

Comparison of INPAG exposure draft and UK-Irish GAAP and the Charities SORP (FRS 102)

Overview

This paper considers the development of the International Non-Profit Accounting Guidance (INPAG) and looks at how its approach compares with the current UK-Irish Generally Accepted Accounting Practice (GAAP), with particular reference to the Charities Statement of Recommended Practice (FRS 102): the SORP.

The exposure draft (ED) process for the INPAG guidance is to hold three ED consultations, with each ED covering particular parts of INPAG. The first consultation is looking for comment on the INPAG treatment of four main topics:

- description of not-for-profit organisations (NPOs)/reporting entity
- framework for INPAG
- financial statement presentation
- narrative reporting.

The first ED also includes the list of topics held over for the following two consultations, which are to be held in 2023 (the detail of which is set out on page 106 of the ED PDF). The intention is to conclude the consultation exercise on the whole INPAG by early 2024 and issue the final guidance in mid-2025.

Why practitioners should know about INPAG

The development of INPAG should interest practitioners who are working in the non-profit sector or have non-profit clients that:

- are charities and non-profits operating outside UK-Ireland either in jurisdictions that have no non-profit financial reporting framework or are in receipt of funding from international donors, who may find that INPAG becomes the required reporting
- wish to understand what developments might be brought into GAAP in respect of public benefit entities in the future. For example, the charities SORP has discretion about the format of the financial statements and the trustees' annual report
- want to stay aware of international developments and the potential for INPAG to influence future GAAP and the SORP.

How to read this paper

The conclusions (part A) cover only those topics covered in the proposed adaptations part of the ED. This is so that the practitioner can read this paper in conjunction with that part of the ED. Those points from the INPAG guidance that have not picked up in these opening adaptation sections are then covered off in the analysis (part B). It is recommended that for any topic(s) of interest to the practitioner, both the conclusions and the analysis parts are read. Part C sets out how to engage further with the development of INPAG.

Methodology

This paper reviews the key features of INPAG and compares these to the current UK-Ireland Generally Accepted Accounting Practice (GAAP) of FRS 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, and also the FRS 100, *Application of Financial Reporting Requirements* and the Charities Statement of Recommended Practice FRS 102 (SORP). Reference is also made to UK and Irish company law requirements for reporting by non-profit companies.

The ED has an introduction that is followed by 12 sections covering the proposed adaptations of the International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs) that are considered of particular note; the questions covered in this part are only a selection taken from the full list of questions (see pages 20-22 of the ED PDF document for the full list). The ED then moves on to set out the complete guidance sections of the INPAG guidance, which have been put out for comment in the ED, together with the related application guidance for those sections with questions for comment posed on each section.

In this paper, both the conclusions (part A) and analysis (part B) follow the sequence of the initial proposed adaptations sections of the ED. To minimise confusion where an adaptation section cross-refers to the text of the INPAG guidance section(s) or application guidance, these are referred to as the 'guidance sections' or 'application guidance' respectively in order to distinguish them. In each table in part A and part B, the left-hand column refers to the INPAG ED, with the comparison made with GAAP on the right-hand side. The intention is to identify the main areas of difference from current GAAP.

Part A: conclusions

Since GAAP and INPAG share a foundation in applying the IFRS for SMEs, there is much in common. However, preparers of charity accounts under the SORP will find a number of key differences and these are set out in the table below. Since INPAG could be either an influence on GAAP or be adopted in the future as new UK-Irish GAAP, the author recommends engagement by practitioners with the INPAG development process.

ED proposed adaptations to the approach taken by IFRS for SMEs by INPAG	Observation on the approach taken by INPAG with reference to GAAP
<i>Section 1: A broad characteristics approach to describing NPOs</i> NPOs that must prepare entity accounts under government or public sector frameworks cannot apply INPAG	GAAP and SORP have no explicit prohibition but by inference agree because an entity only files one set of statutory accounts and so the situation is the same. Whether an

ED proposed adaptations to the approach taken by IFRS for SMEs by INPAG	Observation on the approach taken by INPAG with reference to GAAP
	<p>NPO controlled by government can apply INPAG is not considered by this ED. The SORP does allow for a charity to be controlled by a non-charitable entity, with additional disclosures required (see module 26).</p>
<p><i>Section 2: Primary users and their needs of NPO general purpose financial reports (GPFRs)</i></p> <p>In terms of the primary users, there is much in common with GAAP and SORP but INPAG cites those with oversight as a class of primary user</p>	<p>In the UK-Ireland context, those charged with oversight in respect of regulatory oversight in most instances have a power to require information by way of an annual return or filing and so are not considered as primary users for whom the financial statements and narrative are prepared. However, if you see these oversight bodies as acting on behalf of the public interest and assume that they align their oversight activity with matters in which the public are likely to be concerned, then they could be viewed as a subset of the public. A matter for consideration is whether their inclusion would unduly influence the focus of reporting by NPOs in respect of their audience and so unduly influence the nature of that reporting.</p>
<p><i>Section 3: Which NPOs are expected to use INPAG?</i></p> <p>INPAG looks to provide a solution for NPOs not reporting under another framework such as IFRS or cash accounting</p>	<p>In providing a single framework, the approach taken is similar to the SORP but the SORP does distinguish between requirements made of all charities as opposed to those requirements only applicable to 'larger' charities. INPAG has no equivalent differentiation.</p> <p>Both approaches do not cover cash accounting but INPAG has an express provision for not covering those NPOs reporting under full IFRS. GAAP handles this differently by scoping out users of full IFRS (see FRS 100 paragraph 4) but the result is the same.</p>
<p><i>Section 4: The reporting NPO and its boundary</i></p>	

ED proposed adaptations to the approach taken by IFRS for SMEs by INPAG	Observation on the approach taken by INPAG with reference to GAAP
<p>NPO is defined by elements of the NPO over which both control is exercised and benefits derived.</p> <p>INPAG has a rebuttable presumption of control if certain criteria are met and refers to the fundamental characteristics of faithful representation and relevance to assist in identifying an NPO's boundary. Branches are also considered as administrative arrangements to facilitate an NPO's work.</p>	<p>Compared to GAAP and SORP, the approach is very similar, but in terms of establishing benefit INPAG makes no reference to the purposes of the parent and controlled charity being concurrent, or severe long-term restrictions being a bar to consolidation. In a trust law context, the absence of this distinction may have an impact on the presentation of linked charities (see SORP module 25), which the SORP permits to be treated as branches if these are not incorporated as companies.</p> <p>Conversely, another notable point of potential difference is in respect of defining branches, where arguably the INPAG would include as a branch what the SORP would characterise as a subsidiary, in particular an incorporated charity over which the reporting charity NPO has control.</p>
<p><i>Section 6: Basis of information in GPFRs – characteristics</i></p> <p>INPAG distinguishes two fundamental and four enhancing characteristics.</p>	<p>INPAG has much in common with GAAP; however, INPAG retains the undue cost and effort exemption from disclosure that was dropped from GAAP. There are differences, with verifiability being the most significant, and INPAG intends to apply these characteristics to both financial and non-financial information. (Verifiability is not found in the current IFRS for SMEs but the 2022 Exposure Draft of the IFRS for SMEs does have a distinction of fundamental and enhancing characteristics, and includes a reference to verifiability.)</p>
<p><i>Section 7: Fund accounting</i></p> <p>INPAG distinguishes between funds with and without restrictions, with disclosure at an aggregate level in the financial statements.</p>	<p>Unlike the SORP, INPAG has no funds note (SORP paragraph 2.29) and so has less disclosure. INPAG also does not distinguish classes of funds with restrictions, whereas the SORP distinguishes between endowment funds and restricted income funds but otherwise the approach is very similar.</p>
<p><i>Section 8: Financial statement names and scope</i></p>	

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<p>INPAG has a statement of income and expenses and a statement of net changes in assets, which, taken together, explain the change in balances from the opening and closing statement of financial position.</p> <p>Annex 1 to the ED provides a number of illustrative templates for each of the financial statements: statement of income and expenses, statement of net changes in net assets, statement of financial position, and statement of cash flows</p>	<p>INPAG is intended to cover a much wider range of non-profits than charities, and this is one of the reasons it splits the presentation between a statement of income and expenses and a statement of net changes in assets. A consequence of this is that a distinction between realised and unrealised gains, notable as a feature of for-profit accounting to identify distributable profit, applies to all entities using INPAG.</p> <p>In some respects, INPAG does offer more flexibility in the layout of the financial statements than the SORP; for example, the illustrative statement of income and expenses shows starting the statement with either the income section or the expenses section.</p>
<p><i>Section 9: narrative reporting</i></p> <p>Sets out core requirements for narrative reporting.</p>	<p>The SORP approach is more comprehensive and encompasses INPAG's core requirements but, notably, INPAG requires performance reporting whereas this is optional under the SORP.</p> <p>INPAG has no tiered reporting whereas the SORP has two tiers of reporting. In the SORP, a core requirement is set out for all charities, with additional reporting then required of 'larger' charities.</p>
<p><i>Section 10: service potential</i></p> <p>INPAG recognises that assets may be held for service potential rather than to generate a financial return (economic benefit).</p>	<p>The definition of service potential aligns with that found in GAAP.</p>
<p><i>Section 11: additional information</i></p> <p>Principally this considers the disclosure of cash flows from grants and donations and the provision of a comprehensive set of comparative information to all the financial statements.</p> <p>In specifying the components of cash flows for the statement of cash flows in section 7 of the guidance, INPAG requires cash flows</p>	<p>In regard to both issues for comment, the approach taken aligns with GAAP and the SORP.</p>

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<p>from grants and donations to be separately identified.</p> <p>In respect of comparatives, INPAG requires them for all items unless otherwise permitted (see guidance paragraph G3.14).</p>	
<p><i>Section 12: compliance with INPAG</i></p> <p>This requires a statement of full compliance if the preparer is claiming that the financial statements have been prepared in accordance with INPAG.</p>	<p>The approach taken is similar to that of GAAP.</p>

Part B: the analysis

The approach taken to the analysis was to review the first part of the ED, which sets out adaptation topics for discussion and accompanying questions, and then compare the approach taken by INPAG to those topics with current GAAP, referencing any other points from the ED where appropriate.

INPAG is referencing the International Accounting Standards Board's (IASB) consultation draft of an updated IFRS for SMEs, and so some of the observed differences do relate to intended changes to the IFRS for SMEs. (The FRC is undertaking a similar exercise with its Financial Reporting Exposure Draft 82, which includes proposed changes to reflect developments in IFRS and the proposed update to the IFRS for SMEs, but FRED82 is not referenced in this paper.)

INPAG	Comments: comparison with UK-Ireland 2021 GAAP
<p><i>Section 1: A broad characteristics approach to describing NPOs</i></p> <p>To be an NPO, three criteria must be met:</p> <ul style="list-style-type: none"> • the primary objective of providing a benefit to the public • they direct financial surpluses for the benefit of the public • they are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards. 	<p>FRS 102 provides a definition of public benefit entities (glossary):</p> <ul style="list-style-type: none"> • primary objective is to provide goods or services for the general public, community or social benefit • where any equity is provided with a view to supporting the entity's primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members • (no match but separate legal frameworks and regulations define public sector bodies). <p>Both definitions have as a primary objective and not sole objective of benefiting the public. An issue needing clarifying is can an NPO be controlled by a government or non-NPO parent?</p>

INPAG	Comments: comparison with UK-Ireland 2021 GAAP
<p data-bbox="188 266 767 360"><i>Section 2: Primary users and their needs of NPO general purpose financial reports (GPFRs)</i></p> <p data-bbox="188 398 735 461">Three groups of primary stakeholders are identified:</p> <ul data-bbox="188 468 746 568" style="list-style-type: none"> <li data-bbox="188 468 746 499">• the public receiving services and goods <li data-bbox="188 506 475 537">• resource providers <li data-bbox="188 544 695 575">• those fulfilling oversight obligations. 	<p data-bbox="810 398 1369 629">FRS 100 (paragraph i) states that: ‘The FRC’s overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable reporting proportionate to the size and complexity of the entity and users’ information needs’.</p> <p data-bbox="810 667 1369 797">Both INPAG and FRC agree (FRS 102 section 2 paragraph 2.2) that stakeholders exercising authority to require tailored information are not the primary user.</p> <p data-bbox="810 835 1398 1133">FRS 102 considers that (paragraph 2.2): ‘The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful for economic decision-making by a broad range of users’ and (paragraph 2.3) to: ‘show the results of the stewardship of management – the accountability of management for the resources entrusted to it’.</p> <p data-bbox="810 1171 1401 1335">The SORP (paragraph 1.1) in regard to the primary users notes: ‘These may vary from charity to charity but will normally include funders, donors, financial supporters, service users and other beneficiaries’.</p>
<p data-bbox="188 1375 767 1438"><i>Section 3: Which NPOs are expected to use INPAG?</i></p> <p data-bbox="188 1476 767 1639">The INPAG takes the IFRS for SMEs as its foundation. It notes that for some NPOs, full GAAP or IFRS is required and for others simple cash-based accounting, and the INPAG is not written for these two groups.</p>	<p data-bbox="810 1476 1401 1738">GAAP is accruals based. Charity law in the UK and Ireland permits trustees of eligible charities that are not established as companies to opt for cash-based accounting. Small charitable companies, though, are required by company law in the UK and Ireland to prepare accruals accounts based on GAAP.</p> <p data-bbox="810 1776 1406 2051">FRS 102, which has IFRS for SMEs as a foundation too, also has a Section 1A that purports to offer a simpler reduced disclosure framework for small companies, with different requirements for UK and Irish small companies, reflecting the manner in which a European Union accounting directive covering for-profit reporting was effected.</p>

INPAG	Comments: comparison with UK-Ireland 2021 GAAP
	<p>INPAG has no similar provision.</p> <p>The SORP distinguishes narrative and accounting requirements that apply to all charities from those that only apply to some larger charities (large is defined by reference to an income criterion): paragraphs 1.9 (narrative reporting) and accounts (see module 4).</p>
<p><i>Section 4: The reporting NPO and its boundary</i></p> <p>In defining the reporting entity, INPAG takes a principles-based approach in recognition of the complex operational structures that can be characteristic of NPOs. Reference is also made to branches of an NPO. It has three principles:</p> <ul style="list-style-type: none"> • having power over another entity (whether or not that power is used) • exposure or rights to variable returns (financial or non-financial) from its involvement with that entity • the ability to use the power it has to affect the returns it gets from its involvement with the entity. <p>It also has a rebuttable presumption that either having a majority of voting rights or powers to govern financial or operating policies, or appoint or remove the majority of the members of the governing body, demonstrates control.</p> <p>INPAG adopts different terms: controlling NPO, controlled entity and beneficial interest in place of parent, subsidiary and investment.</p> <p>INPAG refers to its application guidance in</p>	<p>Section 9 of FRS 102 has similar provisions in respect of control (paragraphs 9.4 to 9.6a) referring to:</p> <ul style="list-style-type: none"> • having power (paragraph 9.4) • exercising control to obtain benefits (paragraph 9.4). <p>FRS 102 also has a rebuttable presumption that either having a majority of voting rights or powers to govern financial or operating policies, or appoint or remove the majority of the members of the governing body, demonstrates control (paragraph 9.5), but adds the power to cast the majority of votes at meetings of the board or equivalent. Section 34 of FRS 102 also considers for public benefit entities (PBEs) acquisition by way of gifted and merger combinations (paragraph PBE34.75), but INPAG does not consider these issues in this ED.</p> <p>The SORP has five modules relating to elements of a reporting charity: groups (module 24); branches; linked or connected charities and joint arrangements (module 25); charities as subsidiaries (module 26); associates (module 28); and joint ventures (module 29).</p> <p>In identifying control, the SORP (paragraph</p>

INPAG	Comments: comparison with UK-Ireland 2021 GAAP
<p>defining the composition of the NPO in respect of applying control principles and the fundamental characteristics of faithful representation and relevance.</p> <p>Section 2 of the NPO guidance-concepts and pervasive principles defines relevance as to do with the information being capable of making a difference to decision-making, and faithful representation is about user understanding by representing the substance of a matter being complete, neutral and free from error. The application guidance to this section (paragraphs AG2.10 to AG2.18) applies these principles to identifying the reporting NPO. The focus is on the NPO as a single economic entity or other complete set of activities with a focus on user needs without bias (paragraph AG2.16). Branches are also considered as administrative arrangements to facilitate an NPO's work, and a branch having to prepare its own accounts of itself does not mean it is not a branch (application guidance paragraph AD2.18).</p> <p>Section 9 of the guidance considers consolidated and separate statements. INPAG permits a parent NPO to also prepare its own entity statements under INPAG (paragraph G9.1), even if reporting consolidated statements under IFRS or GAAP. The section sets out where consolidated accounts need not be prepared. It defines control by reference to power and benefit (paragraph G9.9). Power is linked to the ability to direct relevant activities that</p>	<p>24.16) includes a presumption based on voting rights. It refers to benefiting from cash flows (paragraph 24.17) and governing financial and operating policies (paragraph 24.18), and having the power to remove or appoint the majority of trustees (paragraph 24.19), but it also adds legislative provision, sole trusteeship and the terms of a formal agreement. For benefit to exist, the purposes of parent and controlled charity must be concurrent (paragraph 24.21).</p> <p>The concept of relevance is found in section 2 of FRS 102 and similarly defined as capable of influencing economic decision-making. Faithful representation is not part of GAAP but the concepts of reliability (represents faithfully) and substance over form and completeness are expressed.</p> <p>The SORP module 25 covers branches and other arrangements (paragraph 25.1), and has much in common with INPAG in terms of what constitutes a branch (paragraph 25.5), but rather than rely on concepts, the SORP provides indicators of what is a branch (paragraph 25.6) and also what is excluded (paragraph 25.7). The exclusions include a charity that is incorporated – a point of difference with INPAG, which has no such exclusion.</p> <p>The charities SORP has exclusions from consolidation not found in section 9 of INPAG, including severe long-term restrictions (paragraph 24.12) and immateriality (paragraph 24.13A), but arguably INPAG would permit judgment to be exercised on the grounds of 'faithful representation' in these cases. (See the application guidance to section 9 of INPAG.)</p> <p>A key area of difference is that in respect of demonstrating that the parent enjoys benefits from exercising control, the SORP requires concurrent purposes (paragraph 24.21) in instances where one charity controls another. Combinations by way of group reconstructions or mergers are not considered by section 9 of INPAG.</p>

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<p>affect return (paragraph G9.11). The criteria for a presumption of control is set out (paragraph G9.18), and disclosures required where an entity is not consolidated (paragraph G9.23). The treatment of non-controlling interests is covered. Combined statements, where there is no control, are permitted but not required (paragraph G9.47).</p> <p>The application guidance to section 9 makes it clear that in the context of NPOs, control is not about return to providers of risk capital (paragraph AG9.1) but about benefit to the public (paragraph AG9.2). The application guidance explores how to identify power to control, returns or benefits, and the linking of power and returns. It looks at fund accounting (paragraph AG9.22) and it is anticipated that situations of equity and non-controlling interests will be rare.</p>	
<p><i>Section 5: Key concepts and principles</i></p> <p>These are assets, liabilities, equity, income and expenses. In reference to net assets, this may comprise both equity and funds. Funds are defined as either with or without restrictions. Accumulated surpluses are held to be directed to the NPO's purpose.</p>	<p>The INPAG approach is similar to the SORP. The underlying approach to fund accounting is also similar.</p>
<p><i>Section 6: Basis of information in GPFRs – characteristics</i></p> <p>INPAG takes as fundamental characteristics of relevance and faithful representation with the enhancing characteristics of comparability, verifiability, timeliness and understandability. This approach will be used to provide the framework for decision usefulness and cost-benefit.</p>	<p>The SORP applies FRS 102 and takes these as given. Section 2 of FRS 102 does not make the same distinction but covers similar ground with relevance, understandability and timeliness in common. As noted previously, faithful representation is expressed in three terms in FRS 102: reliability (represents faithfully), substance over form and completeness. FRS 102 and the SORP also emphasise materiality and this is found in the INPAG application guidance section 2 (paragraph G2.18).</p> <p>INPAG does retain exemption from disclosure as an option due to undue cost and effort (paragraph G2.33), whereas FRS 102 dropped this option in the Triennial Review 2017 (see FRC FRS 102 Factsheet 2).</p>

INPAG	Comments: comparison with UK-Ireland 2021 GAAP
<p><i>Section 7: Fund accounting</i></p> <p>INPAG distinguishes between funds with restrictions and funds without restrictions. Disclosure is at aggregate level, with a split in the statement of income and expenses shown in separate columns. Otherwise, disclosure is of balances only in the statement of financial position, with material funds disclosed by way of note and the in-year movement on aggregate restricted and unrestricted funds shown in the statement of net changes in equity.</p> <p>The glossary to the guidance defines the two types of fund:</p> <ul style="list-style-type: none"> • Funds with restrictions ‘are required to be expended, invested or retained by the NPO for a specific purpose or activity’ • Funds without restrictions ‘are freely available to be used by an NPO for any of its purposes or activities’. <p>(The glossary definition also notes that funds without restrictions can be designated for a use.)</p>	<p>Charities will be familiar with the equivalent approach in the SORP where a distinction is made on a restriction of purpose basis. Endowment funds being distinguished as a separate form of restricted funds from restricted income funds. Similarly the SORP allows for the designation of unrestricted funds.</p> <p>In terms of reporting, the approach taken in a columnar statement of income and expenses has its parallel with the SORP’s statement of financial activities (SoFA): the same is true of an aggregation in the statement of financial position where funds in aggregate are disclosed as they are in the funds section of the balance sheet. The SORP does allow for a columnar balance-sheet presentation by fund type but INPAG does not expressly allow this option.</p> <p>Where the approaches differ is that the SORP requires a funds note showing the movement in each material fund, which reconciles to opening and closing balances (SORP paragraph 2.29).</p> <p>The INPAG also has a different approach to the financial statements (see later section.)</p>
<p><i>Section 8: Financial statement names and scope</i></p> <p>The INPAG approach looks to distinguish transactions that affect the declared surplus or deficit from those other movements such as revaluations that affect fund balances.</p> <p>Section 3 of the guidance notes that the aim is ‘fair presentation’ of the financial position, income and expenses, other changes in net assets and cash flows of NPOs (paragraph G3.2). Departure from the guidance can be done to achieve fair presentation but disclosures are required (paragraph G3.5).</p> <p>The complete set of statements includes a cash flow statement (paragraph G3.18); due to the requirement for comparatives, the prior year set is required (paragraph G3.19).</p>	<p>Here is a major area of difference. Although GAAP allows the names of the financial statements to be those in the IFRS for SMEs, at the time the SORP was developed the decision was made to ease transition to the new GAAP by retaining the SORP 2005 statement names.</p> <p>Also, unlike the SORP, which has a single combined performance statement, the statement of financial activities (SoFA), INPAG adopts a split approach with its statement of income and expenses and</p>

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<p>Section 4 of the guidance covers the statement of financial position using IFRS for SMEs terminology. The net assets are represented by the two classes of fund and equity, if any. INPAG affords flexibility about whether certain elements are detailed on the face of the statement or in the notes. The application guidance allows for reserves to be shown as part of funds held (application guidance paragraph AG4.5).</p> <p>Section 5 of the guidance considers the statement of income and expenses. Items that are not required to be shown in the statement of net assets are shown here. The intention is to distinguish the surplus or deficit from operating activities from the total surplus or deficit reported for the period.</p> <p>Section 6 of the guidance considers the statement of changes in net assets and incorporates those elements not found in the statement of income and expenses (see guidance paragraph G6.3 and also the illustrative example in Annex 1 to the ED).</p> <p>Section 7 of the guidance considers the statement of cash flows. The sections of the statement follow IFRS for SMEs with operating, investing and financing activities. Both direct and indirect methods of preparation permitted.</p> <p>Section 8 of the guidance considers the notes relevant to the financial statements. This includes the basis of accounts preparation, compliance with INPAG and</p>	<p>statement of changes in net assets. A consequence of this is that realised and unrealised gains and losses have to be distinguished, whereas in the SoFA they can be combined.</p> <p>INPAG does allow different names to be used for the financial statements (see section 3 of the guidance paragraph G3.21).</p> <p>Like the SORP, INPAG will allow by exception a departure from the guidance where necessary.</p> <p>The statement of financial position is very similar to the SORP's balance sheet in format. However, the SORP in its treatment of cash distinguishes between the current asset of cash (see module 10) held for investment purposes from cash held for operational purposes (working capital), whereas INPAG makes no such distinction (see INPAG paragraph G4.2).</p> <p>The major difference with the SORP is the separation of items displayed in the SoFA across two statements in INPAG. Items the SORP includes in the SoFA as other recognised gains and losses INPAG incorporates as elements of the statement of net changes in equity (see INPAG section 5 of the guidance paragraph G5.6).</p> <p>The statement of changes in net assets includes transfers between funds.</p> <p>The SORP also allows smaller charities not to prepare a statement of cash flows but this is not an option with INPAG. The format of the statement of cash flows will be familiar to users of GAAP. Unlike the Charities SORP, which requires this statement only for 'larger charities', INPAG requires all NPOs to prepare one.</p> <p>Similar to the Charities SORP, a performance statement format is specified. While INPAG specifies a two-statement approach, the SORP applied the single-</p>

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<p>accounting policies. The single statement of income and expenses is noted. (Section 5 of the IFRS for SMEs permits a choice between two statements: income and comprehensive income or a single combined statement, but INPAG disapplies the single statement option).</p> <p>Section 10 of the guidance covers accounting policies, estimates and errors. The section deals with immaterial items (paragraph G10.3) and provides guidance on treating matters not covered by INPAG (paragraph G10.4). It considers changes in accounting policies, accounting estimates and prior period errors (their treatment and disclosure).</p>	<p>statement approach.</p> <p>The approach to section 10 of the guidance will be familiar to users of the SORP (SORP module 3). In considering alternative sources of guidance for matters not covered by INPAG, reference is made to local GAAP (INPAG guidance paragraph G10.6), which could infer the SORP treatment can be followed provided GAAP standard FRS 100 is cited in support.</p>
<p><i>Section 9: Narrative reporting</i></p> <p>INPAG proposes a set of mandatory core requirements that enable the user to understand the NPO’s performance objectives, what it has done in working towards those performance objectives and a commentary on the financial statements. NPOs have discretion to offer additional reporting and can report against other frameworks provided the core INPAG requirements are covered. INPAG allows exemption for reporting that could lead to a risk of harm to NPO staff, volunteers or the public.</p> <p>Section 35 of the guidance covers narrative reporting. INPAG applies concepts used in accounts preparation to selecting and presenting information in the narrative reporting (paragraph G35.5). It allows non-disclosure in cases of harm (paragraph G35.7). The mandatory core content (paragraph G35.8) includes an overview of the NPO, performance information, financial objectives and strategies, analysis of the financial statements and principle risks and uncertainties.</p>	<p>The SORP has a similar approach to setting mandatory requirements but it distinguishes between a core that all charities must cover and requirements that only ‘larger’ charities are required to cover (SORP module 1), but INPAG has no equivalent distinction. The SORP permits additional reporting (paragraph 1.5).</p> <p>The SORP also has exemptions from disclosure where there is a risk of harm (paragraphs 1.29 to 1.31 and 16.22). The SORP also references law in the jurisdiction of England and Wales that permits non-disclosure of grants (paragraph 16.21), but grant-related matters are not covered in ED1.</p> <p>Of the concepts INPAG would apply to narrative reporting, the requirement to ‘provide information that can be verified’ is unusual in extending concepts of assurance to the whole of the narrative reporting. By contrast, the SORP leaves the judgment about reporting with trustees (paragraphs 1.2 and 1.11).</p> <p>Although the core requirements of INPAG will be familiar to users of the charities SORP, the mandatory requirement for performance reporting will be new since this has been voluntary in the SORP (since SORP 2005) and remains voluntary in the</p>

INPAG	Comments: comparison with UK-Ireland 2021 GAAP
<p>The application guidance mentions reserves policies (paragraphs AG35.5 and AG35.8).</p>	<p>current SORP (paragraph 1.43). The SORP only mandates reporting on the activities undertaken (paragraph 1.41). INPAG covers activities as part of its overview requirement.</p> <p>The glossary to the INPAG guidance does not define what reserves are. Similarly, the SORP has no definition of reserves. INPAG mentions reserves in reference to both the statement of financial position and narrative reporting. The SORP does offer advice on defining reserves for larger charities (paragraph 1.48).</p>
<p><i>Section 10: Service potential</i></p> <p>INPAG recognises that assets may be held for service potential rather than to generate a financial return (economic benefit).</p> <p>Section 2 of the guidance in defining an asset makes reference to the capacity to contribute to the NPO's objectives due to service potential (paragraph G2.54).</p> <p>The glossary defines service potential as: 'the capacity to provide services that contribute to achieving the NPO's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows'.</p>	<p>FRS 102 takes a similar approach. Its glossary defines service potential as: 'the capacity to provide services that contribute to achieving an entity's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows'.</p>
<p><i>Section 11: Additional information</i></p> <p>Principally, this considers the disclosure of cash flows from grants and donations, and the provision of a comprehensive set of comparative information to all the financial statements.</p> <p>In specifying the components of cash flows for the statement of cash flows in section 7 of the guidance, INPAG requires cash flows from grants and donations to be separately identified.</p> <p>In respect of comparatives, section 3 of the guidance requires comparative information for all amounts specified in the current period's financial statements (paragraph G3.14).</p>	<p>The approach taken by INPAG to separately disclosing cash flows from grants and donations in the statement of cash flows is the same as the SORP (see module 14).</p> <p>The approach to comparative information is the same as GAAP and the SORP (SORP paragraph 3.49), but GAAP does not require a prior-year statement of cash flows for the prior period (FRS 102 section 7 paragraph 7.22).</p>

INPAG	Comments: comparison with UK-Ireland 2021 GAAP
<p data-bbox="188 264 660 297"><i>Section 12: compliance with INPAG</i></p> <p data-bbox="188 331 775 533">The proposed approach is for a statement to be in the notes to the accounts that the NPO in preparing its accounts ‘fully complies with INPAG’. (Transition by jurisdictions adopting INPAG in stages but where adoption is not complete will be dealt with in the third ED.)</p> <p data-bbox="188 566 775 768">Section 3 of the guidance sets out the required statement (paragraph G3.3). The limited entity-level grounds where departure from INPAG is permitted is only in respect of a specific treatment (paragraph G3.4) and has required disclosures (paragraph G3.6).</p> <p data-bbox="188 801 775 936">In terms of local law, the guidance notes the disclosure required where the jurisdiction requires INPAG to be followed, but the NPO considers this misleading (paragraph G3.7).</p>	<p data-bbox="810 331 1398 499">The SORP has similar provisions in terms of compliance (paragraph 3.28), and disclosing any departure from GAAP (paragraph 3.41) and/or departure from the SORP (paragraphs 3.42 and 3.43).</p> <p data-bbox="810 801 1398 1003">Accounting standards are adopted in a jurisdiction and are then given legal force by way of primary legislation or related secondary legislation (regulations). It is anticipated a similar approach would apply were INPAG adopted for UK-Ireland GAAP.</p> <p data-bbox="810 1037 1398 1742">The legal framework shapes the applicable accounting standards since it may specify particular presentations or proscribe or specify certain accounting treatments. When specifying an accounting treatment, the law has primacy and GAAP will reflect this: for example, FRS 102 and its treatment of dividend income (see section 23 paragraph 23.29). Where the law is simply permissive and allows options, GAAP can disapply an option – for example, company law in the UK permits the LIFO (last in first out) treatment of stock (inventories) – but this is prohibited by FRS 102 (see section 13 paragraph 13.18). Neither of these matters pose a problem to adopting INPAG since, in the case of adoption, the jurisdiction will reflect in law INPAG as the new GAAP, and in regard to permissive treatments the INPAG will simply take precedence as current GAAP already does.</p> <p data-bbox="810 1776 1398 2040">The potential issue is that in a jurisdiction, the law may disbar GAAP from requiring a disclosure by either scoping it out of GAAP or providing a legal exemption from disclosure. An instance is found in the SORP in respect of the disclosure of grants made (see paragraph 16.25), but this is not compatible with the adoption of INPAG as</p>

INPAG	Comments: comparison with UK-Ireland 2021 GAAP
	INPAG provides no exemption from its guidance in respect of local jurisdiction legal exemptions.

Part C: responding to the INPAG ED and following the IFR4NPO project

The International Financial Reporting for Non-Profit Organisations (IFR4NPO) is a global initiative to develop guidance for non-profit financial reporting. You can learn more about the project and sign up for newsletters at the website at ifr4npo.org.

The IFR4NPO carried out a consultation exercise in January 2021 and, following that, identified 20 topics for which guidance needed to be developed for NPOs. Given the available resources, the initial INPAG will cover a more limited selection of topics, with future iterations intended to pick up additional topics.

The real question for preparers currently using GAAP is whether the differences identified in parts A and B of this paper are so significant that, if future GAAP were aligned with INPAG, it would pose an issue for charities, practitioners or their non-profit clients. Also, it cannot be taken as a given that, where the proposed approach taken by INPAG aligns with GAAP, this will remain the case unless practitioners engage by supporting the aligned approach in their consultation feedback. Non-engagement risks INPAG developing in a way that practitioners will not see as desirable, but the opportunity to influence the development of INPAG will have gone.

The first ED was issued in November 2022 with the second consultation anticipated in quarter two this year and the concluding consultation in quarter four of 2023. These can be accessed via the news page; they set out how comments can be submitted, including the option of using a web form: <https://www.ifr4npo.org/news/>

About the author

Nigel Davies FCCA is a member of the Practitioners' Advisory Group on the IFR4NPO and was, until January 2022, joint chair of the Charities SORP Committee and of the SORP-making body responsible for the development of the Charities SORP. He was also the principal author of the 2015 [*ACCA Companion Guide for Not-for-profits to the International Financial Reporting Standard for Small and Medium-sized Entities \(IFRS for SMEs\)*](#), which provides advice to non-profits on how to report under IFRS for SMEs.

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