Annexe II).

Though this Guide is based on UK experience and practice with IFRS for SMEs, an attempt has been made to avoid including elements of reporting derived from other sources specific to the UK. The UK has the SORP but this Guide is, as noted above, intended for use by entities elsewhere.

ACCA is very grateful to Nigel Davies from the Charity Commission, who is the principal author of this guide. As the technical secretary to the SORP committee he had a major hand in writing the charities SORP (FRS 102). This Guide was then reviewed by a panel of ACCA members and others involved with the not-for-profit sector in different roles in a variety of countries. ACCA thanks them for their comments, which were invaluable in shaping the final text.

This Guide is a companion publication to use with the international standard IFRS for SMEs – it is not itself an accounting standard and, as noted, IFRS for SMEs is a standard designed for profit-oriented entities. ACCA considers that there is an evident need for, and would support the development of, an international standard for not-for-profits which could more completely address the issues specific to the sector using a more thorough due process.

Nonetheless, in the absence of such a standard or of national guidance, there is a present need for this Guide. ACCA intends it as a useful and reliable text to help those involved with financial reporting by not-for-profit entities, as well as international donors and national regulators and policymakers responsible for these matters.

A social purpose is one that is intended to advance social benefit rather than to make profits for distribution to owners/members, and the social purpose is advanced through the provision of goods and services to beneficiaries and the general public.

INTENDED USERS OF THE COMPANION GUIDE

The Companion Guide to the International Financial Reporting Standard for Small and Medium-sized Entities (this Guide) has been developed solely to assist those not-for-profit organisations established in jurisdictions where there is no separate Generally Accepted Accounting Practice and/or legal framework that deals with not-for-profit accounting issues.

This Guide is designed to assist those involved in the preparation of the financial statements and the management commentary for entities/organisations that are wholly or mainly established on a not-for-profit basis for a social purpose.

When not-for-profits make a surplus on their activities, they use this surplus wholly or primarily to reinvest in the organisation so that it can continue its social purpose. This may include using all or part of any surplus to provide the public with goods, services, or facilities free or at below cost. Any distribution to members of the organisation is not the primary aim of the organisation and is capped by the constitution of the organisation and/or by laws at less than 50% (half) of any surplus made.

A social purpose is one that is intended to advance social benefit rather than to make profits for distribution to owners/members, and the social purpose is advanced through the provision of goods and services to beneficiaries and the general public.

This Guide may also be helpful to auditors, independent scrutineers or examiners and accountancy practitioners who are involved in the scrutiny of not-for-profit financial statements or in advising on the application of accounting standards principally designed to meet the needs of for-profit entities when preparing financial statements for not-for-profit organisations.

It is anticipated that users of this guide will be:

- familiar with accounting concepts, principles and terminology
- possess a reasonable knowledge of accounting practice, and
- apply this Guide alongside the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

This Guide includes a section on management commentary (Chapter A). The IFRS for SMEs deals only with the preparation and content of the financial statements and notes.

The table below identifies for each section of the IFRS for SMEs the additional issues that must be considered by not-for-profits. It is recommended that the user read the applicable section(s) of the IFRS for SMEs first and then refer to this Guide (Chapters B to D). Users of this Guide need only adhere to those of its recommendations that apply to their organisation's circumstances. References to sections and numbered paragraphs (eg 3.3) are to those in the IFRS for SMEs. The contents of this Guide are identified as chapters or annexes; paragraphs are identified by a letter and a number (eg A.4)

In preparing their financial statements, users of this Guide must provide the statement of compliance (paragraph 3.3) and when describing the nature of their operations should state that it is a not-for-profit organisation (paragraph 3.24).

Table 1: Summary of additional not-for-profit issues to be addressed by reference to IFRS for SMEs

| IFRS for SMEs section | Issues for not-for-profits identified in this guide | Guide reference |
|---|---|--|
| 1. Small and medium-sized entities | Use of IFRS for SMEs Public accountability | B.1 and B.2 |
| 2. Concepts and pervasive principles | Use to which funds are put Assets held for a social purpose Character of retained funds | B.3 and B.4 |
| 3. Financial statement presentation | Statements modified Activity-based reporting | C.1 and C.2 |
| 4. Statement of financial position | Statements modified Activity-based reporting | C.3 to C.14 |
| 5. Statement of comprehensive income and income statement | Modified single statement | C.15 to C.18 |
| 6. Statement of changes in equity and statement of income and retained earnings | Reconciliation of movement in funds | C.16 |
| 7. Statement of cash flows | Receipt of restricted funds not available for spending | C.19 to C.21 |
| 8. Notes to the financial statements | Adherence to this Guide | C.2 and see above |
| 9. Consolidated and separate financial statements | Application of combined accounts Definition of control | D.2 to D.6 |
| 10. Accounting policies, estimates and errors | No additional comment | – |
| 11. Basic financial instruments | Treatment of commitments Treatment of gifts | D.7 and D.8 |
| 12. Other financial instrument issues | Social investments, including concessionary loans made to advance a social purpose | D.9 to D.12 |
| 13. Inventories | Donated goods gifted for sale or distribution | D.13 to D.17 |
| 14. Investment in associates | Recognising power where there is no equity | D.18 and D.19 |
| 15. Investments in joint ventures | The basis for identifying respective joint venture interests | D.20 and D.21 |
| 16. Investment property | Social-purpose property holdings and investments | D.22 |
| 17. Property, plant and equipment | Distinction between property, plant and equipment held for generating cash flows and those held for social purposes that generate no cash flows Gifted property, plant and equipment | D.23 to D.26 |
| 18. Intangible assets other than goodwill | No additional comment | – |
| 19. Business combinations and goodwill | Treatment of not-for-profit combinations | D.27 to D.35 |
| 20. Leases | No additional comment | – |
| 21. Provisions and contingencies | Types of grant and accounting treatment for grants made and grant offers made | D.36 to D.44 |
| 22. Liabilities and equity | Treatment of retained funds | D.45 and D.46 |
| 23. Revenue | Treatment of donated goods and services | D.47 to D.60 |
| 24. Government grants | Extension of the accounting treatment for government grants to all types of grant receivable | D.61 to D.69 |
| 25. Borrowing costs | No additional comment | – |
| 26. Share-based payment | If this section applies then this Guide cannot be used | Rewarding staff or paying suppliers by issuing equity is not an accounting item normally associated with a not-for-profit entity |
| 27. Impairment of assets | Impairment of assets not solely used for generating cash flows | D.70 to D.74 |
| 28. Employee benefits | No additional comment | – |
| 29. Income tax | No additional comment | – |
| 30. Foreign currency translation | No additional comment | – |
| 31. Hyperinflation | No additional comment | – |
| 32. Events after the end of the reporting period | No additional comment | – |
| 33. Related-party disclosures | Definition of key management personnel Respecting the interest of stakeholders | D.75 to D.84 |
| 34. Specialised activities | No additional comment | – |
| 35. Transition to the IFRS for SMEs | No additional comment | – |
| Glossary | Guide-specific terms defined | |

The primary purpose of the management commentary ('the commentary') is to ensure that the not-for-profit organisation is publicly accountable to its stakeholders for the stewardship and management of the funds it holds.

A.1 The primary purpose of the management commentary ('the commentary') is to ensure that the not-for-profit organisation is publicly accountable to its stakeholders for the stewardship and management of the funds it holds. The IFRS for SMEs does not include any guidance on the commentary. The accountability of small and medium-sized for-profit businesses is principally to their owner-investors and providers of credit. Not-for-profit organisations established for a social purpose have a much greater accountability to a wider group of stakeholders. The commentary is a key document that sets out what the not-for-profit organisation has been set up to do, what it has achieved and what difference it has made with the funds it has at its disposal.

A.2 The governing body should consider the information needs of the primary users of the commentary. These may vary from one not-for-profit organisation to another but will normally include funders, donors, financial supporters, service users and other beneficiaries, and, if applicable, the organisation's members.

A.3 The commentary should provide a fair, balanced and understandable review of the not-for-profit organisation's structure, social purposes, objectives, activities, financial performance and financial position. Good reporting explains what the not-for-profit organisation is set up to do, how it is going about it, and what is achieved as a result of its work. The commentary should assist the user to make economic decisions in relation to the not-for-profit organisation and to assess the not-for-profit organisation's progress against its objectives and to understand its plans in relation to its social purposes.

A.4 The commentary should set out for the not-for-profit organisation and, where consolidated financial statements are prepared, its subsidiaries, the information described in paragraphs A.5 to A.14 below.

A.5 Its objectives and activities

The commentary provides information intended to help the user understand how the not-for-profit organisation's aims fulfil its social purposes, the activities it undertakes and what it has achieved. A not-for-profit organisation should provide a summary of:

- its social purposes as set out in its governing document, and
- the main activities undertaken in relation to those social purposes.

A.6 Its achievements and performance

The commentary should contain a summary of the main achievements of the not-for-profit organisation for the reporting period in question. The commentary should identify the difference the not-for-profit organisation's work has made to the circumstances of its beneficiaries and, if practical, explain any wider benefits to society as a whole.

A.7 In reviewing achievements and performance, a not-for-profit organisation may consider the **difference it has made** by reference to terms such as 'inputs', 'activities', 'outputs', 'outcomes' and 'impacts', with 'impact' here meaning the long-term effect of the not-for-profit organisation's activities on both individual beneficiaries and at a societal level. Not-for-profit organisations are encouraged to develop and use impact reporting (impact, arguably, being the ultimate expression of the performance of a not-for-profit organisation), although it is acknowledged that there may be major measurement problems associated with this in many situations.

A.8 It is important that the reader of the commentary also understands the nature and scale of the **role played by general unpaid volunteers**. This contribution (see comments on revenue in D.59 and D.60) is not recognised in the financial statements. The commentary should include a description of the role played by general volunteers and provide an indication of the nature of their contribution to the work of the not-for-profit organisation.

A.9 **A financial review** The commentary should explain the activities, projects or services identified in the accompanying financial statements. As far as is relevant, numerical information provided in the commentary about the funds spent on particular activities should be consistent with the analysis provided in the financial statements. The commentary should contain a review of the not-for-profit organisation's financial position at the end of the reporting period, its principal funding sources in the reporting period and how these sources of income were used by the organisation to fulfil its social purpose(s).

A.10 The not-for-profit organisation should explain any policy it has for **holding reserves** and state the amounts of those reserves and why they are held. If, at the date of approving the commentary and financial statements, there are uncertainties about the not-for-profit organisation's ability to continue as a going concern, the nature of these uncertainties should be explained.

A.11 The commentary should include a description of the **principal risks and uncertainties** facing the not-for-profit organisation, and any subsidiary undertakings, as identified by the not-for-profit organisation's governing board, together with a summary of the governing board's plans and strategies for managing those risks.

A.12 **Making grants** is an important aspect of the work of many not-for-profit organisations. If not disclosed in the notes to the financial statements, information should be given in the management commentary to provide the user of the accounts with an understanding of the activities or projects that are being funded and whether the financial support is provided directly to individuals or to assist another institution to undertake activities or projects. In the case of institutional grants, information as to the recipient(s) of the funding must be provided so that the user can appreciate the types and ranges of institution supported.

A.13 The management commentary should provide relevant **organisational information**, including how it is run and who runs it. This should include the following reference and administrative information about the not-for-profit organisation and its governing board:

- the name of the not-for-profit organisation
- any other name that the not-for-profit organisation uses or has used in the previous reporting period
- the not-for-profit organisation's registration number(s) for the jurisdiction(s) in which it is registered as a not-for-profit organisation and, if applicable, its company registration number
- the address of the principal office of the not-for-profit organisation and, in the case of a company, the address of its registered office
- the names of all those who were on the not-for-profit organisation's governing board on the date the commentary was approved or who served as its governing board in the reporting period.

A.14 The report commentary should also explain:

- the not-for-profit organisation's organisational structure and, where relevant, those of its subsidiary undertakings
- how the not-for-profit organisation makes decisions, for example which types of decision are taken by the governing board and which are delegated to staff
- the arrangements for setting the pay and remuneration of the not-for-profit organisation's key management personnel and any benchmarks, parameters or criteria used in setting their pay

- if relevant, that the not-for-profit organisation is part of a wider network (for example if it is affiliated with an umbrella group), and how, if at all, this affects the operating policies adopted by the not-for-profit organisation, and
- relationships between the not-for-profit organisation and related parties, including its subsidiary undertakings, and with any other not-for-profit organisations and other organisations with which it cooperates in the pursuit of its social objectives.

A.15 Approval of the commentary for issue

The responsibility for preparing the commentary rests with the governing board. Although the governing board may seek the assistance of the not-for-profit organisation's staff or advisers in drafting the commentary, the governing board as a whole, or a nominated member of the governing board acting on its behalf, should approve the final text of the commentary by signing it and dating it.

The preface to the IFRS for SMEs notes that the standard is developed for profit-orientated entities.

B.1 The preface to the IFRS for SMEs notes that the standard is developed for profit-orientated entities. Section 1 prohibits entities that have public accountability from using the IFRS for SMEs. 'Public accountability' is defined in terms of debt and equity instruments traded in a public market or banks and similar institutions. This definition does not include not-for-profit organisations and consequently the IFRS for SMEs may be adapted for use by not-for-profits.

B.2 The IFRS for SMEs provides a robust and practical framework for preparing the financial statements on which not-for-profits can build. Not-for-profits are established for a social purpose but their public accountability is not to capital markets but to public stakeholders, normally funders, donors, financial supporters, service users and other beneficiaries, and, if applicable, to the organisation's members. Therefore a not-for-profit organisation should provide additional information to help stakeholders understand its activities and how funds have been used.

B.3 Profit-orientated accounts have an emphasis on identifying the profit distributable to the providers of capital. The emphasis of not-for-profits is not on generating a distributable return from cash flows but on using its economic resources to achieve a social purpose. Although some not-for-profits may make a distribution to members by way of a dividend this is not their main purpose.

B.4 Section 2 of the IFRS for SMEs sets out the concepts and pervasive principles to apply when preparing the financial statements. There are four additional concepts for not-for-profits.

- The objective of not-for-profits in preparing their financial statements goes beyond financial position, performance and cash flows. Stakeholders will want to see that any restrictions on the use of funds have been complied with, identify how the funds were used for social purposes, and determine whether the organisation has the capability to continue its work.
- Assets will not necessarily be held solely for generating cash flows. Assets may be used exclusively for a social purpose which generates no revenue or for a combination of social purpose and revenue generation, or just for revenue generation.
- Recognising that some assets are not used for generating cash flows, the value to the organisation of such assets is assessed by reference to their capability for achieving the social purpose rather than exclusively on the present value of cash flows. Even so, cash flows are relevant if an asset is partly or wholly used for revenue generation.
- In place of classes of equity, not-for-profits have retained funds that may be unrestricted, and available for any purpose of the organisation, or restricted in their use in some way.

Section 3 of the IFRS for SMEs permits a single statement of income and retained earnings in place of an income statement, statement of comprehensive income and statement of retained earnings.

C.1 Section 3 of the IFRS for SMEs permits a single statement of income and retained earnings in place of an income statement, statement of comprehensive income and statement of retained earnings. This Guide recommends this approach, using a combined statement of income and retained earnings. A combined statement provides the user of the financial statements with an overview, in one statement, of income and gains, expenditure and losses, the retained funds brought forward at the beginning of the reporting period and the retained funds carried forward at the end of the reporting period. This Guide recommends that all the financial statements (paragraph 3.17) are adapted for the special nature of not-for-profits.

C.2 The required statement of compliance with the IFRS for SMEs (paragraph 3.3) should be modified to note that the financial statements have been prepared 'in accordance with' the IFRS for SMEs and adhere to the applicable recommendations of this Guide.

STATEMENT OF FINANCIAL POSITION

C.3 Section 4 considers the statement of financial position and this Guide recommends the inclusion of additional assets and liability classes and the addition of an analysis of retained funds along with the analysis of any equity for those not-for-profit organisations that have share capital or equivalent equity (paragraph 22.3). In many cases not-for-profits will have no equity. This Guide recommends that this statement is modified to include additional line items (permitted by paragraph 4.2) for grants receivable, financial assets that are non-current, grants payable current and non-current, and retained funds. Also, the line items financial assets; property, plant and equipment; trade and other payables and provisions should be adapted to include items specific to not-for-profits.

C.4 This Guide recommends that liabilities be shown separately with a total of net assets given. The statement concludes with equity and retained funds representing the net total assets (or liabilities). Users of the accounts can then clearly see what funds the organisation has retained to carry out future activities. Alternatively, users of this guide may elect to combine liabilities, equity and retained funds, provided the notes to the accounts include a prominent note setting out the analysis of equity and retained funds.

C.5 The illustrative statement of financial position (Table 2, p14) includes line items typical of a not-for-profit organisation. For completeness equity is included. Users of this Guide must refer to section 4 (paragraph 4.2) of IFRS for SMEs to check whether additional line items are needed to reflect the circumstances of the user's organisation. Additional items may include investment property carried at cost less accumulated depreciation and impairment (paragraph 4.2) or the heading of revaluation surplus as a component of retained funds where the option to measure property, plant and equipment at fair value is taken (paragraph 17.15B).

C.6 The additional line items that apply for not-for-profits are set out below, in sections C.7 to C.11.

C.7 **Legacies, gifts and grants receivable** represent income that is not the result of a contractual arrangement (also known as an exchange arrangement) that falls within the definition of paragraph 23.7, and to which the not-for-profit organisation is entitled, and where it is probable that the economic benefits will be received and the economic benefits can be measured reliably. Legacies are gifts left on the death of the benefactor to the organisation. Gifts are donations made by benefactors in their lifetime for which equal value by way of goods or services is not received in exchange. Grants, including government grants, are accompanied by documentation that may restrict the use to which the funds are put or require the delivery of specified goods and services to a group or groups of beneficiaries identified by the grantor.

C.8 Non-current financial assets

- To get the best return on funds not immediately needed for a social purpose, not-for-profits will often invest these funds in short-term financial asset investments, which they realise once the funds are to be spent. (Longer-term financial asset investments are a component of non-current assets.)
- Non-current financial investment are assets held to generate an investment return (interest, dividends, rents and/or gains in value) and exclude assets a not-for-profit organisation holds for resale or pending their sale, and cash or cash equivalents with a maturity date of less than one year that are held to meet short-term cash commitments as they fall due.

Table 2: Illustrative statement of financial position

| Note ref. | Statement of financial position | Total funds | Prior year funds |
|-----------|--|-------------|------------------|
| | | unit | unit |
| | Assets: | | |
| | Current assets | | |
| | Cash | | |
| | Trade and other receivables | | |
| | Legacies, gifts and grants receivable | | |
| | Inventories | | |
| | Sub-total current assets | | |
| | Non-current assets | | |
| | Property, plant and equipment | | |
| | Intangible assets | | |
| | Financial assets: investments | | |
| | Sub-total non-current assets | | |
| | Total assets | | |
| | Liabilities: | | |
| | Current liabilities | | |
| | Bank overdraft | | |
| | Trade payables | | |
| | Interest payable | | |
| | Provision for grants payable | | |
| | Sub total current liabilities | | |
| | Non-current liabilities | | |
| | Bank loans | | |
| | Long-term employee benefit obligations | | |
| | Obligations under finance leases | | |
| | Provision for multi-year grants payable | | |
| | Sub-total non-current liabilities | | |
| | Total liabilities | | |
| | Total net assets or liabilities | | |
| | Retained funds and equity | | |
| | Restricted funds | | |
| | Unrestricted funds | | |
| | Share capital | | |
| | Total retained funds and equity | | |

C.9 **Grants payable current and non-current** are funds used to benefit individual beneficiaries on a non-contractual basis or are payments to organisations that are intended to enable the not-for-profit organisation to provide services or make grants to their beneficiaries for a social purpose on a non-contractual basis. Although an organisation's commitments to provide services or grants are not always legally binding under contract, a liability can still arise if the charity has no realistic alternative to settling an obligation resulting from a commitment it has made. (Refer to this Guide's Chapter D paragraphs D.36 to D.44 for more information.)

C.10 The formal written offer of a grant indicates to the recipient that it is probable that settlement will take place. In such circumstances, the not-for-profit organisation cannot realistically withdraw from its commitment and so it is unlikely to have a realistic alternative but to meet the obligation. Nonetheless, the recognition of any resulting liability would be dependent on any conditions attaching to the commitment.

C.11 Retained funds are the assets and liabilities administered by not-for-profit organisations for a social purpose.

C.12 Line items that may need to be adapted are set out in paragraphs C.13 and C.14 below.

C.13 The line item of financial assets should include any social investments. Social investments are those investments made wholly or mainly to achieve a social purpose rather than to make a commercial investment return, examples include concessionary loans, and joint venture or associate interests.

C.14 Property, plant and equipment should include any cultural assets that are retained owing to their importance to a nation's heritage. A heritage asset is a tangible or intangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

STATEMENT OF INCOME AND RETAINED FUNDS

C.15 This Guide recommends that the combined statement of income and retained earnings be adapted for the special nature of not-for-profits and the name of the statement adapted to 'statement of income and retained funds'.

C.16 The recommended adaptations are as follows.

(a) The character of funds

Fund accounting distinguishes between two primary classes of fund: those funds that are unrestricted in their use, which can be spent for any purposes of the organisation, and those that are restricted in use. A restricted use might be legal restriction, where the funds can only be lawfully used for a specific social purpose, or a restriction imposed by the donor/giver. These donor/giver restrictions are usually communicated in writing and may be found in the terms of an agreement, grant award, will or gift.

(b) The use of the term 'net movement in funds' is needed because this line in the statement includes valuation gains or losses including pension related items that would not be items included within the calculation of 'profit and loss'/'surplus or deficit'. It shows the overall movement in retained funds in the reporting period inclusive of all gains and losses.

(c) Separating out income and gifts and expenditure relating to the social purpose

Funders and financial supporters, an organisation's members and those benefiting from its work will be interested in how it has used the funds at its disposal to achieve its social purposes. The single performance statement includes all income, gains, expenditure and losses recognised for the reporting period. It provides the user of the financial statements with an analysis of the organisation's income and gifts and its expenditure on its activities, and presents a reconciliation of the retained funds.

C.17 This Guide recommends that expenditure is reported on an activity basis to show how the not-for-profit organisation has used its resources to further its aims for the public benefit. The analysis is shown either on the face of the statement or in the notes corresponding to the financial review section of the management commentary.

C.18 The line headings in the rows in the illustrative statement of income and retained funds (Table 3, p16) should be adapted to suit the particular needs of the organisation. Line items that do not apply should be omitted. If the option to measure property, plant and equipment at fair value is taken (paragraph 17.15B) is taken then an additional line 'gains/(losses) on revaluation of plant property and equipment' should be inserted as part of the section 'other recognised gains/(losses)' (paragraphs 17.15C and 17.15D).

STATEMENT OF CASH FLOWS

C.19 The statement of cash flows (Table 4, p15) provides information about the ways in which a not-for-profit organisation uses the cash generated by its activities and about changes in cash and cash equivalents held by a charity. It also provides information that is helpful in assessing the organisation's liquidity and underlying solvency.

C.20 'Liquidity' refers to the ability of an organisation to meet its immediate and short-term obligations as they fall due. 'Solvency' refers to its ability to meet its longer-term obligations as they fall due. The illustration below assumes that the indirect method is adopted (paragraph 7.8) but the direct method can also be used (paragraph 7.7).

C.21 The statement of cash flows has been modified for restricted funds that are not immediately available to spend on a social purpose in the reporting period owing to conditions attaching to the gift. Such gifts are considered financing activities if they will be invested and only the yield from the investment will be used for a social purpose.

Table 3: Illustrative statement of income and retained funds

| Statement of income and retained funds | Unrestricted funds | Restricted funds | Total funds | PRIOR YEAR Unrestricted funds | PRIOR YEAR Restricted funds | PRIOR YEAR Total funds |
|---|--------------------|------------------|-------------|----------------------------------|--------------------------------|---------------------------|
| | unit | unit | unit | unit | unit | unit |
| Income and restricted gifts from: | | | | | | |
| Donations and legacies | | | | | | |
| Social purpose trading activities | | | | | | |
| Other trading activities | | | | | | |
| Investments | | | | | | |
| Other | | | | | | |
| Total | | | | | | |
| Expenditure on: | | | | | | |
| Raising funds and other trading activities | | | | | | |
| Social purpose activities | | | | | | |
| Other | | | | | | |
| Total | | | | | | |
| Net gains/(losses) on investments | | | | | | |
| Net income (expenditure) | | | | | | |
| Other recognised gains/(losses): | | | | | | |
| Actuarial gains/(losses) on defined benefit pension schemes | | | | | | |
| Other gains/(losses) | | | | | | |
| Net movement in funds | | | | | | |
| Reconciliation retained funds: | | | | | | |
| Retained funds brought forward | | | | | | |
| Transfers between unrestricted and restricted funds | | | | | | |
| Distributions to members | | | | | | |
| Retained funds carried forward | | | | | | |

Table 4: Illustrative statement of cash flows

| Statement of cash flows | Total funds | Prior year funds | Note |
|---|-------------|------------------|------|
| | unit | unit | |
| Cash flows from operating activities: | | | |
| <i>Net cash provided by (used in) operating activities</i> | X | (X) | |
| Cash flows from investing activities: | | | |
| Dividends, interest and rents from investments | X | X | |
| Proceeds from the sale of property, plant and equipment | X | X | |
| Purchase of property, plant and equipment | (X) | (X) | |
| Proceeds from sale of investments | X | – | |
| Purchase of investments | – | (X) | |
| <i>Net cash provided by (used in) investing activities</i> | X | X | |
| Cash flows from financing activities: | | | |
| Repayments of borrowing | (X) | (X) | |
| Cash inflows from new borrowing | X | – | |
| Receipt of restricted funds subject to conditions that mean that they cannot be spent in the reporting period | X | X | |
| <i>Net cash provided by (used in) financing activities</i> | X | X | |
| <i>Change in cash and cash equivalents in the reporting period</i> | X | X | |
| Cash and cash equivalents at the beginning of the reporting period | X | X | |
| Change in cash and cash equivalents due to exchange rate movements | X | (X) | |
| Cash and cash equivalents at the end of the reporting period | X | X | |

D. Accounting treatments and additional disclosures for not-for-profits

The content of this section follows the order of the sections of the IFRS for SMEs and deals with specific issue for not-for-profits not already considered in chapters A to C of this Guide.

D.1 The content of this section follows the order of the sections of the IFRS for SMEs and deals with specific issue for not-for-profits not already considered in chapters A to C of this Guide.

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

D.2 Section 9 of the IFRS for SMEs sets out what is needed for the compilation of consolidated and separate financial statements. An important feature of accounting is identifying the reporting boundary of the entity itself and what entities it controls or in which it has a participating interest.

D.3 The formal structure of not-for-profit organisations can take many forms, including companies limited by guarantee, companies with issued equity, cooperatives with member shares, and unincorporated forms such as foundations and trusts where members of a governing body administer the funds held, in a personal or collective capacity. It is important, when preparing the financial statements, to identify the nature of any interest of the reporting not-for-profit organisation's interest in any other not-for-profit organisation and what form this interest takes.

D.4 If an interest is acquired in another incorporated not-for-profit organisation, this Guide recommends that section 9 of IFRS for SMEs is followed. Rather than recognise goodwill or negative goodwill on acquisition, however, this guide recommends recognising a gain or loss in the statement of income and retained funds (see the discussion of IFRS for SMEs section 19 and D.27 to D.31).

D.5 Not-for-profit organisations may choose to operate local offices, local organising committees or local members' groups that are not separately incorporated but form a part of the organisation itself. This Guide considers these to be 'branches' of the not-for-profit organisation and not subsidiaries, joint ventures or associates. A feature of branches is that they have certain freedom of operation but remain accountable to the governing body of the organisation and take its name.

D.6 A branch is an internal structure adopted by a not-for-profit organisation to undertake its activities. All transactions undertaken through a branch should be accounted for gross in the reporting not-for-profit organisation's own statement of income and retained funds and its financial statements should be compiled as though they are combined financial statements in accordance with section 9 of IFRS for SMEs. Similarly, the reporting in a not-for-profit organisation's statement of financial position should include all assets and liabilities of the branch when, in aggregate, these amounts are material. For example, the branch may hold funds at the reporting date that have been raised but not yet remitted to

the head office of the reporting not-for-profit organisation. When material, these funds must be included in the accounts of the reporting not-for-profit organisation.

BASIC FINANCIAL INSTRUMENTS

D.7 Section 11 of IFRS for SMEs considers the category of basic financial instruments. Not-for-profit organisations making long-term grant commitments recognised as liabilities will need to identify the financing element, representing the opportunity cost or financing cost of the funds committed. The discount rate used should reflect the cost of money to the not-for-profit organisation and its current assessment of the time value of money and the risks specific to the provision that affect that time value of money. Depending on the not-for-profit organisation's circumstances, the appropriate discount rate may be the market rate of interest at which it could borrow over the relevant time period or, if it has significant funds invested, the opportunity cost of income from investments forgone.

D.8 In the case of receiving gifts if settlement is delayed, the recipient not-for-profit organisation is not extending credit to the giver or donor. Gifts are not a class of financial instruments as they are not contractual (paragraph 12.6). It is the giver or donor who decides when a gift is made or, if a person has left a gift on their death settlement, it may be delayed until their will has been put into effect. If the payment/settlement of a gift is delayed, the value of the gift need not be discounted for the time value of the money.

OTHER FINANCIAL INSTRUMENTS ISSUES

D.9 For-profit entities make concessionary loans in order to induce customers to buy their goods and services or in order to gain a competitive advantage over other suppliers of goods and services. Similarly, not-for-profit organisations that are supplying goods and services to raise funds rather than for a social purpose should follow the requirements of paragraph 23.5 and, if the variable is not an interest rate, the requirements of section 12 of IFRS for SMEs.

D.10 Where a not-for-profit organisation makes a concessionary loan wholly or mainly to further its social purpose(s) then the purpose of the loan is not intended to generate a commercial benefit but a social benefit. For example, this might include extending 'micro-credit' by way of loans to poor farmers to help them buy seed, fertiliser, or farming equipment to relieve their poverty. Another example is one not-for-profit organisation making a concessionary loan to another in order to help it fulfil a shared social purpose by assisting a beneficiary group common to both organisations.

D.11 Not-for-profit organisations making (or receiving) concessionary loans repayable on demand or within one year should not adjust the carrying amount of the loan to reflect the lower-than-prevailing market rates of interest being charged. Nonetheless, for loans repayable in more than one year, a charity making (or receiving) concessionary loans must opt either:

- to recognise and measure the loans, initially, at the amount received or paid, with the carrying amount adjusted in subsequent years to reflect repayments and any accrued interest, and adjusted if necessary for any impairment, or
- to measure such loans initially at their fair value and subsequently at their amortised cost using the effective interest method (this would effectively treat the concessionary element of the loan as a financing cost or interest income, as applicable). For more information on the use of the effective interest method, refer to section 11 of IFRS for SMEs.

D.12 The same accounting policy for the measurement of concessionary loans should be applied to concessionary loans both made and received.

INVENTORIES

D.13 Section 13 of IFRS for SMEs deals with inventories. Donated goods held by a charity for distribution to its beneficiaries should be recognised as inventory, with the corresponding income recognised within donations and measured at its fair value.

D.14 It may be necessary when valuing the donation to consider any restriction on the sale of the asset or the factors that may reduce its fair value, such as proximity to a product expiry date or the availability of lower-cost substitutes for the donated item: for example, a generic version of a drug.

D.15 Donated goods held as inventory for distribution must be assessed for impairment at the reporting date. In the reporting period in which the stocks are distributed, they are recognised as an expense and appropriately analysed as expenditure in the statement of income and retained funds. The expense recognised is the carrying amount of the inventory at the point of distribution.

D.16 If the costs involved in undertaking the valuation of donated goods outweigh the benefit to users of the accounts and to the not-for-profit organisation of having this financial information, the value to the not-for-profit organisation of the gift must be recognised as a component of donations when it is distributed, with an equivalent amount recognised as expenditure on social purpose activities.

D.17 In accepting donated goods for resale, the not-for-profit organisation is receiving a gift in kind for conversion into cash to fund its social purpose activities. Donated goods for resale are measured at fair value on initial recognition, which is the expected proceeds from sale less the expected costs of sale. If recognised at fair value on receipt, the value of the donated goods for resale should be treated as a component of 'Income from social purpose trading activities' with the corresponding stock recognised in the statement of financial position. On its sale, to avoid double counting income, the value of the stock is charged against 'Income from social purpose trading activities' and the proceeds of the sale are also recognised as 'Income from social purpose trading activities'. If the costs involved in undertaking the valuation of donated goods for resale outweigh the benefit to users of the accounts and to the not-for-profit organisation of having this financial information then the items when sold at the value of the cash received or receivable.

INVESTMENTS IN ASSOCIATES

D.18 Section 14 of IFRS for SMEs considers investments in associates. The reporting not-for-profit organisation should recognise an interest in another entity or not-for-profit organisation if it exercises significant influence over that entity.

D.19 The investing charity's share of the associate's net assets is determined by its ownership interest in the associate. If the associate is a not-for-profit organisation, then reference should be made to any formal agreement to identify a basis for measuring the interest or share in the associate. This Guide suggests that the rebuttable presumption, in the absence of any information to the contrary, is that the interest in the associate is measured by reference to the proportion of the voting rights held by the parent based on voting rights attaching to that interest as set out in the associate not-for-profit organisation's governing document.

INVESTMENTS IN JOINT VENTURES

D.20 Section 15 of the IFRS for SMEs considers investments in joint ventures. Each venturer exercises its right to shared control through an agreement with the other parties to the joint venture. On occasion, the joint venture entity will be established to undertake an activity that furthers the social purposes of the investing not-for-profit organisations, for example to carry out a joint project. When the joint venture entity is itself a not-for-profit organisation, control may be exercised through the appointment to the governing board rather than through an equity share. In the absence of equity, judgement is required in order to identify the respective interests of each not-for-profit organisation in the joint venture entity.

D.21 In order to identify the respective interests of each venturer, reference should be made to the evidence provided by:

- the joint venture agreement or contract
- the governing document or any legislative provision, including the provisions that apply upon winding up or ceasing the joint venture
- the respective voting power of the venturers
- the pattern of distribution of benefits from the joint venture not-for-profit organisation between the venturers, and
- the value of the funding provided by each venturer in support of the activities undertaken by the joint venture, or
- in the absence of any evidence to the contrary, the net assets and results should be attributed equally between the venturers.

INVESTMENT PROPERTY

D.22 Section 16 of the IFRS for SMEs considers investment property. Not-for-profit organisations can hold property for wholly investment purposes, a mixture of social purposes and investment, or for wholly social purposes. Property held for investment purposes or for a mixture of investment and social purposes should be treated in accordance with section 16 of IFRS for SMEs. If held for wholly social purposes the property should be treated according to section 17 of IFRS for SMEs.

PROPERTY, PLANT AND EQUIPMENT

D.23 Section 17 considers property, plant and equipment that are used for the operational purposes of the entity. For-profit entities hold property, plant and equipment in order to generate cash flows for the business. In the case of not-for-profit organisations, property, plant and equipment may be used wholly or partly for social purposes that generate cash flows or used wholly or partly for social purposes that do not generate cash flows. For example, a not-for-profit organisation may run a school and students are required to pay school fees to receive education but those students from poor backgrounds may be offered lower fees so that they can attend the school. The school property is being used to generate cash flows but also for the social purpose of providing education to students from all socio-economic backgrounds. In contrast, a humanitarian food aid station may be used to distribute goods and food free of charge and this property is used solely for social purposes that do not generate cash flows.

D.24 This difference is important when considering impairment (see section 27 of IFRS for SMEs).

D.25 Property donated for use by a not-for-profit organisations in carrying out its activities is recognised as plant, property and equipment, with the corresponding gain recognised as income from donations within the statement of income and retained funds. Donated vehicles, plant or furniture are recognised as plant, property and equipment when their fair value exceeds the threshold for capitalisation set by the not-for-profit organisation's accounting policy.

D.26 Donated property, plant and equipment should be measured at fair value, unless it is impractical to measure this reliably. If property, plant or equipment is gifted, a problem can arise as to how to measure initial cost (paragraph 17.9 of IFRS for SMEs). This Guide recommends that cost is estimated on the basis of the cost of the item to the donor, if known, or the cost to the not-for-profit organisation if it were to buy an item that provided equivalent value to the charity in terms of its usefulness in achieving the organisation's social purposes. The value to the charity may be the market price of the item or it may be a lower value because the organisation would have chosen a cheaper item to do the same job had it had to use its own funds. For example, the donor may have gifted high-quality camping equipment that was surplus stock instead of selling it at market price, but the recipient not-for-profit organisation might have bought cheaper equipment that would have sheltered the same number of people, had it used its own funds.

BUSINESS COMBINATIONS AND GOODWILL

D.27 Section 19 of the IFRS for SMEs sets out the accounting treatment for business combinations and goodwill. In commerce, an acquirer purchases a controlling interest in another business. In the case of not-for-profits there may be no equity to acquire. In these circumstances the Guide recommends that where an interest in a not-for-profit organisation happens as a result of the assets and liabilities of one not-for-profit organisation transferring into the control of, or being acquired by, another not-for-profit organisation at nil or nominal consideration, then in substance it is a gift.

D.28 If the fair value of the assets received exceeds the fair value of the liabilities assumed, a gain is recognised and shown separately within income – normally as a gift (donation). Conversely, if the fair value of liabilities assumed exceeds the fair value of the assets acquired, then a net loss is recognised and shown separately as an item in expenditure for a social purpose. If

the combination is not in substance a gift, it must be accounted for as an acquisition with any negative goodwill written back in the reporting period in which the acquisition occurred and treated as a gain.

D.29 Identifying the acquirer can also require judgement as acquisition accounting requires that one party is seen to control the other. If this is not the case then consider whether the combination is one where two or more not-for-profit organisations are under common control. If common control applies, then prepare combined financial statements in accordance with section 9 of the IFRS for SMEs.

D.30 This Guide recommends that when preparing combined financial statements, the funds held by each linked not-for-profit organisation should be combined (or aggregated) but the funds of each linked organisation must nevertheless be separately identifiable and not simply merged together. This is essential because each organisation still keeps its own original social purpose. The separate not-for-profit organisations are reported in a manner that is similar to the presentation of restricted funds.

D.31 If acquisition accounting is the most appropriate way to treat the combination, the acquirer should be identified by establishing which party has control over the other(s).

D.32 The parent not-for-profit organisation can exercise control through governing the other not-for-profit organisation. The parent not-for-profit organisation has control because it has the ability to govern the financial and operating policies of the subsidiary not-for-profit organisation. The consolidated accounts show the total funds held for social purposes under the control of the parent.

D.33 The power element of control of one not-for-profit organisation by another can be identified through:

- sole trusteeship or governorship, or
- powers to appoint and/or remove a majority of the governing board, or
- the terms of a formal agreement or arrangement, or
- the provisions of a clause in the governing document or a legislative provision.

D.34 Having members of governing boards in common does not in itself demonstrate that the power element is present. Also, simply being the sole or main funder of another not-for-profit organisation or entity is insufficient to demonstrate that the power element is present. While the funding of one not-for-profit organisation by another indicates a degree of concurrence of social

purposes, for control to exist the power element must be present.

D.35 The benefit element of control is met where the purposes of the parent and its subsidiary not-for-profit organisation are concurrent. The purposes of the parent not-for-profit organisation do not have to be identical to those of its not-for-profit organisation subsidiary, nor do they need to encompass all the purposes of the not-for-profit organisation subsidiary. For concurrence, the purposes of the parent have to be similar enough to those of the subsidiary that the activities of the subsidiary can be seen to contribute to the social purposes and aims of the parent not-for-profit organisation and to benefit the parent not-for-profit organisation's beneficiaries. Provisions and contingencies

PROVISIONS AND CONTINGENCIES

D.36 Section 21 of the IFRS for SMEs considers provisions and contingencies, but does not directly consider non-exchange transactions (gifts). Not-for-profit organisations established for social purposes often make gifts to either individuals or entities to further these social purposes. Such gifts are often termed 'grants'. Some grants require the recipient to provide goods and services to the grant-maker or a third party as a condition of the grant. Some grants may also have conditions that the recipient is to fulfil if it is to receive or keep the funds, and such grants are often called performance-related grants.

D.37 Section 2 of the IFRS for SMEs (paragraph 2.20) recognises that some liabilities come about owing to constructive obligations rather than legal obligations. Grants are one type of constructive obligation. The key issue is when a promise of a grant should be recognised in the financial statements as a liability.

D.38 Evidence of a constructive obligation exists where:

- the commitment made by the not-for-profit organisation is specific, for example a promise is made to provide particular goods, services or grant funding
- this commitment is communicated directly to particular beneficiaries or grant recipients, and
- there is an established pattern of practice that indicates to the recipients of services or funding that the not-for-profit organisation will meet its commitment.

D.39 It follows that a not-for-profit organisation's decision to provide funding does not create a constructive obligation that must be recognised as a liability, unless that decision has been communicated, before the reporting date, to those affected. The

commitment must be communicated in a sufficiently specific manner so as to create a valid expectation on the recipient's part that the not-for-profit organisation will discharge its responsibilities.

D.40 The formal written offer of a grant may indicate to the recipient that it is probable that settlement will take place. In such circumstances, the not-for-profit organisation cannot realistically withdraw from its commitment and so it is unlikely to have a realistic alternative but to meet the obligation. Nonetheless, the recognition of any resulting liability would be dependent on any conditions attaching to the commitment.

D.41 The award of a grant is a non-exchange transaction. A not-for-profit organisation awards a grant to further its own social purposes but without creating a contractual relationship with the recipient. The award of a grant is recognised as a liability only when the criteria for a constructive obligation are met, payment is probable, it can be measured reliably, and there are no conditions attaching to its payment that limit its recognition.

D.42 A provision must be made if a grant commitment is payable over a period of more than one year. A liability must be recognised for the full amount of the constructive obligation unless conditions apply to payments falling due after the reporting date. Where payments for later years are subject to performance-related conditions, the donor not-for-profit organisation may be able to withdraw from its commitment legitimately if a particular condition attaching to the grant is not met and so a provision is not made for that part of the grant.

D.43 Where a condition remains within the control of the not-for-profit organisation paying the grant, then the not-for-profit organisation charity retains the discretion to avoid the expenditure and it follows that a liability must not be recognised. For example, where a commitment is made to provide grant funding over a number of years, future payments may be subject to a review by the donor not-for-profit organisation, which will give it discretion to terminate the funding agreement. Provided the review condition has been communicated to the recipient as part of the funding agreement and the review has substance, then a constructive liability is unlikely to arise for payments relating to periods subsequent to the review date.

D.44 The payment of a performance-related grant is conditional on the delivery of a specified level of service or units of output by the grant recipient. For example, the payment might be conditional on the number of meals provided or the use or opening hours of a facility. In such cases the not-for-profit organisation as grant-maker will often have negotiated the nature of services to be

provided. The liability and expenditure arising from performance-related grants must be recognised to the extent that the recipient of the grant has provided the specified service or goods.

LIABILITIES AND EQUITY

D.45 Section 22 of the IFRS for SMEs considers liabilities and equity. The distinction is important in for-profit entities as the equity represents the interest of the owners of the business rather than short-term or long-term lenders of capital. Some not-for-profit organisations will have equity and should follow the requirements of this section. All not-for-profit organisations will have retained funds.

D.46 Retained funds are held to further the social purposes of a not-for-profit organisation and this Guide recommends that these are shown separately from any equity in the statement of financial position and that the analysis of retained funds differentiates between two primary classes of fund: those that are unrestricted in their use, which can be spent for any purposes of the organisation, and those that are restricted in use. A restriction limits the freedom that the governors have in spending the funds and may restrict what the funds may be spent on, the timing of when the funds may be spent, or limit the freedom to spend the funds at any time.

REVENUE

D.47 Section 23 of the IFRS for SMEs considers the recognition of revenue. A major source of income for not-for-profit organisations is in the form of gifts (donations) from individuals and gifts (grants) from other entities. In not-for-profit accounting the term 'income' is used in preference to 'revenue'. Revenue is more narrowly defined as receipts from ordinary activities of an entity, resulting from the sale under contract of goods and services.

D.48 Donated goods must be measured at their fair value, unless it is impractical to measure reliably the fair value of donated item(s).

When there is no direct evidence of fair value for an equivalent item, a value may be derived from:

- the cost of the item to the donor, or
- in the case of goods that are expected to be sold, the estimated resale value after deducting the cost of selling them.

D.49 If it is impractical to measure the fair value of goods donated for resale or if the costs of valuation outweigh the benefit of this information to users of the accounts and

to the charity, the donated goods must then be recognised as income when they are sold or used.

D.50 The terms of a gift may require the not-for-profit organisation to make future use of the donated item, so preventing its sale. In such instances, there may be costs involved in removing such a restriction before the asset could be sold. This would be reflected in a lower assessment of the fair value amount than if the use of that asset were not so restricted.

D.51 The cost of any inventory of goods donated for distribution to beneficiaries is deemed to be the fair value of those gifts at the time of their receipt. If the goods held are to be distributed freely or for a token payment (nominal consideration), then the carrying amount should be subsequently adjusted for any loss of service potential.

D.52 Goods donated for use by a not-for-profit organisation in carrying out its activities are recognised as property, plant and equipment with the corresponding gain recognised as income from donations within the statement of income and retained funds. Donated vehicles, plant or furniture are recognised as property, plant and equipment when their fair value exceeds the threshold for capitalisation set by the organisation's accounting policy.

D.53 If an organisation is given assets, for its own use, facilities and services that it would otherwise have purchased, these must be included in the not-for-profit organisation's accounting records when received, provided the value of the gift can be measured reliably.

D.54 Donated facilities and services that are consumed immediately must be recognised as income, with an equivalent amount recognised as an expense under the appropriate heading in the statement of income and retained funds.

D.55 If donated services are used in the construction of property, plant and equipment, then the value of services donated will form part of the construction cost of the asset only if the value to the organisation of the donated services can be measured reliably. For example, the services donated by a firm of building or electrical contractors would be valued because these services would normally be provided as part of the donor's trade.

D.56 Measuring donated facilities and services using fair value would not be practical if such services cannot be resold and the use of fair value may result in an overstatement of the value of the donation to the organisation. Donated facilities and services are therefore measured and included in accounts on the basis of the value of the gift to the not-for-profit organisation.

D.57 Value to the organisation is the amount that it would pay in the open market for an alternative item that would provide a benefit to the organisation equivalent to the donated item. Value to the organisation may be lower than, but cannot exceed, the price it would pay in the open market for the item.

D.58 Facilities such as office accommodation or services supplied by an individual or an entity as part of their trade or profession can usually be reasonably quantified and must be included in a not-for-profit organisation's financial statements.

D.59 Not-for-profit organisations often rely on the contribution of unpaid general volunteers in carrying out their activities. Placing a monetary value on their contribution presents significant difficulties. For example, not-for-profit organisations might not employ additional staff were volunteers not available, or volunteers might complement the work of paid staff rather than replace them. These factors, together with the lack of a market comparator price for general volunteers, make it impractical for their contribution to be measured reliably for accounting purposes. Given the absence of a reliable measurement basis, the contribution of general volunteers should not be recognised in the financial statements.

D.60 The notes to the financial statements for those not-for-profit organisations receiving donated goods, facilities or services should disclose:

- the accounting policy for the recognition and valuation of donated goods, facilities and services
- the nature and amounts of donated goods, facilities and services receivable from non-exchange transactions recognised in the accounts, for example seconded staff, use of property, etc
- any unfulfilled conditions or other contingencies attaching to resources from non-exchange transactions that have not been recognised as income in the reporting period, and
- an indication of other forms of resources from non-exchange transactions from which the organisation has benefited but which it has not recognised in its accounts, for example the contribution of unpaid general volunteers.

GOVERNMENT GRANTS (AND ALL OTHER GRANTS RECEIVABLE)

D.61 There are two broad categories of income: income from exchange transactions (contract income) and income from non-exchange transactions (gifts). It is important to distinguish between the two as they

are recognised differently in the financial statements. Income from non-exchange transactions (gifts) are donations of money, goods, facilities or services that are given freely to the not-for-profit organisation by the donor/giver/benefactor. Grants are a form of non-exchange transaction where the grant-maker awards a grant without receiving equal value in exchange.

D.62 When accounting for grants and donations, not-for-profit organisations should identify:

- those donations and grants that are subject to performance-related conditions, and
- other terms or conditions that may prevent income recognition.

D.63 Grant funding agreements may contain conditions that specify the services to be performed by a not-for-profit organisation in receipt of a grant. For example, the grant may be in the form of a service-level agreement where the conditions for payment are linked to the achievement of a particular level of service or the units of output achieved. The performance-related conditions contained in a funding agreement might, for example, specify the number of meals provided or the opening hours of a facility used by beneficiaries. Income must be recognised only to the extent that the not-for-profit organisation has provided the specified goods or services, because entitlement to the grant occurs only when the performance-related conditions are met.

D.64 A restriction on the use of a grant or donation for a particular purpose or activity of a not-for-profit organisation does not create a performance-related condition. A restriction creates a requirement that limits or directs the purpose for which a resource may be used but it does not require a specific level of performance or output from the recipient not-for-profit organisation.

D.65 Where terms and conditions have not been met or uncertainty exists as to whether the recipient not-for-profit organisation can meet the terms or conditions otherwise within its control, the income should not be recognised but deferred as a liability until it is probable that the terms or conditions imposed can be met.

D.66 A donation or grant without conditions should not be deferred even if the resources are received in advance of the expenditure on the activity funded by them. The timing of the related expenditure is at the discretion of the not-for-profit organisation and the income cannot be deferred simply because the related expenditure has not been incurred. For example, where a donation or grant is given specifically to provide a fixed asset or a fixed asset is donated (a gift in kind), the not-for-profit organisation is normally entitled

to that income when it is receivable. At this point, all of the income must be recognised in the statement of income and retained funds not deferred over the life of the asset.

D.67 Similarly, a condition that allows for the recovery by the donor of any unexpended part of a grant does not prevent recognition. Instead, a liability to any repayment is recognised when repayment becomes probable.

D.68 Section 24 of the IFRS for SMEs does not distinguish between 'capital gifts' and 'revenue gifts'. The principle is that all grant proceeds are recognised when receivable unless there are performance conditions that prevent recognition (paragraph 24.4). In some cases donors want to see their 'capital gifts' shown separately in the accounts. One solution is to include a memorandum account for 'capital gifts' that reconciles to the total of restricted funds shown in financial statements (see Annexe III).

IMPAIRMENT OF ASSETS

D.70 Section 27 of the IFRS for SMEs considers impairment in the context of the capability of an asset or cash-generating unit to produce cash inflows (paragraph 27.8). The requirement that the organisation make a comparison of the recoverable amount with the carrying amount of an asset (paragraph 27.5) applies equally to not-for-profit organisations. Not-for-profit organisations with a social purpose may, however, use assets for a social purpose rather than for exclusively generating cash inflows.

D.71 The calculation of an asset's value in use involves estimating the amount of the net cash flow that will be generated from the asset's use and then applying a discount rate to establish the present value of those future cash flows. The discount rate used is normally the current market rate that the not-for-profit organisation would have to pay to obtain comparable credit over the remaining life of the asset. The market rate is adjusted for uncertainty as to the asset's ability to generate cash in the future, which means that the greater the uncertainty, the greater the risk and therefore the higher the market rate used in the calculation. This will in turn result in a lower present value amount for the value in use of the asset.

D.72 In practice, not-for-profit organisations often hold assets primarily to provide services to their beneficiaries rather than for generating cash flows. A not-for-profit organisation may provide its services freely or at below commercial rates. Where an asset is primarily held for its service potential to beneficiaries, it would be inappropriate to measure value in use by reference to its cash flow. In such circumstances, it is more appropriate to regard value in use as the

present value of the asset's service potential rather than the present value of its cash flow.

D.73 The method used to value an asset's service potential should be reliable, relevant to the asset and capable of reliable measurement it. Depreciated replacement cost is one method that may be used to provide a measure of an asset's service potential. The replacement cost of an asset is the lowest economical cost that would be incurred in replacing the asset's service potential. This value for replacement cost is then reduced to reflect the remaining economic life of the asset in its used condition.

D.74 Value in use measured on the basis of an asset's service potential will have particular relevance for specialist assets used by a not-for-profit organisation. The market value of a specialist asset may not reflect the cost that a not-for-profit organisation avoids by using that asset in providing services. For example, the market value of a specialist building may be less than its recent construction cost. Nonetheless, provided the building continues to meet its intended service potential then its value in use would be better reflected by its replacement cost (its construction cost) rather than the amount for which it could be sold in the market.

RELATED-PARTY DISCLOSURES

D.75 Section 33 of IFRS for SMEs sets out the disclosures required for related-party transactions. Beneficiaries, funders and donors and the wider public expect more in this regard from not-for-profit organisations than they do from for-profit entities. They expect the members of the governing body, the managers and staff of not-for-profit organisations to have the social purposes served by the organisation as their prime motivation and to avoid spending funds inappropriately on high salaries or other employee benefits.

D.76 To reassure these stakeholders that a not-for-profit organisation is using its funds well, there is a need for greater disclosure of payments to those on the governing body and related parties. By disclosing more information than for-profit entities of a comparable size, the not-for-profit organisation is able to reassure its stakeholders that it is operating for a social purpose rather than for the personal/private benefit of its governors/members.

D.77 The IFRS for SMEs (paragraph 33.6) defines the key management personnel as 'those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly, or indirectly, including any director (whether executive or otherwise)'. This Guide includes all members of the governing body in the definition of key management

personnel, together with those persons to whom the governors delegate high levels of authority in running the organisation on a day-to-day basis.

D.78 This Guide recommends that the following additional disclosures are made in the notes to the financial statements that:

- none of the members of the governing body have been paid any compensation (see paragraph 33.6) or received any other benefits from an employment with the not-for-profit organisation or a related entity, or
- one or more of the members of the governing body has been paid compensation or has received other benefits from an employment with the not-for-profit organisation or a related entity.

D.79 The not-for-profit organisation should report the following information for each of its individual governors who received compensation or other benefits in the reporting period:

- the legal authority under which the payment was made (for example, a provision in the governing document of the not-for-profit organisation, or by legal order, or consent of the not-for-profit organisation's regulator for the jurisdiction(s) of registration)
- the name of the person who received compensation or other employment benefits
- details of why the compensation or other employment benefits were paid
- the amount of compensation or other employment benefits paid
- the amount of any pension contributions paid by the not-for-profit organisation for the reporting period, and
- the amount of any other benefit, for example any termination benefits, private health cover or the provision of a vehicle.

D.80 Often governors of a not-for-profit organisation may undertake that role as volunteers on an unpaid basis with no compensation. In some cases unpaid governors might also be employees of the not-for-profit organisation in another capacity, for example as a paid teacher. On occasion, a governor might be paid for that role and be a paid employee. If a person in charge of governance receives compensation or other benefits from their employment with the not-for-profit organisation in addition to their role as governor, the note may distinguish between compensation and benefits received as a governor, if any, and that received for other services or other employment with the not-for-profit organisation.

D.81 In a note to the accounts, the organisation should also disclose whether the governors have had any expenses paid on their behalf or reimbursed, and disclose either:

- that no expenses have been incurred, or
- that one or more of the persons in charge of governance has claimed expenses or had their expenses met by the not-for-profit organisation.

D.82 If expenses have been incurred, disclose:

- the total amount of expenses reimbursed to persons in charge of governance or paid directly to third parties
- the nature of those expenses (for example travel, subsistence, accommodation, entertainment, etc), and
- the number of persons in charge of governance reimbursed for expenses or who had expenses paid by the not-for-profit organisation.

D.83 In addition, for any redundancy or termination payments relating to the governors or any staff employed by the organisation paid/due in the reporting period, state:

- the total amount for the reporting period
- the nature of the payment
- the accounting policy and
- the extent of funding at the reporting date.

D.84 All organisations should also disclose:

- the fact that there are no employees who received employee compensation and benefits (excluding employer pension costs) had compensation and benefits of more than US\$60,000 (or equivalent), or
- the number of employees whose total employee compensation and benefits (excluding employer pension costs) for the reporting period fell within each US\$10,000 (or equivalent) band from US \$60,000 (or equivalent) upwards.

Annexe I: Sources of further information used in this Companion Guide

Research has been conducted by the UK Consultative Council of Accountancy Bodies (CCAB) into international views on the usefulness of an accounting standard for not-for-profits. The resulting publication is titled *International Study into Financial Reporting for Not-for-Profit Organisations (NPOs)*.

The CCAB report can be accessed via this weblink: <<http://www.ccab.org.uk/documents/IFRNPO-FullReport-Final-07022014.pdf>>

Source 1: The International Financial Reporting Standard for Small and Medium-sized Entities [2015] is published by the International Accounting Standards Board.

The standard can be accessed by the link: <<http://www.ifrs.org/IFRS-for-SMEs/Pages/IFRS-for-SMEs-and-related-material.aspx>>

Source 2: Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015) published 14 July 2014.

The Charities SORP (FRS 102) can be accessed via this link: <http://www.charitycorp.org/media/619101/frs102_complete.pdf>

Annexe II: Acknowledgement of copyright: sources and related permissions

Source 1: IFRS Foundation permission

Text and references to IFRS for SMEs are copyright © International Financial Reporting Standards Foundation. All rights reserved. Reproduced by the Association of Chartered Certified Accountants with the permission of the International Financial Reporting Standards Foundation®. Reproduction and use rights are strictly limited. No permission granted to third parties to reproduce or distribute.

The International Accounting Standards Board, the International Financial Reporting Standards Foundation, the authors and the publishers do not accept responsibility for any loss caused by acting or refraining from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

Source 2: Statement of crown copyright – text from the publication: *Accounting and reporting by charities – Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)* is used/reproduced with the knowledge and consent of the Charity Commission and the Office of the Scottish Charity Regulator under the terms of UK crown copyright, which permits reproduction/quotation provided the source material is acknowledged.

Annexe III: Memorandum account for donor reporting for capital gifts

Donors may prefer to see the value of the gifts of capital assets for property plant and equipment written down over the lifetime of the capital item. Deferring income in this way is not permitted by the IFRS for SMEs. To provide donors who require information on capital assets, the guide suggests two model approaches: a funds reconciliation or an analysis of cash spend.

A funds reconciliation

The following table is an attempt to provide a reconciliation statement that might help donors to track these capital gifts; it reconciles to the balance of restricted funds in the Statement of Financial Position. The funds approach is a top level solution presented in two parts. Part A looks at the specific donor funds that are to be separately reported; these might be all or only part of the funds gifted by the donor(s). Part B reconciles the funds analysed in part A with the total fund balance fall all restricted funds shown in the Statement of Financial Position.

The example assumes that two donors require separate reporting with donor A having two gifts being tracked and donor B only one gift. The number of entries would depend upon the number of donors requiring separate reporting and the number of items to be separately reported.

Part A: Donor 'capital' gifts separately reported

| | Donor A | Donor A | Donor B | Total funds analysed by donor(s) |
|---|---|---|---|----------------------------------|
| | Restricted fund | Restricted fund | Restricted fund | Restricted fund |
| | Describe class of item, ie Property or Plant or Equipment | Describe class of item, ie Property or Plant or Equipment | Describe class of item, ie Property or Plant or Equipment | |
| | Currency Unit | Currency Unit | Currency Unit | Currency Unit |
| Line 1. Value of initial gift receivable and initially included in income in current/previous year(s) | | | | |
| Line 2. Cumulative value of expenditure (including depreciation) against donor funds brought forward | | | | |
| Line 3. Expenditure (including depreciation) in the reporting period | | | | |
| Line 4. Net unexpended balance of donor funds carried forward | | | | |

Part B: Reconciliation to the total value of restricted funds shown in the statement of financial position

| All restricted funds | Total Currency Unit |
|---|---------------------|
| Closing balance of all restricted funds | |
| Less donor closing balances of restricted funds excluded from Part A above | |
| Equals the carrying value of all reported donor funds analysed in Part A above. | |

An analysis of cash spend

The analysis of cash spend approach unpicks the accruals accounting approach to identify how much cash has been spent so far and what cash remains to be spent. Unlike the funds approach which reconciles to the Statement of Financial Position, the cash approach relies on unpicking the note to the accounts on property, plant and equipment. This approach requires a high standard of record keeping of individual gifts. In those cases where the restricted fund is solely made up of capital gifts for plant, property, and equipment shown in the analysis, then the analysis shown below will open with the closing value on restricted funds balance as shown in the Statement of Financial Position.

| Example of an analysis of capital cash spend | Property plant and equipment within restricted funds | |
|--|--|---------|
| | Donor A | Donor A |
| Closing value of the property, plant and equipment item(s) reported within restricted funds per note to the accounts | | |
| Add back: accumulated depreciation prior years | | |
| Add back: depreciation charged during the period | | |
| Less: Capital expenditure on property, plant and equipment prior years | | |
| Less: Capital expenditure on property, plant and equipment this year | | |
| Equals Unspent cash funds per donor | | |

EA-COMPANION-GUIDE-NFP