Think Ahead ACCA

Comparison of the second 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. INPAG looks to adapt the International Financial Reporting Standard for Small and Medium sized Enterprises (IFRS for SMEs) for use by non-profits.

The exposure draft (ED) process involves three consultations with each ED covering particular parts of INPAG. The first consultation, which closed for comment on 31 March 2023, considered four main topics:

- description of non-profit organisation (NPO)/reporting entity
- framework for INPAG
- financial statement presentation
- narrative reporting.

The second ED considers the following topics:

- expenses on grants and donations
- revenue
- inventories
- foreign exchange translation
- other adaptations to IFRS for SMEs considered necessary to deal with transactions undertaken by non-profits.

The closing date for comment on the second ED is 15 March 2024. The third ED is expected in mid-2024. The intention is to conclude the consultation exercise by the end of 2024 and then issue the final guidance in 2025. It will be then up to individual jurisdictions across the world to decide whether to adopt INPAG into their GAAP.

Why accountants should know about INPAG
The development of INPAG should interest accountants who are working in the non-profit sector or have non-profit clients which 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 that may require reporting under INPAG.
- wishing 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 to change the format of the financial statements and the trustees' annual report
- wanting to stay aware of international developments and the potential for INPAG to influence the future of GAAP and the SORP.

How to read this paper
The conclusions section (Part A) considers only those topics covered in the proposed adaptations part of the ED. This is so that the accountant can read this paper in conjunction with the topics covered in the opening part of the ED. Those points from the INPAG guidance that have not been picked up in the opening discussion are then covered in the analysis (Part B). It is recommended that, for any topic(s) of interest, 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 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 SORP FRS 102. Reference is also made to UK and Irish company law requirements for reporting by non-profit companies.

The INPAG ED has an introduction that is followed by 14 sections covering the proposed adaptations of the IFRS for SMEs that are considered of particular note; the questions covered in this part of the ED are only a selection taken from the full list of questions. (See pages 21 to 24 of the ED PDF document for the full list.) The ED then moves on to set out the complete guidance sections of the INPAG, which have been put out for comment together with the related application guidance, with questions for comment posed on each. This part comprises 13 complete guidance sections.

In this paper, both the conclusions (Part A) and analysis (Part B) follow the sequence of the ED. To minimise confusion where an adaptation section cross-refers to the text of the INPAG guidance section(s) or application guidance, this paper refers to these as the 'guidance sections' or 'application guidance' respectively. In each table in Part A and Part B, the left-hand column refers to the 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 adaptions to the approach taken by IFRS for SMEs by INPAG	**Observation on the approach taken by INPAG with reference to GAAP**
Section 1: New terminology – grants and donations	
Donations, whether in the form of a grant or not, are a distinct feature of non-profit accounting. INPAG proposes to classify grants as either ‘enforceable grant arrangement’ (EGA) or ‘other funding arrangement’ (OFA). To be an EGA, a grant must fulfil four conditions, one of which is to confer one or more enforceable grant obligations (EGO) on the recipient and a grant fulfilment right (GFR) on the funder. Any grant that is not classified as an EGA is classed as an OFA. The definition of an EGA makes reference to a condition that the funder has the ability to legally enforce the grant arrangement.	The approach taken by the SORP is to distinguish between grants that have performance-related conditions and those that do not (see module 5 in respect of the recipient and module 7 in respect of the funder). Although the two approaches share similar logic, the approach taken by INPAG with the definition of an EGA is quite different.
There are four indicators that a condition is an EGO: • achieves a specified outcome • carries out a specified activity • uses resources internally for a specified purpose • transfers resources to a service recipient	The SORP is more broadly drawn, requiring a judgment by the recipient as to whether the condition relates to performance or not. The INPAG wording ‘Transfer resources to a service recipient’ might be construed to potentially include some transactions that the SORP would treat as agent transactions (module 19).
Section 2: Rights and obligations in enforceable grant arrangements	
INPAG defines GFRs as ‘a distinct right that can be enforced separately from other rights in the EGA by the grant provider’. Where an agreement has more than one GFR, the value of the funding is to be segmented and a value attributed to each GFR to ‘to reflect each stand-alone amount’.	The SORP approach is based on the current FRS 102 approach to revenue recognition, which is based on the current IFRS for SMEs and not the IFRS 15 five-step model. Arguably, the approach taken by INPAG is needed if it is to adopt the for-profit IFRS 15 five-step model to revenue recognition (which will be a feature of the new IFRS for SMEs standard.)

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A GFR must be 'enforceable'. Since grants are not enforceable contracts, INPAG defines enforcement very broadly to encompass 'legal systems, alternative processes that have similar effect, the ability to reduce or withhold funding or customary practices'. The ED notes that: requirements that relate to the purpose of an NPO 'can constrain the use of transferred resources by the grant recipient. However, these constraints are not sufficiently specific to create a present obligation for the grant recipient and are therefore not an EGO.' INPAG notes that 'In certain cases the ability to reduce or withhold funding or customary practices' can be an enforcement mechanism.	Interestingly, in a related question INPAG goes even further to ask if 'you agree that regulatory oversight and customary practices can be sufficient'. This is a key assumption that is necessary to apply the IFRS 15 revenue model, which is based on contractual exchange transactions. This means that the equivalent of a restriction to purpose would not of itself create an EGO. The SORP takes the same view (SORP module 5 paragraph 5.6). The current SORP distinguishes between exchange transactions and non-exchange transactions such as grants and donations (SORP module 5, paragraphs 5.3 to 5.5), and it is looking for the preparer to identify if a grant agreement is subject to performance conditions or not. The SORP does not consider the ability of the funder to require repayment as a limitation on recognition (paragraph 5.28) or an indicator of a performance-related grant. INPAG would treat this ability as potential evidence of an EGA being present.
Section 3: Revenue – determining which guidance to apply INPAG proposes a single section for revenue, which is divided into two parts to guide NPOs in determining whether a transaction should be accounted for as revenue from grants and donations (Part I) or revenue from contracts with customers (Part II).	This differentiation is found in the SORP but its content is distributed differently. The SORP's two modules are: recognition of income, including legacies, grants and contract income (module 5); and donated goods, facilities and services, including volunteers (module 6). Effectively, the SORP distinguishes its two modules on the basis of cash and non-cash receivables.

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Section 4: Revenue recognition for grants and donations	
INPAG holds that the recipient NPO recognises revenue from an EGA as it fulfils each distinct EGO, and income is only deferred if there has been prepayment (payment in advance), in which case a liability is recognised pending fulfilment. (The ED notes that the same five-step approach used in IFRS for SMEs and IPSAS 47, *Revenue*, is being used to recognise revenue from EGAs.)	In respect of payments in advance, the SORP follows a similar model for performance-related grants (module 5 paragraphs 5.23 and 5.24). The SORP (paragraph 5.24) makes reference to disclosing a contingent asset where conditions are not wholly in the charity's control (an example is given in paragraph 5.20), but INPAG makes no mention of this. Given that the INPAG model is based on identifying obligations that result from undertakings given by the NPO, for an NPO to be able to fulfil all the EGOs it follows on that all conditions relating to the EGO must be capable of being fulfilled by the NPO alone. However, the application guidance (considered in Part B of this paper) relating to grant expenditure does note that this is an issue and refers to the probability of settlement.
INPAG treats fulfilment of an EGO by the recipient of a grant in advance of payment as revenue with a corresponding asset.	The SORP (module 10 paragraph 10.64) takes the same approach.
For an OFA, revenue will 'usually be recognised at the same time as resources are received', but should the recipient NPO not satisfy any constraint in the OFA, then this gives rise to an obligation that will require the creation of a liability.	The SORP has three criteria that have to be met to recognise income (module 5 paragraph 5.8): entitlement, probable and measurement. This is not the same as simply receipt. The criterion 'probable' is about the likelihood of receipt, whereas the INPAG wording referring to 'receipt' implies a more cash-based approach.
Section 5: Revenue from grants and donations – application issues	
For an OFA covering multiple years, INPAG recognises revenue as the resources are transferred to the grant recipient. So, if all the resources are transferred at the beginning of the agreement, then the grant recipient will need to recognise them all on receipt.	Although the SORP recognises income from grants that are not performance related on receipt (paragraph 5.12), this is subject to there being no conditions remaining to be met. Also, the SORP is a little more flexible, allowing the attribution (and therefore deferment) in respect of time-related conditions to be a factor in establishing entitlement (SORP module 5, paragraph 5.22).
In respect of EGAs, since INPAG requires one or more EGOs to be identified and have	This attribution exercise is needed because this information will assist in determining

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revenue attributed to each, then it follows that recognition only takes place on fulfilment. In respect of projects funding a tangible asset, which INPAG terms 'a non-current asset', it assumes that there is likely to be detail about the capital project that can provide a basis for identifying the EGOs. The INPAG asks whether you agree that administrative tasks are generally not separate, individually enforceable obligations.	appropriate measures of progress. It notes that 'where an EGA provides resources both for the purchase of an asset and its subsequent use, this will always create separate EGOs'. In terms of capital projects, the SORP similarly does not permit matching income to expenditure (paragraph 5.27). As noted previously, the SORP has three criteria that must be met to recognise income (paragraph 5.8), and for performance-related grants, entitlement is related to performance (paragraph 5.16). The SORP makes this distinction (paragraph 5.14) but it does note that these requirements do not represent performance conditions (paragraph 5.26).
Section 6: Gifts in kind The general recognition principles applicable to revenue from grants and donations also apply to gifts in kind, but INPAG concedes that there can be practical difficulties in recognising and measuring some gifts in-kind and so permits a limited number of exceptions: • non-current assets and high-value items – recognise revenue on receipt, measured at fair value • items for own use or distribution – option to recognise revenue and expense only when used or distributed, measured at fair value • low -value items for resale – option to recognise revenue and asset when sold, measured at the sale amount. Otherwise, treat such gifts as revenue from grants and donations (Part I) and identify if an EGA or OFA arrangement applies; or, if a non-cash settlement is related to an exchange transaction, treat as income from customers (Part II).	Module 6 of the SORP considers these transactions. The SORP applies the same three recognition criteria to gifts in kind as it does to income (module 5): entitlement, probable and measurement. The logic of having common income recognition criteria is therefore the same approach as INPAG but the income recognition criteria, as previously noted, differ. Measurement is at fair value (paragraph 6.6) or value to the charity (paragraphs 6.6 and 6.12). INPAG does not permit measurement at value to the charity. Neither does INPAG refer to alternative approaches to deriving a fair value (paragraphs 6.9 and 6.15). INPAG ED and the SORP recognise that measurement at fair value and other practical issues arise (paragraph 6.8). Exceptions are permitted by the SORP: • donated items for own use can alternatively be measured at cost to the donor (paragraph 6.9). Like INPAG, once consumed there is matching expenditure (paragraph 6.26) • donated items for distribution to beneficiaries on receipt unless impractical, in which case when distributed with matching expenditure (paragraph 6.26). Effectively the same as

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	INPAG • low-value donated items for resale: the SORP to be recognised on sale (paragraph 6.29). Donated tangible fixed assets are recognised at fair value (paragraph 6.20) when the three recognition criteria are met, whereas INPAG refers to recognition on receipt. Both INPAG and SORP (paragraph 6.8) allow an item not to be recognised if reliable measurement is impractical.
Section 7: Services in kind INPAG proposes the same recognition for services in kind as for revenue, with measurement at fair value for those gifts that are 'mission critical' unless otherwise impractical. For non-mission-critical gifts, NPOs are not required to recognise revenue, expenses or assets for any services in-kind. The ED states that: 'To be mission critical, an NPO would not be able to deliver its services, or it would have to materially reduce the level of its activities if it did not have access to the services in-kind being provided'.	This is very different to the SORP, which requires recognition except for: • the contribution of unpaid general volunteers is not measured as income- SORP (paragraph 6.18) • if fair value not appropriate, services are measured at value to the charity (paragraph 6.14). In respect of general volunteers, if a charity considered it could measure that contribution reliably in monetary terms, then INPAG would permit recognition, whereas the SORP (drawing on FRS 102 section 34 paragraph PBE34.11) does not. FRS 102 (see section 34 paragraph PBE34.73), and therefore the SORP, focus on the practicality of measurement at fair value and, by implication, whether a service is bought and sold commercially, whereas INPAG focuses on the contribution made to operational activities and whether measurement is practical or not.
Section 8: Grant expense recognition The recognition of a grant expense depends on whether the grant payable is an EGA or OFA. In the case of an EGA, INPAG would require grant expense to be measured at the amount assessed as due for each GFR that has been met. Similar to an exchange arrangement taking the form of contract, an	The SORP requires for performance-related grants that these are recognised to the extent that the recipient has provided the specified service or goods (module 7, paragraph 7.26). In terms of prepayment (module 10 paragraph 10.64) and payment in arrears (paragraph 10.76), the SORP takes a similar

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EGA would specify appropriate measures of progress, with the grant recipient to assist in determining when each GFR has been met. If paid in advance, then a prepayment (current asset) is recognised until the GFR is met. If paid in arrears after the EGO is fulfilled, then a creditor is recognised (current liability). In those circumstances where there is no realistic alternative but to pay the grant, irrespective of fulfilment, then an expense is recognised. In respect of an OFA, the recognition and measurement will depend on the grant-providing NPO's obligation to transfer resources. For a legal obligation to transfer resources, INPAG would require the recognition of a liability and a grant expense. For a constructive obligation, it will require the recognition of a provision and a grant expense. In those circumstances where payment is wholly discretionary to the grant-maker, a grant expense is recognised when the resources are transferred to the grant recipient.	approach to INPAG. The SORP also refers to situations where payment cannot be avoided (module 7 paragraphs 7.21 and 7.23) as a trigger for recognising an expense. The SORP anticipates that for a legal obligation to exist ,the transaction is an exchange transaction because it is legally enforceable in the manner of a contract (module 7 paragraph 7.6). The SORP takes a similar approach with constructive obligations (paragraphs 7.7, 7.12 and 7.16) to INPAG. In terms of wholly discretionary payments, by inference the SORP would expect recognition upon payment (paragraphs 7.3 and 7.12 and module 16 paragraph 16.3), but the SORP anticipates a grant will be communicated (paragraphs 7.15 and 7.16).
Section 9: Expenses on grants and donations – application issues This section of the ED considers three application issues: • The existence of a constraint does not create a GFR for the grant provider if it does not create a present obligation (an EGO) for the grant recipient, and only if the grant recipient subsequently fails to satisfy the constraint will it be reviewed to see if it is now treated as an EGA. • In respect of capital grants, an expense is recognised as the grant recipient satisfies its EGOs or if there is no EGA, when resources are transferred/transferable. • Where the grant provider makes a grant covering multiple years, an expense is recognised as the grant recipient satisfies its EGOs or, if there is no EGA, when resources are transferred/transferable.	The SORP deals with each of these areas as follows: • A restriction as to purpose does not create a performance obligation (SORP module 7 paragraph 7.27), which is comparable to INPAG's 'constraint' and similarly only falls to be repaid if not spent on that purpose and the grant agreement provides for its being refunded (SORP module 10 paragraph 10.76). • Capital grants are not specifically referred to in module 7, although in regard to the recipient it is mentioned in module 5 (paragraph 5.27), but by inference the full amount payable is accrued (paragraph 7.21). • In respect of multi-year grants, the full amount payable is recognised unless

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	there are performance conditions that the recipient must fulfil (paragraphs 7.19, 7.20 and 7.27).
Section 10: Disclosures – grants and donations INPAG proposes disclosures for grant-makers that focus on material grant arrangements, significant payment terms and the extent of an NPO's compliance obligations. Disclosures are also included for donations in kind. The intention is to provide users of the general purpose financial reports with sufficient information to understand the nature, amount, timing and uncertainty arising from grant expenses. An exception would be permitted for NPOs not to disclose sensitive information about grant expenses. The ED states that 'A disclosure is sensitive if it would compromise the safety or wellbeing of individuals working/volunteering for and with the grant-providing NPO, or those to whom it provides cash, goods, services and other assets and/or could prejudice the ability of the grant-providing NPO or grant recipient to deliver its mission or purpose'.	The SORP sets out the required disclosures in module 16 and has a similar aim (paragraph 16.8). Similarly, the SORP has an exception to disclosure where disclosure would give rise to serious prejudice (paragraph 16.22).
Section 11: Revenue from contracts with customers INPAG will offer additional guidance in applying the simplified five-step for-profit revenue module (based on IFRS 15), which is intended for the new IFRS for SMEs.	GAAP takes a similar approach to providing additional guidance for its current revenue model in the appendix to section 23 of FRS 102 and SORP module 5.
Section 12: Inventories – recognition, measurement and impairment INPAG will require donated inventories that can be measured reliably to be treated as inventory, but recognises that there may be rare circumstances where this is not possible, in which case disclosure will be required. As noted previously (section 6 above), INPAG allows exceptions to recording donated items on receipt as inventory.	Similarly, the SORP anticipates that, where practicable, items not immediately consumed are added to stock (SORP module 10 paragraphs 10.57, 10.59 and 10.60). Similarly, the SORP permits exceptions (module 6 paragraphs 6.10, 6.12 and 6.26). The SORP has similar exceptions (module 6).

ED: proposed adaptions to the approach taken by IFRS for SMEs by INPAG	Observation on the approach taken by INPAG with reference to GAAP
Further, INPAG will permit work in progress on services being provided to service recipients for no or nominal amounts to be treated as an expense.	SORP module 10 paragraph 10.62 refers to work in progress under contract being recognised. The SORP makes no exception for primary purpose trading at no or nominal amounts (SORP module 4 paragraph 4.34) but considerations of materiality might arise (SORP module 3 paragraph 3.15). Also, inventories held for use or distribution are measured at the lower of cost adjusted for any loss of service potential and replacement cost. In respect of goods for distribution to beneficiaries, the SORP requires the recognition of stock at fair value (module 6 paragraphs 6.8 and 6.23), subject to any appropriate adjustment (paragraphs 6.11, 6.12 and 6.24) unless impractical (paragraphs 6.8 and 6.26).
Section 13: Foreign currency translation – presentation and disclosure For foreign currency gains and losses, INPAG establishes the principle that exchange rate gains or losses on monetary items, such as grant receivables, cash held in foreign currency and grant payables, follow the presentation of the transaction to which they relate.	The SORP makes no specific mention of this issue but the principles of fund accounting would attribute a gain or loss on revaluation of a financial asset (balance of grant income unspent) to that fund (SORP module 2 paragraphs 2.24 and 2.25). Module 11 considers accounting for financial assets and financial liabilities, and is read in conjunction with section 11 of FRS 102. Aside from considering foreign exchange contracts and options, the SORP does not consider this issue. The SORP is an application of GAAP, and FRS 102 section 30 deals with foreign exchange translation. The preparer would look to FRS 102 in instances where the SORP is silent. Paragraph 30.8 deals with initial recognition and paragraph 30.9 with subsequent measurement, with a gain or loss being taken to profit and loss or other comprehensive income (in charity terms, the Statement of Financial Activities).
Applying INPAG in respect of income for a restricted purpose would attribute the gain or loss on a debtor balance to that restricted fund.	This would align with the fund accounting anticipated by the SORP.

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INPAG would require a provision to be made for an onerous arrangement if an NPO is obliged to expend more than the resources it was provided with because of adverse movements on exchange rates. However, in respect to the EGOs of an NPO which has received a grant in advance (grant arrangement liabilities) these constitute non-monetary liabilities and so do not need to be retranslated at each reporting date.	Arguably, INPAG views an onerous arrangement – an EGA – as analogous to an onerous contract. The SORP does not equate grant arrangements to contracts in this way but it does refer to onerous contracts in module 7 (paragraph 7.35). If the charity chooses to treat a non-exchange transaction as an expenditure commitment it must fulfil due to performance conditions, then it could treat the extra anticipated spend to make good on its commitment (the funding shortfall due to an adverse movement in exchange rates) as a constructive obligation (paragraph 7.7), and make a provision (paragraph 7.30), or consider it to be a contingent liability (paragraph 7.33), or a form of designation of unrestricted funds to meet a potential obligation (paragraph 7.34), depending on the circumstances. This situation of a constructive obligation might arise if the charity is committed to future expenditure on a grant-funded activity, and either there was a prepayment and this funding cannot be renegotiated, or the charity has agreed to a multi-year grant-funded programme and there is no scope to review that funding.
Section 14: Removal of profit-sharing and share-based payment guidance (and other matters) INPAG will omit Section 26 of the IFRS for SMEs on share-based payments since profit-sharing is therefore generally not an appropriate form of remuneration for NPO staff, and all references to profit-sharing arrangements are removed. In respect of in-year changes to the amounts to be recognised for defined	The SORP contains no reference to share-based payments either. This is not surprising since in the UK charities are established for exclusively charitable purposes, where any private benefit (such as a profit share) has to be both necessary and incidental. Charitable companies can exist (SORP module 15). Shares in a charity owned by non-charitable entities or individuals would potentially be incompatible with charitable status. Where share capital exists, the SORP anticipates that there is no distribution to shareholders (paragraph 15.19). Were share-based payment to arise, then the preparer would look to section 26 of FRS 102. Since the SORP only has the statement of financial activities, the flexibility INPAG gives

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benefit pension schemes, INPAG proposes a choice, with the change reported in either the statement of income and expenses or statement of changes in net assets.	is equivalent to reporting above or below the net income (expenditure) figure for the reporting period (SORP module 4 table 2).

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. The analysis considers each section of the authoritative guidance set out in ED2, which includes some topics not considered of particular note in the first part of the ED. The section headings correspond to the sections listed in this authoritative guidance part of the ED.

The analysis does not consider every difference between INPAG and FRS 102 since 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 relate to intended changes to the IFRS for SMEs. (The Financial Reporting Council 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 FRED 82 and FRED 84 are not referenced in this paper.)

Comparison of INPAG treatment with current GAAP

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
Section 11: Financial instruments	
Part I of Section 11 applies to basic financial instruments and is relevant to all NPOs. Part II applies to other, more complex financial instruments and transactions.	Module 11, Accounting for financial assets and financial liabilities, covers this topic. This module title consciously reflects the lack of equity instruments issued by charities. Since the underpinnings of GAAP and INPAG are the same for this topic, in practice there are few differences to note. There are key differences, though, in terms of presentation.
In the main, this section is a straight lift from the IFRS for SMEs.	Since INPAG is a straight lift, it includes material that is unlikely ever to apply to charities. In this respect it is akin to sections 11 and 12 of FRS 102. The SORP in applying GAAP looked to focus on those aspects of this topic most likely to affect most charities and omits material that is thought less relevant or only applicable to for-profit

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
	entities. By not editing the IFRS for SMEs and tailoring it, perhaps with examples or illustrations, for the middle income NPOs intended to apply INPAG (see ED 1 for the three tiers considered) and their common items, it will demand a fair degree of accountancy skill in comprehending the text and following its requirements. Unlike INPAG, the SORP deliberately represents the material in simpler accessible language, and includes a table of common basic financial instruments (table 7).
It covers definitions of a financial instrument and basic financial instrument.	Compared to paragraph 11.5 of section 11 of FRS 102, the definition of basic financial instruments includes financial guarantee contracts.
The paragraphs in INPAG that cover the illustrations given in the SORP are: • arrangement fees – paragraph G11.22 • extended credit – paragraph G11.16 (also mentioned in section 23 paragraphs G23.122 and G23.123).	The SORP includes illustrative examples and explanations not found in INPAG, in particular: • handling of arrangement fees on loans (paragraph 11.9) • extended credit (paragraphs 11.11 and 11.12) • advance fee schemes (paragraph 11.27) • foreign exchange contracts and options (paragraphs 11.28 to 11.33).
This section considers the treatment of financial guarantees – paragraph G11.37.	SORP module 21, Accounting for social investments paragraph 21.20, considers guarantees and treats these as a contingent liability or asset. INPAG, reflecting the IFRS for SMEs, treats these as potential credit losses as an aspect of impairment. Concessionary loans are also considered in module 21 but not referenced in INPAG section 11.
INPAG quotes the full IFRS for SMEs text on impairment: paragraphs GL11.25 to GL11.42, which includes the treatment of expected credit losses. Unlike the SORP, which is application guidance for GAAP and so can cross-refer to the FRS 102 standard, INPAG is looking to be a self-contained standard and so this requires inclusion of material on complex financial instruments not found in the SORP.	The module considers impairment and gives examples of how to treat a gain or loss (paragraph 11.20). Aside from advance fee schemes and foreign exchange contracts and options (paragraphs 11.27 to 11.33), the SORP does not consider complex financial instruments and instead cross-refers to section 12 of FRS 102.

INPAG treatment	**Comments: comparison with UK-Ireland 2021 GAAP**
Part I paragraphs set out the presentation for the statement of financial position. Part II paragraphs G11.72 to G11.86 consider hedge accounting and include presentation – paragraph G11.80.	SORP module 10, Balance sheet, deals with the presentation of carrying amounts of financial assets and financial liabilities (but equity is considered in module 15). Module 11 does consider the presentation of hedge accounting, its initial classification and once it ends (paragraph 11.26).
Section 13: Inventories	In following the IFRS for SMEs, the broad treatment is similar to GAAP, FRS 102 section 13.
INPAG (paragraph G13.5) allows exceptions to the normal treatment for NPO specific items: • low-value items donated for resale or transferred to another party for fundraising – recognised when sold of fundraising activity occurred • donated items for distribution (except high-value or non-current items) or own use recognise as revenue when distributed with a matching expense • services in kind donated to the NPO which it is not recognising as revenue (INPAG cross refers to section 23) • work in progress on services provided at nil or nominal consideration – an NPO can expense as a cost as incurred.	The SORP module 6 also has exceptions: • goods donated for resale may be recognised when sold (paragraph 6.10) • donated stock held for distribution at no or nominal consideration, where impractical to recognise on receipt, may be recognised on distribution as donated income with a matching expense (paragraph 6.26). • may value donated services at the value to the charity (paragraph 6.14).
Normal treatment (G13.6) is to recognise at the lower of cost or estimated selling price less cost to complete or sell.	This is the same treatment as found in FRS 102 paragraph 13.4. The SORP treatment is the lower of cost or net realisable value (module 10, paragraph 10.60), and work in progress is measured at cost less any foreseeable loss (paragraph 10.62). For donated goods held for sale, a charity may value at estimated resale value less cost to sell (paragraph 6.9).
Donated inventories, where recognised, must be measured at fair value (paragraph G13.7)	Donated stock must be measured at fair value (paragraph 6.8).
Inventories held for distribution at nil or nominal cost to the recipient are recognised at the lower of cost (or deemed cost), adjusted as appropriate for any loss of service potential, and replacement cost (paragraph G13.8).	This is the same treatment as found in FRS 102 paragraph 13.4A and the SORP. Stock donated for distribution at fair value is subsequently adjusted to reflect the lower of deemed cost adjusted for any loss of service potential and replacement cost (paragraph 6.12).

INPAG treatment	**Comments: comparison with UK-Ireland 2021 GAAP**
INPAG makes reference to change in the fair value of hedging instruments as another cost of inventory (paragraph 13.6). INPAG requires agricultural and biological assets to be recognised at fair value less estimated cost to sell. In referring to impairment, inventories held for distribution at no or nominal consideration or for use by the NPO, the cost is adjusted for any loss of service potential or replacement cost (paragraph G13.23). For inventories held for distribution at no or nominal consideration, the carrying amount is recognised as an expense in the period in which the related revenue is recognised (paragraph G13.24). The treatment of items used as a self-constructed property is dealt with under the section appropriate to that asset type (paragraph G13.25). In the application guidance to the section, in valuing donated inventories, INPAG suggests the deemed value may be cost to the donor (paragraph AG13.3). The application guidance on assessing loss of service potential refers to physical, functional or economic measures (paragraph AG13.6). In considering reliability of measurement, INPAG advises that in an emergency situation involving a large volume of donations and an immediacy of distribution, recognition may not be practical and so only disclosure is needed (paragraphs AG13.8 and AG13.9).	This reference to hedging as an inventory cost is not found in FRS 102 paragraphs 13.11 and 13.12. FRS 102 has the same treatment in respect of fair value but has the alternate as the lower of cost and the estimated selling price less costs to complete and sell (paragraph 13.15). The SORP takes a similar approach (paragraph 6.12). For inventories held for distribution at no or nominal consideration, the carrying amount is recognised as an expense (FRS 102 paragraph 13.20A). The SORP similarly refers to another section (paragraphs 6.20 to 6.22. The SORP takes a similar position in regard to fair value on receipt of a donated item (paragraph 6.9). In considering impairment (module 12), consideration is given to value in use (paragraphs 12.9 and 12.12) and service potential (paragraph 12.13). Indicators of impairment are given (paragraphs 12.15 and 12.16). Neither section 13 (see paragraph 13.5A) nor section 34 (see paragraph PBE34.73) of FRS 102 make allowance for goods donated for an urgent emergency response, and therefore the SORP has no similar provision for emergency disaster relief. Valuation on distribution is required (paragraph 6.26).
Section 21: Provisions and contingencies	The SORP discusses this topic of provisions in two modules, module 10, Balance sheet, and module 7, Recognition of expenditure

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
Recognition (paragraph G21.4) requires three criteria to be met: • an obligation as a result of past events • probable transfer of economic benefits to settle • the amount of the obligation can be estimated reliably. A past event can relate to either a legal or constructive obligation (paragraph G21.6). This section includes provision for onerous contracts (paragraph G21.2). If certain criteria relate to a formal plan (five items must be identified in that plan) and an announcement has been made, then a restructuring programme can be recognised as a provision (paragraph G21.7). Initial measurement is at the best estimate (paragraph G21.8), adjusted, if appropriate and material, to present value. Any gains from expected disposal are excluded (paragraph G21.9), and any reimbursement from a third party related to the provision is recognised as a separate asset, only if receipt is virtually certain (paragraph G21.10) and is capped at the equivalent amount to the provision. In the statement of income and expenses, this receipt can be offset against the expense recognised for the provision. Any subsequent adjustment to the provision is recognised in surplus or deficit unless it comprised part of an asset. The unwinding of the discount related to the present value calculation is shown as a financing expense (paragraph G21.12). Contingent liability is not recognised but disclosed (paragraph G21.13), unless the possibility of outflow of resources is remote. The exception is that a contingent liability assumed as part of a business combination is recognised. Contingent asset is disclosed and only reclassified and recognised as an asset	Module 10 has the same three recognition criteria for a provision (paragraph 10.77). The discussion of legal and constructive obligations is found, though, in module 7 (paragraphs 7.5 and 7.28). Similarly, onerous contracts are considered in module 7 (paragraphs 7.35 and 7.38). The SORP does not discuss restructuring programmes, but section 21 (paragraph 21.11C) of FRS 102 takes the same approach as INPAG. The SORP takes the same approach to initial recognition of a provision (paragraph 7.30), including consideration of present value (paragraph 7.32). Similarly, section 21 takes the same approach to offsets (paragraph 21.9) and capping the offset. The SORP does not mention the treatment of gains, but paragraph 21.11 of section 21 of FRS 102 considers adjustments to a provision and has the same exception where it is part of an asset. The SORP does refer to adjustments in paragraph 7.31. (The SORP refers to unwinding a discount factor in module 11, paragraph 11.12.) The treatment of a contingent liability is the same in the SORP (module 10 paragraphs 10.84 and 10.85). The SORP takes the same approach to contingent assets (paragraphs 10.85 and 10.86). The SORP does not discuss when

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
when receipt is virtually certain (paragraph G21.14). If disclosure would be prejudicial, then the nature of the dispute is given together with the fact and reason why the required information has not been disclosed (paragraph G21.18).	contingent assets are reclassified, but section 21 (paragraph 21.13) takes the same approach as INPAG. The SORP (paragraph 10.88) takes the same approach where disclosure would be prejudicial.
Section 23: Revenue The third edition of the IFRS for SMEs (due out in 2024) adopts the five-step model for revenue recognition found in IFRS 15, and so the INPAG looks to adapt this approach for non-profits. Revenue is treated in two parts (paragraph G23.4). Part 1 is revenue from grants and donations (non-exchange transactions), and Part II is revenue from contracts with customers. Where the supply of goods or services is at a significant subsidy, then the transaction is treated as separate elements, a grant expense and revenue (paragraph G23.7).	FRS 102 and consequently the SORP are based in large part of the 2015 edition of the IFRS for SMEs, and so the new revenue recognition model based on five steps is not yet in GAAP. In applying Part II of revenue, INPAG interestingly regards below-market price transactions (see application guidance paragraph AG23.6) carried out in furtherance of the entity's objects not as a single transaction but as two transactions. Revenue is shown gross, with the difference between the deemed gross revenue and the consideration actually receivable treated as a grant expense. This logic implies that non-profits are similar to profit-maximising companies trading at market prices, and so, in trading, the NPO is choosing to make discretionary grants to their customers (as opposed to offering trade discount on a commercial trade, which would be the case in a for-profit trade). IFRS 15 includes the requirement for 'commercial substance' in the criteria for recognition (paragraph 9), but it does not define this term. Helpfully, in paragraph 10 INPAG states: 'A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of contract law. The IFRS notes that contracts can be written, oral or implied by an entity's customary business practices'. The SORP is based on GAAP, which applies criteria separately for goods and services (FRS 102 section 23 paragraphs 23.10 and 23.14 respectively).

INPAG treatment	**Comments: comparison with UK-Ireland 2021 GAAP**
There are three general principles for revenue recognition (paragraph G23.8): • Revenue, other than that arising from an EGO or fulfilment of promises made under the terms of a contract, is recognised on receipt or receivable whichever is the earlier. • Revenue arising from an EGO or contract fulfilment is recognised as the EGO or promises under contract are fulfilled. • Amounts received before revenue recognition criteria are satisfied are recognised as a liability. Revenue is measured at fair value or the reduction in a liability where the grant provider forgives an NPO's obligation (paragraph G23.10).	The SORP has three general principles for revenue recognition for both exchange (module 5 paragraph 5.8) and non-exchange transactions (module 6 paragraph 6.6) of: entitlement, probable and measurement. In terms of payments in advance, the SORP takes the same approach (module 5 paragraph 5.23). Subject to certain exceptions, measurement is at fair value (module 3 paragraph 3.23, module 5 paragraph 5.47 and module 6 paragraph 6.6).
The five-step model is applied to both EGAs containing EGOs and to revenue from contracts (paragraph G23.11) and the steps are: • identify if it is an EGA or contract • identify EGOs or promises – the obligations/undertakings • determine the transaction amount or price • allocate that amount or price to each EGO or promise • recognise as EGO or promise is fulfilled. If unsatisfied, no related revenue, asset or liability is recognised (paragraphs G23.12 and G23.13).	It is important to note that the five-step model is under consideration for the updating of FR102 (anticipated from 2025). In terms of revenue, the SORP distinguishes between exchange and non-exchange transactions with a different approach to each (module 5 paragraphs 5.3 and 5.4), whereas INPAG distinguishes on the basis of whether the five-step model can be applied or not. In classifying grants, the SORP has a similar distinction between general and performance-related grants (paragraphs 5.11 and 5.15); it does not define them by reference to the character of the agreement but on the basis of whether terms or conditions or performance-related conditions need fulfilling before entitlement (module 5 paragraphs 5.16 and 5.20 and module 6 paragraph 6.7).
INPAG does recognise that NPOs may not be the principal but are required to act as agent in passing on funding to a third party (paragraph G23.16). The definition of agent is: 'to arrange for those requirements to be met by the other party'. For each EGO or promise, the NPO determines if it is principal or agent. If an agent, then only the amount of any administration, commission or similar is recognised (paragraph G23.19).	The SORP has a similar distinction between principal and agent (module 19), but the focus is not on an entity's behaviour as agent but on the agency agreement (paragraphs 19.2 and 19.3). In terms of revenue as agent, the SORP takes the same approach (paragraph 19.8).

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
INPAG specifies three criteria to identify whether the NPO is a principal, any one of which must be met (paragraph G23.17): • The NPO is primarily responsible for meeting the requirements of the EGA or contract. • The NPO has the inventory risk before goods are transferred. • NPO controls the specified service or right to goods or service before it provides them to the recipient or customer, or it directs a third party to provide them.	The SORP takes a different approach to identifying if an entity is a principal, with a focus on the discretion of trustees to direct how the funds received are spent (paragraphs 19.3 andv19.4).
INPAG will distinguish in terms of presentation between funds with and without restrictions (paragraph G23.20).	SORP makes this distinction between restricted and unrestricted funds (module 2 paragraph 2.10.
Part I Grants may imposes ‘constraints’ and also ‘requirements’ (paragraph G23.23), or constraints can arise from EGAs which contain one or more EGOs.	The SORP recognises that constraints and terms can affect the timing of revenue recognition (module 5 paragraph 5.15).
An EGA is defined as (paragraph G23.24) ‘a grant arrangement where both the donor and the grant recipient have both rights and obligations, enforceable through legal or equivalent means’.	The reference to enforceability as a matter of law is found in IFRS 15 in the context of a legal contract. Arguably, by adopting this contract-style approach to non-exchange transactions, INPAG places this methodology of exchange transactions at the centre of INPAG in its application of the IFRS for SMEs. It then follows that non-exchange transactions, typical of non-profits, are not considered intrinsically any different in respect of definition, measurement or methodology.
An EGA can be written, oral or implied by customary practice (G23.25). The NPO is to consider substance over form. An EGA must specify one of three things (paragraph G23.26): • an outcome the NPO must achieve • activities it must undertake • the distinct services, goods and other assets the NPO will use internally or transfer externally.	This definition of an EGA appears to be lifted from paragraph 10 of IFRS 15 but with the specific reference to law deleted. The SORP does not equate the terms of a performance-related grant with a contract in this way (module 5 paragraphs 5.3 to 5.5).
In undertaking an EGA, an EGO creates a present obligation for the NPO (paragraph G23.27), and revenue from an EGA is recognised using the five-step model	The SORP does not reference ‘obligations’; rather, it considers terms or conditions, including performance-related conditions that affect revenue recognition (module 5 paragraph 5.15).

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
(paragraph G23.42). In applying the model, the transaction amount must be attributed by the NPO across each EGO on a 'stand-alone 'basis' by reference to the terms of the EGA and its own 'customary practices' (paragraph G23.51). This is adjusted if the EGA is only part funding that activity (paragraph G23.54). In determining the 'stand-alone' value, if the NPO procures those goods or services it uses the market price (paragraph G23.55) or uses its own estimate. Where requirements do not create an EGO, then a present obligation does not exist (paragraph G23.29). INPAG notes that administrative tasks such as monthly monitoring reports do not constitute an EGO (paragraph G23.49). Those grant arrangements that do not constitute EGAs are classed as other funding arrangements (OFAs).	 The SORP similarly does not consider administrative requirements as performance-related conditions (module 5 paragraph 5.26).
'Enforceability' is broadly defined (paragraph G23.31) arising from 'various mechanisms, so long as the mechanism(s) provide each entity with the ability to hold parties accountable for the satisfaction of their obligations'.	The concept of 'enforceability' is not used in the context of grants; rather, the distinction is to do with whether there are performance-related conditions or not (module 5 paragraphs 5.7 and 5.11)
Revenue from an OFA is recognised on receipt, or when receivable, whichever is the earlier (paragraph G23.32), and is at fair value (paragraph G23.33) at the point it is recognised.	The SORP has the same approach (module 5 paragraphs 5.10 and 5.11) but receivable is expressed in terms of the probability of receipt (paragraph 5.8).
Donations in kind Three exceptions from the general principle of revenue recognition are permitted (paragraph G23.36) and these are (paragraph G23.37): • low-value assets donated for resale or transfer to another party in the course of an NPO's fundraising activities, on sale or when the fundraising activity occurs, are measured at the amount received or receivable • items donated for distribution to service recipients or for the NPO's own use upon distribution or use are measured at fair value • services in kind that are not 'critical' to the NPO's mission	 The SORP's exceptions to its general principles are (module 6): • assets donated for sale where measurement on receipt is impractical (paragraph 6.29) • items for distribution if factors affect fair value (paragraph 6.24) or it is impractical (paragraph 6.26) • services where fair value would overstate the value to the charity or is impractical (paragraph 6.14) • contribution of volunteers (paragraph 6.19) except where part of trade or profession and these can be quantified (paragraph 6.17).

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
Donations in kind may only be recognised when they can be measured reliably (paragraph G23.40).	SORP module 6 also has exceptions to fair value (paragraphs 6.6 and 6.8). Reliability of measurement is also considered (paragraph 6.8). The SORP essentially considers whether it is practical to reference a market price for the donated item or not.
Part II In respect of contract income (exchange transactions), the five-step model as set out in paragraph G23.11 applies (paragraph G23.71). In step one, criteria have to be met for income to be treated using the five-step model (paragraph G23.74): • The contract is approved and all parties commit. • Rights and obligations are identifiable. • Payment terms are identifiable. • The contract has commercial substance. • It is probable that the income is receivable. Where a contract exists but not all criteria are met, it is treated as a liability until the criteria are met (paragraph G23.77). INPAG considers when separate contracts are bundled (paragraph 23.40) and where modifications made (paragraph G23.82). Step two involves identifying the promise(s) under the contract (paragraph G23.84), and whether a transfer of goods and services is by separate item or combined (paragraph G23.91). It covers the supply of warranties for which the customer pays and those free warranties that fall to be a provision rather than construed as a separate promise (paragraph G23.95). Non-refundable fees (paragraph G23.98) and customer options (paragraph G23.100) are considered. Step three is about determining the	The current FRS 102 (section 23) distinguishes between the supply of goods (paragraph 23.10) and services (paragraph 23.14). It is anticipated that the five-step model will be in the next FRS 102. The charities SORP considers only one type of non-profit entity, whereas INPAG as a standard is intended to apply to most types of non-profits. (ED1 considered which types of non-profits would be scoped in or out of INPAG.) The SORP applies GAAP and so can cross-refer to FRS 102 and thereby accommodate exchange transactions not covered in its text. INPAG as a complete standard needs to encompass all exchange transactions, and so it replicates the full IFRS for SMEs text. In respect to non-exchange transactions, the criterion of commercial substance is not required by INPAG (see paragraph G23.41) when applying the five-step model to an EGA, and so, arguably, the retention of it in regard to commercial (exchange transactions) revenue is an inconsistency in approach. Instead, ‘economic substance’ is substituted but, arguably, this criterion could apply to exchange transactions, too.

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
transaction price (paragraph G23.105) and considers variable consideration (paragraph G23.108), royalties (paragraph G23.112) and refund liabilities (paragraph G23.113). The time value of money, and distinguishing any financing element if payment is deferred beyond normal business terms, is considered (paragraph G23.122). Non-cash consideration is considered (paragraph 23.124). Step four involves allocating the contract price to each promise in the contract (paragraph G23.125) in proportion to the standalone prices (paragraph G23.127), their estimation (paragraph G223.130), treatment of discounts (paragraph G23.133), variable consideration (paragraph G23.134) and changes in price (paragraph G23.137). Step five is about recognising revenue as a good or service is transferred (paragraph G23.139) at a point in time (paragraph G23.140).	The SORP also considers the time value of money (module 5 paragraph 5.47 and module 11 paragraph 11.11).
A good or service is transferred when one of the following criteria is met (paragraph G23.142): • The item is consumed as it is received eg cleaning services. • Work would have to be re-performed if taken over by another eg freight logistics. • The asset is created or enhanced as customer obtains control of it eg a construction project. • The created asset cannot be readily redirected to another customer and the NPO has right to compensation for the work carried out. Indicators are given where a promise is being satisfied at a point in time (paragraph G23.147). In the case of consignment arrangements revenue is not recognised on delivery (paragraph G23.148) since the NPO retains control of the item until it is sold. Customer acceptance is considered (paragraph G23.151) and progress measured where a promise is satisfied over time (paragraph G23.154). Licensing arrangements are considered (paragraph G23.159).	Based on current GAAP, the SORP considers revenue from exchange transactions in paragraphs 5.39 to 5.52.

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
The treatment of cost incurred in seeking contracts is considered and whether these are an expense as incurred (paragraph G23.167) or can be treated as an asset (paragraph G23.172); whether balances on a contract represent a liability (paragraph G23.179) such as payments in advance or an asset (paragraph G23.180) such as payment in arrears; and how to recognise breakage rights (paragraph G23.184). **INPAG provides application guidance** to assist NPOs apply the revenue section. **The first part deals with applying the concepts.**	Since a trade is presumed to have commercial substance (or its equivalence) and is therefore at market price, the handling of trades below market price (as noted in the application guidance) involves distinguishing a discount on a commercial trade from a deemed grant expense for a trade furthering the objects of the NPO.
It offers advice in distinguishing exchange and non-exchange transactions (paragraphs AG23.1 and AG23.2) with a flow chart (figure 23.1). Figure 23.1 illustrates how a trade below market price is treated as either a trade discount or as two transactions. Paragraph AG23.4 advises that a grant is deemed to represent the difference between the gross amount of revenue if the sale was at 'equivalent value' and the actual amount receivable.	The treatment of trading by charities at below market price (most likely primary purpose trading) as comprising two elements – a trade at market price and a deemed grant expense – results in reporting a notional gross figure for imputed revenue and a deemed grant expense. Arguably, this inflates turnover (since the imputed element of revenue was money that was never receivable) and overstates charitable expenditure (since a grant payment was not actually made). It also means that cash flows and revenue and expenditure are not aligned (albeit expenditure already includes non-cash items – for example, depreciation and charges for impairment). For some non-profits, the trade is incidental – for example, farming and workshop environments where the activity is therapeutic and therefore considerations of productive efficiency and market price simply do not apply. An advantage, though, in applying the five-step model is that if non-profit trading activity is viewed as a form of social subsidy then this beneficial effect can be quantified.
Advice is offered in determining if expenses in acquiring goods or services at below market price represent a discount or a donation (paragraph AG23.10).	The SORP makes a similar distinction between a trade discount and a donation (module 6 paragraph 6.5).

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
The second part of the application guidance deals with Part I.	
The application guidance considers enforceability, which is a judgment the NPO makes (paragraph AG23.17). The definition is broad (paragraph AG23.18), with regulatory oversight providing ‘the parties to a grant arrangement with the effective means to enforce the arrangement through appeal to the regulator, even if the specific agreement is not legally enforceable’ (paragraph AG23.19).	If the regulator is not a party to the agreement, then for an appeal process to work in the way envisaged, the regulator would need both remit and powers to enforce compliance.
The guidance does state that withholding or having to return funds is not sufficient to be an enforcement mechanism (paragraph AG23.20). It goes on to suggest it can be (paragraph AG23.21) if: ‘the terms of this other arrangement specifically allow the grant provider to reduce future funding if other EGAs are breached’. Reference is also made to past practice by the funder in withholding funds. Withholding funding is a sanction if a breach of one EGA then triggers withholding of funds on other EGAs.	The guidance is silent as to whether all the EGAs assessed have to relate to the same funder when a default occurs that triggers a refund/withholding of funds, and so the inference is that if a funder were to make their funding contingent on fulfilling other EGAs with other funders, then it gives effect to enforceability for all other EGAs. The SORP does not reference withholding funding but mentions returning funds (paragraph 5.28). An issue to consider is whether there is equality similar to parties to a contract where in practice an NPO can enforce payment when there is no recourse to law. A funder can always withhold future payment, even if it has no legal recourse to getting payments already made returned.
Other alternative processes that give enforceability (paragraph AG23.22) include ‘executive orders or ministerial directives’. The guidance then suggests ‘equivalent means’ (paragraph AG23.23) ‘establish the right of the grant provider to obligate the NPO’ and ‘establish the right of the NPO to obligate the provider to pay’. The obligations need to be specific (paragraph AG23.25), and so a statement of general intent is insufficient (paragraph AG23.27) and enforcement must be through the identified mechanism (paragraph AG23.29).	In defining performance-related and other terms and conditions affecting revenue recognition, the SORP illustrates these by way of examples (paragraphs 5.16, and 5.20 to 5.22).
A flowchart sets out the treatment of OFA and EGA grants and the five-step process for identifying revenue under an EGA (Figure 23.2).	The SORP considers probability of receipt (paragraph 5.8).

INPAG treatment	**Comments: comparison with UK-Ireland 2021 GAAP**
Revenue from an OFA is recognised when received or receivable (paragraph AG23.33) whichever is the earlier.	
In terms of identifying services in kind that are mission critical, it gives the example of a volunteer-staffed counselling service (paragraph AGG23.35).	The application guidance is silent as to the price used to measure volunteer effort. The CFG publication *Inputs Matter* (2003) suggested pricing volunteer time using the then national minimum wage or, for services provided by a professional, a market price with the volunteer effort quantified in units of volunteer hours. The SORP does not allow general volunteers to be valued (module 6 paragraph 6.18)
EGA revenue is recognised using the five-step model (AG23.37). To apply that model, a wider definition is given to 'promises' (exchange transactions), with an EGO representing not simply a transfer of goods or services but also the activities carried out or objectives achieved (paragraph AG23.38). The table in paragraph AG23.40 considers various features of the five-step model and advises that in applying the model, a promise is substituted by economic substance, which in turn is linked to a cash flow.	INPAG encompasses a wider class of NPOs than charities, but in a charity context the recipient charity can only lawfully carry out activities in furtherance of its own objects. Therefore, in fulfilling its own objects, a charity in receipt of any grant could meet this broad criterion, and so the INPAG application guidance might inadvertently be construed as applying to any grant that specifies an objective to be achieved or an activity carried out. Following this logic through, then, an argument could be made that the wording used by INPAG would allow an EGA to include a grant made for a restricted purpose.
In respect of multi-year grants, recognition is assessed independently of the timing of a cash flow (paragraph AG23.42). Capital grants are recognised in the same way as other grants (paragraph AG23.47). In treating EGOs fulfilled over time, consideration is given as to which milestones trigger settlement (paragraph AG23.51). In terms of measuring progress towards fulfilment, the guidance considers output methods (paragraph AG23.52) and input methods (paragraph AG23.57) including cost (paragraph AG23.59).	The SORP also considers multi-year grants (paragraph 5.22) but in the context of time-related conditions
Donor reporting, assurance and auditing requirements may represent part of fulfilment of an EGO (paragraph AG23.61).	The SORP specifically excludes these scrutiny-related requirements as a satisfaction of performance (module 5 paragraph 5.26).

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
The table in paragraph AG23.62 provides advice on applying Part II of revenue (exchange transactions), referencing back to the relevant sections in the standard for each of the five steps.	
Section 24: Expenses on grants and donations INPAG (paragraph G24.6) distinguishes payments made under an EGA from that under an OFA.	As noted in the discussion of revenue, the SORP distinguishes on the basis of terms and conditions, including performance-related conditions, those that affect recognition and those that do not. SORP module 7 considers the recognition of expenditure and module 16 considers the presentation and disclosure of grant-making activities.
A grant expense under an OFA is recognised (paragraph G24.7) when: 'the grant-providing NPO transfers the resources to the grant recipient and no longer controls the resources in the transaction'.	The SORP (paragraph 7.5) applies the same three principles to all forms of expenditure: obligation, probable and measurement.
A provision is recognised where either an obligation or a constructive obligation (paragraph G24.8) exists.	The SORP similarly notes an obligation can arise from a legal or constructive obligation (paragraphs 7.5 to 7.7).
Measurement is at the carrying amount (paragraph G24.9) or the obligation (paragraph G24.10).	Measurement is at historical cost on initial recognition and subsequently at the best estimate to settle (paragraph 7.8).
Where a recipient fails to fulfil an obligation, then an asset is recognised (paragraph G24.11).	The return of funds by inference is shown as an adjustment to the initial heading where the expense was charged (paragraph 7.31; see also FRS 102 section 21 paragraphs 21.11 and 21.5.) (This view is taken rather than an asset, per FRS 102 paragraph 21.9, since a third party is not settling the obligation; rather, the amount required for settlement has been reduced.)
In respect of EGAs, the grant-provider identifies the GFR(s) that match the EGO(s) of the recipient. These are valued as standalone amounts (paragraph G24.15). The EGA is seen as analogous to an executory contract (paragraph G24.16), with expense recognition only occurring as both parties fulfil their respective obligations.	The SORP distinguishes between exchange and non-exchange transactions (module 5 paragraphs 5.3 to 5.5 and module 7 paragraph 7.15), whereas INPAG does not see a clear distinction; rather, the matter is whether the five-step revenue model can be readily applied to a transaction or not. The treatment of a grant as having equivalence with an executory contract is an

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
	important point of difference with UK-Irish GAAP. In a contract situation, the buyer has the right to the property they exchange with the seller. Should the seller not provide that equal exchange, then the buyer has a right to return of their property and, subject to legal processes, compensation. Examples include consumer law protections around the return of goods and recourse to a refund. In charity law the giver loses the right to their property at the point they make their gift and if the recipient does not fulfil their undertakings they cannot force the return of their gift. Even if they request regulatory intervention, an adverse finding by the charity regulator may have an effect on the recipient charity but their gift will still not be returned. In charity law, where a charity makes an appeal, then were the appeal to fail, the charity may have a legal obligation to contact the donor to return their donation, except where a secondary object to the appeal allows an alternative use (or the law permits this), but this obligation would not apply to free-will gifts by the giver such as grants.
A liability and a grant expense arise when an NPO cannot 'realistically avoid the transfer of resources' (paragraph G24.18). Prepayments are treated as assets (paragraph G24.21), and payments due and made in arrears as a liability (paragraph G24.22). If consideration is variable with uncertainty as to timing and/or amount, this may give rise to a provision (paragraph G24.24).	The SORP uses a similar concept of no realistic alternative to settling an obligation (paragraph 7.12). The SORP considers uncertainty as to timing or amount as a basis for making a provision (paragraphs 7.28 and 7.30).
Any changes to the value of a GFR are recognised as an additional, or reduction, in expense (paragraphs G24.25 and G24.26). The right to a refund if a recipient does not fulfil one or more EGOs is recognised as an asset (paragraph G24.27), but if this cannot be treated as a financial asset then it is impaired (paragraph G24.28).	The SORP takes a similar approach to a change in the estimated amount to settle (paragraphs 7.31). However, it does not treat a refund as a separate type of asset in the manner INPAG proposes but as a debtor (module 10 paragraph 10.68) where due, and the offset in creating the debtor would be against the initial heading, a reduction in expense paragraph 7.31).
If the grant-providing NPO does not control the resources being paid across because it does not exercise discretion over the amounts and timing of the transaction, the	The SORP similarly distinguishes agency transactions made on behalf of a principal (module 19 paragraph 19.7).

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
identity of the recipient and the terms of the transaction, then it is acting as agent (paragraph G24.30) and so only its administration costs are recognised (paragraph G24.31).	
Application guidance advises that a grant expense can include items otherwise known as non-exchange, non-reciprocal or non-requited transfers and expenses (paragraph AG24.1). This includes identifying where a trade has occurred where the item received by the grant-providing NPO is not of equivalent value to the resources transferred to the grant recipient, and then the difference is a grant expense (paragraph AG24.3). Figure 24.1 sets out the respective treatment of grant expenses for an OFA and EGA.	SORP module 3 paragraph 7.3 notes liabilities arise from both exchange and non-exchange transactions. The SORP does not consider whether trading at below market price is a form of grant by the providing charity. It does note that expenditure decreases assets or increases liabilities (paragraph 7.1), but grant-making is seen as a considered action with some form of communication with the recipient and associated documentation (paragraphs 7.15 and 7.16). INPAG's approach is logical if non-profit activities are equivalent to an executory contract because if the difference is not a trade discount then it must be by default a grant or donation to the customer by the charity, and if revenue is always at market price when trading, then the corollary is this deemed grant must be expenditure.
Constructive obligations arise from practices, policies or statements where the NPO has no practical ability to act in a manner inconsistent with them (paragraph AG24.5).	The SORP similarly does not see general statements as creating constructive obligations (paragraph 7.13).
A distinction is made between constraints that represent an EGO and those that do not (paragraph AG24.6).	The SORP also distinguishes between circumstances that create a liability and those that do not (paragraphs 7.12, 7.33 and 7.34).
Enforceability for an EGA exists if 'there is ability to exercise these rights, even if in practice they are never or rarely utilised' (paragraph AG24.7). Regulatory oversight can be considered to be a means of enforcement (paragraph AG24.10), as can executive orders or ministerial directives (paragraph AG24.10). The ability to withhold funding of itself is insufficient to identify enforceability 'because there is no present obligation on the grant-providing NPO to provide this future funding' (paragraph AG24.11) except where non-fulfilment would lead to reduction in funding from other EGAs as a consequence (paragraph AG24.12).	Since the SORP does not see grant-making as quasi-contractual, it does not take this approach. By inference, since in the UK and Ireland charity law jurisdictions each have a regulator, then it might be construed that by virtue of this regulatory oversight all grants have the potential to be EGAs. Contract law is clear that the parties to a contract are the only ones with rights and obligations with recourse to a third party, the court, which has lawful powers to intercede. In treating the regulator as a mechanism of enforcement, INPAG is giving it equivalence to the court. Contracts refer to the law under

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
Customary practices may give rise to enforceability where a court might rule in respect of a public body (paragraph AG24.14), or if non-adherence would cause regulatory intervention or reduced funding under linked EGAs (paragraph AG24.15). While a general statement of itself would not indicate an EGA, an oral agreement might (paragraph AG24.16). Figure 24.2 considers how EGO and GFR link in determining recognition of an expense.	which they are made and the jurisdiction of the court, but it is rare that a UK charity regulator would be a party to a grant arrangement where it is assigned the role of arbitrating on grant disputes and settlement. The SORP assumes formal communication of a grant (paragraphs 7.15 and 7.16).
A GFR is an enforceable right to have obligations satisfied by the recipient (paragraph AG24.19). EGOs are distinct undertakings by the recipient (paragraph AG24.20). A GFR must be distinct, and so if rights cannot be separated, an EGA may only have one aggregated GFR and therefore only one aggregated linked EGO (paragraph AG24.21).	
Requirements that do not specify separate outcomes, activities or distinct goods, services or other assets are unlikely to give rise to an EGO (paragraph AG24.22).	The SORP also notes that a grant for a restricted purpose is not a performance-related grant (paragraph 7.27).
For funds payable over more than one year, a liability and grant expense is only recognised to the extent that a present obligation exists (paragraph AG24.24), but if the NPO cannot realistically avoid transferring the resources, then the full amount is recognised as adjusted to its present value (paragraph AG24.27).	The SORP also considers multi-year grants and requires adjustment for the time value of money (paragraphs 7.9 to 7.11 and 7.19).
In respect of conditions outside of the grant-providing NPO's control – for example, the recipient obtaining match funding – if the transfer of resources is probable then a provision is made (paragraph AG24.28).	The SORP makes the same distinction for conditions outside of the grant-maker's control (paragraph 7.23).
In regard to capital grants, prepayment is treated as a prepayment asset, which is then derecognised, and as an expense where the GFRs are met, ie as the asset is constructed or acquired by the recipient (paragraph AG24.31). If funding is paid over post-construction or acquisition, then a liability is recognised along with a grant expense (paragraph AG24.33).	Prepayments are also seen as an asset (module 10 paragraph10.68).

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
If the recipient disposes of the asset in breach of its EGA, then if there is an enforceable unconditional right to a refund, the grant provider recognises a financial asset and reduction in expense (paragraph AG24.35) unless it retains control of the asset as its own. A modification to an EGA may be so extensive as to give rise to a new separate EGA (paragraph AG24.36). Foreign exchange is considered with monetary items restated using the applicable exchange rates (paragraph AG24.39) and non-monetary items at historical cost at the rate applicable at the date of the transaction (paragraph AG24.39). The application guidance considers whether a consortium gives rise to agent or principal by referencing satisfaction of contractual obligations (paragraph AG24.42).	The SORP does not distinguish capital grants but the acquisition or taking control of an asset would be a gain (module 10 paragraph 10.4). The SORP has few mentions of foreign exchange issues (see module 11). The treatment is per FRS 102 Section 30 paragraphs 30.6 to 30.11, and has the same treatment as INPAG. The SORP takes a similar approach to consortium arrangements (module 19 paragraphs 19.10 and 19.11).
Section 25: Borrowing costs INPAG proposes simply treating these as an expense (paragraph AG25.2).	The SORP permits the option of capitalising borrowing costs incurred in acquiring or constructing tangible fixed assets (module 10 paragraph 10.26).
Section 28: Employee benefits INPAG distinguishes the different types of benefit (paragraph G28.1), including post-employment benefits. It distinguishes when to treat an item as a liability and expense (paragraph G28.2). It discusses the recognition of short-term benefits (paragraph G28.3) measured at the amount to be paid in exchange for that service (paragraph G28.4). An unused absence entitlement is recognised (paragraph G28.5), as are bonus plans (paragraph G28.7). The distinction between defined contribution and defined benefit post-employment plans is made (paragraph G28.9), and the circumstances when a defined benefit plan can be disclosed as per a defined	SORP module 7 considers employee benefits and module 17 retirement and post-employment benefits, and takes the same approach to both as INPAG. The SORP cross-refers extensively to section 28 of FRS 102.

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
contribution plan (paragraph G28.10) set out. INPAG sets out the treatment of other long-term employee benefits (paragraph G28.28) and termination benefits (paragraph G28.29).	
Section 29: Income tax INPAG deals with the recognition of a tax liability and tax asset (paragraph G29.3) and deferred tax liability and asset (paragraph G29.6), the identification of the tax base (paragraph G29.8) and any temporary difference (paragraph G29.11). It considers the potential utilisation of unused tax losses and tax credits (paragraph G29.22), and the treatment of temporary differences due to investments in subsidiaries, branches and associates and joint arrangements (paragraph G29.25). The calculation of deferred tax (paragraph G29.29) and its measurement (paragraph G29.34) is considered. The treatment of withholding tax (paragraph G29.35) and uncertainty of tax treatment (paragraph G29.37) is considered. It concludes with presentation in the performance statement as part of the item that resulted in the tax (paragraphs G29.40) and as non-current items (paragraph G29.41).	Except for irrecoverable VAT, UK charities in the main do not pay income and corporation tax or capital gains tax on charitable activities, and so this topic is not considered by the SORP. Section 29 of FRS 102 deals with income tax. If material tax was incurred, then there is the option to disclose it separately (module 4 paragraphs 4.14, 4.18 and 4.25). However, module 15, Charities established under Company Law, does note that for charitable companies there is a requirement for disclosing tax paid in the summary income and expenditure account (see table 11). The SORP does not treat tax as only a non-current item on the balance sheet (module 10 paragraph 10.82 and see also FRS 102 section 29 paragraph 29.23).
Section 30: Foreign exchange translation INPAG considers presenting foreign exchange transactions and foreign operations into financial statements and having to prepare financial statements in a foreign currency (paragraph G30.1). The functional currency for an NPO is	FRS 102 section 30 deals with foreign exchange transactions. In respect of foreign exchange, the SORP just considered sector treatments for foreign exchange contracts and options (module 11 paragraphs 11.28 to 11.33).

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
defined (paragraph G30.2) and the initial recognition of a foreign currency transaction (paragraph G30.6) is in its functional currency. Foreign currency translation at the close of the reporting period, and where these are presented (paragraphs G30.10 and G30.11) with any gain or loss on monetary items, is attributed to the same category as the transaction to which it relates (paragraph G30.12). For non-monetary items, the presentation depends on how the item is recognised (paragraph G30.13), whether in statement of net changes in net assets or in surplus or deficit. The treatment of a net investment in a foreign operation is considered including how to show exchange differences on consolidation (paragraph G30.15). Changing functional currency is considered (paragraph G30.16), as is the currency of presentation (paragraph G30.19). **The application guidance** gives examples of transactions and foreign operations (paragraph AG30.2) and considerations when setting the functional currency (paragraph AG30.11). Advice is given on how to allocate a foreign currency to a grant arrangement (paragraph AG30.14). Non-monetary items are measured at fair value (paragraph AG30.16). In respect of unfulfilled EGOs, these are considered non-monetary items; if an EGO increases or a new obligation under an EGA is recognised, the expense is provided for in a manner consistent with an onerous contract (paragraph AG30.18). INPAG also treats as a transfer any exchange rate gain or loss relating to a restricted grant (paragraph AG30.21). It confirms that, on consolidation, foreign exchange-related gains or losses are reported (paragraph AG30.24).	The SORP has a similar approach but has only the statement of financial activities. Items are attributable to either a gain or loss or income or expenditure heading as appropriate to the item. (See module 4 paragraph 4.66 and for examples paragraphs 11.30 and 11.33.) Unlike INPAG, the SORP does not envisage non-exchange arrangements such as a grant agreement becoming onerous (SORP module 7 paragraph 7.35), but it would treat it as a constructive obligation (paragraph 7.12). This is due to the fact that the legal consequences of non-performance differ from that of a contract (module 5 paragraph 5.19), but this is a distinction that INPAG does not draw. The SORP does not treat a gain or loss on revenue associated with a restricted grant in this way (module 2 paragraphs 2.15 and 2.24).
Section 31: Hyperinflation Indicators that hyperinflation is present are	FRS 102 section 31 considers hyperinflation.

INPAG treatment	Comments: comparison with UK-Ireland 2021 GAAP
given (paragraph G31.2). Restatement is made of current and prior period comparatives (paragraph G31.3). The guidance considers the impact on each of the financial statements and concludes with what to do once hyperinflation ceases (paragraph G31.14).	
Section 32: Events after the end of the reporting period The guidance distinguishes between adjusting and non-adjusting events (paragraph G32.2). The guidance gives examples of an adjusting event (paragraph G32.5) and non-adjusting events (paragraph G32.7). Distributions declared after the end of the reporting period to holders of equity are not recognised but treated as a separate component within funds reported at the end of the reporting period (paragraph G32.8).	SORP module 13 considers post-balance sheet events and takes the same approach (paragraph 13.3), but has more examples of both adjusting (paragraph 13.5) and non-adjusting events (paragraph 13.7). In respect of dividends payable, this issue does not arise in charities. Were it to occur, then FRS 102 section 32 takes a similar approach in not recognising a liability but treating it as a separate element of retained earnings (paragraph 32.8).

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 by visiting the website, ifr4npo.org.

The IFR4NPO carried out a consultation exercise in January 2021 and, following that exercise, 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.

A question for preparers currently using GAAP is whether the differences identified in parts A and B of this paper, in applying a for-profit based framework to non-profits, are so significant that if future GAAP were aligned with INPAG it would pose an issue for charities, accountants and practitioners and 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.

The first ED was issued in November 2022. The second was issued on 26 September 2023 and has a closing date for responses of 15 March 2024. The third and final ED is anticipated in mid-2024. The EDs can be accessed via the IFR4NPO news page, which also sets out how comments can be submitted, including the option of using a web form: ifr4npo.org/news/.

In order to assist accountants respond to the ED exercise, IFR4NPO has developed a number of explainer videos, along with recordings of webinars; these can be accessed at ifr4npo.org/exposure-draft-2/.

About the author of this paper

Nigel Davies FCCA is a member of the Practitioners' Advisory Group on the IFR4NPO and he 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 the current IFRS for SMEs.

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