

Financial Reporting for Non-Profit Organizations: An Update

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CICA Research Study

The Canadian Institute of Chartered Accountants' research study *Financial Reporting for Non-Profit Organizations* was published in 1980 and discussed in *The Philanthropist* Vol. 3, Summer 1981 (*Accounting for Non-Profit Organizations—as it is now and may be in the future—The Director's Concerns*). While the research study has been positively received and widely accepted, the CICA has moved slowly towards implementation of the recommendations through amendments to the *CICA Handbook*. Progress towards this goal should be made in 1984 and 1985 as a result of the recent authorization of separate projects by the Accounting Standards Committee and the Auditing Standards Committee. The purpose of each project is to develop the relevant *CICA Handbook* sections so that the standards they set out apply to the financial reporting and auditing of non-profit organizations. The projects involve, first, development of the *Accounting and Auditing Handbook* sections which refer to the sections that apply to non-profit organizations and require that these organizations follow them. The later stages of the projects involve developing new *Handbook* sections to cover special requirements.

Canada Non-Profit Corporations Act and Regulations

The federal act and regulations first appeared in 1974 in *Proposals for a New Not-for-Profit Corporations Law for Canada* published by the Department of Consumer and Corporate Affairs. The act itself passed the Senate in 1979 as Bill S-7, was introduced in the House of Commons in 1979, then reintroduced in 1980 as Bill C-10. There have been notices of amendments since, but the bill has not passed and is not a priority item in the latest Speech from the Throne.

U.S. Financial Accounting Standards Board (FASB)

FASB issued an exposure draft in July 1983 which seeks to adapt for non-profit organizations two earlier FASB concepts statements: Number 2 dealing with the *qualitative characteristics* of accounting information that make it useful, e.g., relevance, reliability, comparability and cost/benefit, and Number 3 dealing with the elements of financial statements, e.g., assets, liabilities, equity, revenue and expenses.

The *qualitative characteristics* amendment takes a page and says, in effect, that accounting information for business and non-profit organizations should have the same qualitative characteristics, although in certain circumstances application information that is appropriate for business may differ from the application information that is appropriate for non-profit organizations.

The elements amendment takes 104 pages. It adds a new element, "contributions", to the 10 elements previously identified for business accounting, and distinguishes

it from revenues on the basis that “contributions” are received from donors who have no expectation that they will receive goods or services in return.

Although it is a “concept” statement, i.e., one that does not address accounting principles as such, the proposed elements amendment makes some important points: that board-designated assets differ substantively from restricted assets, that most restricted contributions do not create obligations that qualify as liabilities, i.e., they are current, not deferred, revenue; that the use of a fixed asset consumes part of the future economic benefit of the asset and that this decrease in future benefit is one of the costs of using the asset, i.e., non-profit organizations should have depreciation as an expense.

The effect of the restricted/unrestricted definitions would be to reduce fund accounting to these two broad classes of net assets instead of the traditional fund groups that show assets by purpose rather than restriction.

FASB held public hearings in November on the proposed amendments. As might be expected, comments mainly related to depreciation and the definition and treatment of unrestricted and restricted funds. FASB is now considering the comments.

FASB has also initiated a research study of the non-profit reporting entity. Professor William A. Holder of the University of Southern California is surveying current practices of non-profit organizations regarding the treatment in their financial statements of activities other than the central operations in which they engage, i.e., the definition and disclosure of ancillary and unrelated activities.

United Kingdom

In 1980 Peter Bird and Peter Morgan-Jones published a research study *Financial Reporting by Charities*. Following publication of the study, in April 1982, the Institute of Chartered Accountants of England and Wales set up a working party which has been studying ways of enhancing the usefulness of charities’ annual reports and possible reduction in the diverse reporting practices employed in the United Kingdom. Their discussion paper *Accounting by Charities* is expected to be published by the United Kingdom Accounting Standards Committee at an early date.