



Virginia, March 23, 2023

TO: IFR4NPO Organization

FROM: REDCONTABLE US, LLC

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This comment letter is to provide our insights and comments related to **ED1 for INPAG**. I represent the first web portal and online community for CPAs in Latin America. I am the founder of **REDContable.com**.

We are a vibrant professional online community on the internet and you can visit us at:

www.redcontable.com

Regards

A handwritten signature in black ink, appearing to read "Fernando Catacora Carpio". The signature is written in a cursive, flowing style.

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COMMENTS

Question 1: General comments References GP22-GP24

a) Is the structure of INPAG helpful? If not, how could it be improved?

This is a formality in drafting the document, which is clear for the reader, so we do not have any additional comment.

b) Do you have any other comments (including regulatory, assurance or cost/ benefit) relating to this INPAG Exposure Draft? If so, explain the rationale for any points you wish to make.

None related to GP22-GP24.

Question 2: Description of NPOs and users of INPAG References G1.2-G1.5

a) Do you agree with the description of the broad characteristics of NPOs? Does the term 'providing a benefit to the public' include all entities that might be NPOs? If not, what would you propose and why?

We encourage to reevaluate the term "benefit to the public" especially because the wide definition that could be assumed with the word "public". We also invite to compare the NPO definition you are proposing vs. the one under US GAAP which we incorporate only as a reference:

"Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

- a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return*
- b. Operating purposes other than to provide goods or services at a profit*
- c. Absence of ownership interests like those of business entities.*

Entities that clearly fall outside this definition include the following:

- a. All investor-owned entities*
- b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans."*



G1.2 Could be rewritten as follows:

For the purposes of INPAG, NPOs are non-business entities that publish general purpose financial reports for external users and have in varying degrees the next characteristics:

- They have the primary objective of providing the services or goods stated in its mission and vision.
- They apply any excess of resources to continue with their activities.
- They do not have the financial goal to provide a return or dividend.
- They do not act as a in the typical scenario, structure, and other factors for a business entity where the main goal is to obtain a profit and return for the owners or stockholders.
- They are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards.

b) Does Section 1, together with the Preface, provide clear guidance on which NPOs are intended to benefit from the use of INPAG? If not, what would be more useful?

Both should be complemented, replaced by a Conceptual Framework for NPOs, here it is a suggested content for Conceptual Framework:

INTRODUCTION

CHAPTER 1 - FUNDAMENTALS OF NOT-FOR-PROFIT ORGANIZATIONS

Introduction

Mission and nature of nonprofit organizations.

Scope of the mission of nonprofit organizations.

Types of Nonprofit Organizations.

Stakeholders of nonprofit organizations.

Resources, Sources and Uses.

CHAPTER 2 - NONPROFIT REPORTING OBJECTIVES

Introduction.

Types of Not-for-Profit Entity Reporting.

Main Objectives of Nonprofit Reporting.



Users and Characteristics of Not-for-Profit Reporting.

Limitations and requirements of financial reporting.

Cost and transparency of useful financial information reporting.

CHAPTER 3 - CHARACTERISTICS OF REQUIRED FINANCIAL INFORMATION FOR NPOs

Introduction.

Association of the entity's mission and financial information.

Fundamental premises: social purpose and continuity.

Qualitative characteristics of useful and reliable financial information

Regulatory, legal and compliance environment of financial information.

CHAPTER 4 - FINANCIAL STATEMENTS REPORTING

Introduction.

The role of financial statements and resource utilization reporting.

Relevance of the going concern premise in the context of Not-for-Profit Entities.

Program activities under the reporting entity.

CHAPTER 5- ELEMENTS OF FINANCIAL REPORTING

Introduction.

Definition of resources used by the entity.

Definition of obligation to transfer resources.

Definition of inputs of resources related to the mission of the operations.

Definition of outflows of resources related to the mission of the operations.

CHAPTER 6 - RECOGNITION, MEASUREMENT AND DISCLOSURES

Introduction.

Recognition process.



Measurement parameters and rationale for evaluating different bases.

Relationship between disclosures and transparency.

Classification, aggregation, and categorization of line items.

APPENDIX

Glossary

Question 3: Concepts and pervasive principles References

a) Do you agree with the range of primary users and the description of their needs? If not, what would you propose and why? G2.3-G2.12

In general the idea behind of “Users of general purpose financial reports” is fine, however the discussion and guidance needs to insert the special user and interested party for NPOs, for example, in the NP world the interested parties are basically focused on the profit that these type of entities have to disclose to the capital markets. In the case of NPO entities there are specific characteristics which need to be inserted in the guidance. The goal is not to prove to the audience and third parties that they made a profit, it is the goal to disclose they were able to accomplish the mission statement for what they were created which is not a profit-oriented mission such as “maximize the value of the firm”, typical in the context of a for-profit entity.

b) Do you agree with the qualitative characteristics of useful information? If not, what would you change and why? G2.13-G2.32, AG2. 1-AG2.3

All this is similar to IFRS full and IFRS for SME and a new conceptual framework for NPOs should frame and tailor all the specific characteristics for these type of entities. No additional comments.

c) Do you agree with the components of net assets? If not, why not? G2.73, Figure 2.2

This is like US GAAP and other accounting frameworks, however the idea to insert NCI into the guidance is against the nature for NPO, NCI is required to be disclosed for entities with a for-profit goal and the idea to disclose that line item is how much is the participation in the profits and equity in a consolidation. That is not the main idea when elaborating Financial Statements for NPOs.

As far as net assets is fine but again, IFR4NPO has an amazing opportunity to go beyond the actual status



of the accounting concepts for NPOs, for example, the term “asset” could be better represented with the idea of a “resource” the term asset implicitly requires a profit. The term resource does not imply a profit and NPOs basically receive resources and apply resources with restrictions, conditions etc.

d) Do you agree with the inclusion of equity as an element? If not, what would you propose and why? What type of equity might an NPO have? G2.141, AG2.6-AG2.9

No at all, this is against the nature of NPOs. This could be a mistake if included into the guidance. By definition, there should not exist equity for NFPs.

e) Do you agree with the categorisation of funds between those with restrictions and those without restrictions in presenting accumulated surpluses and deficits? If not, what would you propose and why? G2.74-G2.75, AG2. 4-AG2.5

Yes, we agree with that categorization.

f) Do you agree that funds set aside from accumulated surpluses for the holders of equity claims can be part of funds with restrictions and funds without restrictions and that they should be transferred to equity prior to distribution? If not, what would you propose and why? G2.142, AG2.8-AG2.9

Yes, we agree with that categorization.

g) Do you agree that ‘service potential’ should be introduced into Section 2? If not, why not? G2.51, G2.54, G2.58, G2.67-G2.68, G2.103, G2.108-G2.110, G2.115-G2.117, G2.122

Service potential is associated to the concept of an economic benefit, profit and similar concepts.

As we understand the concept of service potential is best suited for FP entities, a different concept such as “capacity contribution” could be developed and build the concept/theory to introduce a new term.

h) Do you agree that the provisions for ‘undue cost and effort’ used in the IFRS for SMEs Accounting Standard should be retained? If not, why not? G2.33-G2.36

Yes, this is intrinsic to the financial reporting process for any entity either a NFP or FP.



i) Is the NPO as a reporting entity clear? Does the process for identifying branches in the Application Guidance support the principles? If not, what would be more useful? G2.43-G2.49, AG2.10- AG2.24. 21
Specific matters for comment Invitation to comment Specific matters for comment

On paragraph G2.43, a reporting entity should always be associated to a legal entity. This relates to accountability, transparency and many other characteristics inherent to this type of entities. Opening the door to create a reporting entity without substance, say a legal form is not the way the guidance should be created.

Question 4: Principles to enable comparability of financial statements

a) Do you agree with the proposed changes to terminology from the IFRS for SMEs Accounting Standard? If not, what would you propose and why? Sections 3-10

All these concepts should be drafted and developed in a new conceptual framework and reinvent the accounting terminology for NFP entities.

b) Do you agree that comparatives should be shown on the face of the primary statements? In particular, do you agree with the proposed comparatives for the Statement of Income and Expenses? If not, what do you propose and why? G3.14, G3.19, AG3.9- AG3.11, BC5.11

Yes, comparatives should be shown in the face of the financial statements.

c) Do the proposals for expressing compliance with INPAG create unintended consequences? If so, what are your key concerns? G3.3-G3.7, AG3.3-AG3.5

No at all, that is required to express compliance with INPAG, otherwise transparency may not be one of the characteristics of the financial statements.

Question 5: Scope and presentation of the Statement of Financial Position References

a) Do you agree that all asset and liability balances should be split between current and non-current amounts (except where a liquidity-based presentation has been adopted)? If not, why not? G4.5-G4.9, AG4.4

Most if not all NFP entities should follow the Non-current/Current approach same as IFRS. We do not see liquidity-based presentation would benefit consistency and comparability.

b) Do you agree with the proposal that not all categories of asset and liability balances should be split between those with and those without restrictions? If not, which categories of asset and/or liability should be split? G4.13-G4.14, AG4.5- AG4.7

We agree with this proposal.

Question 6: Scope and presentation of the Statement of Income and Expenses References

a) Do you agree with the name of the primary statement being 'Statement of Income and Expenses'? If not, why not? BC5.1-BC5.5

No, a specific title for NFP entities should be created. Here are some suggestions:

- **Statement of Resources**
- **Statement of Sources and Application of Resources**
- **Statement of Execution of Resources**
- **Statement of Activities of Resources**
- **Statement of Inflows and Outflows of Resources**

b) Do you agree that the terms surplus and deficit should be used instead of profit or loss? If not, why not? G5.5, BC5.6

No, surplus and deficit are associated with FP entities. Some suggestions are:

- **Excess, (Deficiency) of Resources**
- **Net Resources in Excess (Deficiency) of Resources applied**

c) Do you agree that amounts on each line of revenue and expenses should be split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why? G5.3, AG5.4-AG5.6, BC5.9-BC5.12

Yes.



d) Do you agree that NPOs should be able to choose whether to present either income items or expense items first to get to a surplus or deficit? If not, what alternative approach would you propose and why? Implementation guidance

Expense first then Income.

Question 7: Scope and presentation of the Statement of Changes in Net Assets References

a) Do you agree with the proposal that there is no Other Comprehensive Income (OCI), and that an expanded Statement of Changes in Net Assets would allow an equivalent to the OCI being produced. If not, why not? G6.2, BC5.13-BC5.16, BC6.1-BC6.5

OCI should not be proposed for NFPs is out of scope.

b) Do you agree that funds are split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why? G6.4 22 Specific matters for comment Invitation to comment Specific matters for comment

We absolutely agree with this approach.

Question 8: Scope and presentation of the Statement of Cash Flows References

a) Do you agree with the separate presentation of cash donations and grants on the face of the statement? If not, what alternative approach would you propose and why? G7.4 a)

Yes, both should be separate, in fact other types of resources should be also presented separately.

b) Do you agree that donations or grants received for the purchase or creation of property, plant and equipment should be treated as investing activities? If not, what alternative would you propose and why? G7.5 b)

No, a new category with a new label should be created, tailored for NFPs.

c) Do you agree that both the direct method and indirect methods for the cash flow statement should be permitted? If not, why not? G7.7-G7.9

Only the direct method.

Question 9: Principles underpinning the notes to the financial statements

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

The guide should provide a more detailed guidance for the notes, this is one of the most important pieces for financial statements.

Question 10: Approach to consolidated and separate financial statements References

a) Is the Application Guidance to apply the control principles sufficient? If not, what changes or additions would you propose and why? AG9.1-AG9.14

For the purpose of the guidance and consolidation is reasonable.

b) Do you agree that a rebuttable presumption relating to control should be retained? Is the current drafting sufficient? If not, what would you propose and why? G9.17

Yes it is.

c) Is the Application Guidance sufficient to apply the fundamental characteristics of faithful representation and relevance to consolidation? If not, what additions would you propose and why? G9.21-G9.22, AG9.17- AG9.19

Yes it is.

d) Do you agree with the use of the terms 'controlling NPO', 'controlled entity' and 'beneficial interest' instead of 'parent', 'subsidiary' and 'investment'? If not, what would you propose and why? G9.7, G9.24

Yes.

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

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

All content is standard from IFRS.



Question 12: Scope and content of narrative reporting References

a) Do you agree with the principles proposed to underpin narrative reporting? If not, what would you propose to change and why? G35.3-G35.7

Principles are good enough for a first version.

b) Do you agree with the scope of the minimum mandatory requirement, with additional information, such as sustainability reporting to be optional? If not, what changes should be made and why? G35.8-G35.19, G35.30, AG35.2-AG35.13

Yes.

c) Do you agree with the proposals that sensitive information can be excluded from narrative reports? If not, what alternative would you propose and why? G35.7

Any sensitive information should be excluded.

d) Should a two-year transition period for narrative reporting be permitted to assist in overcoming any implementation challenges? If not, what alternative would you propose and why?

Two years is enough for transition.