Financial Reporting for Non-Profit Organizations: 1986 Update

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CICA Handbook

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"). The research study was positively received and widely accepted.

The CICA has moved towards implementation of the recommendations through amendments to the *CICA Handbook.* The *Handbook* has two main sections, one dealing with Auditing and the other with Accounting. The exemption for non-profit organizations is being removed from the Auditing Recommendations effective for reports issued after December 31, 1986. The CICA Accounting Standards Committee is working currently on the identification of necessary amendments to existing Accounting Recommendations to bring non-profit organizations within their scope.

Proposed 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 which died on the Order Paper. There have been notices of amendments since, but the bill has not passed and currently does not appear to be a priority item.

United States Financial Accounting Standards Board (FASB)

In December 1985 FASB released *Statement of Financial Accounting Concepts No.6: Elements of Financial Statements* thus completing the essential work on the conceptual framework it will use in developing accounting standards for non-profit organizations. FASB believes the various forms of guidance now available to non-profit organizations should be made more uniform, particularly in what have been identified as the pervasive issues:

- Accounting for contributions and grants;
- Accounting for depreciation;
- Defining the reporting entity (i.e., the definition and disclosure of ancillary and unrelated activities);

- Displaying financial position and results of operations;
- Accounting for investments.

These issues are complex and interrelated. Work on the first four issues has been started. The exception is the study of accounting for investments which has been deferred for the moment because another project affecting this for all reporting entities is expected to be undertaken by FASB. It is expected it will be at least two years before "issues papers" are produced by FASB.

In 1985 FASB dropped from its agenda, without resolution, the study of joint costs that include fund raising. The American Institute of Certified Public Accountants has taken this up and drafted a proposed *Statement of Position*. The fundamental concept is that joint costs should be allocated between fund raising and the appropriate program or management function, rather than arbitrarily assigned to fund raising. There are two important conditions set out for allocation: first, there must be a *bona fide* program or supporting activity conducted jointly with fund raising, and second, the fact that joint costs have been allocated is to be disclosed in the financial statements.

United Kingdom

The Accounting Standards Committee issued ED 38, a proposed *Statement of Recommended Practice* on accounting by charities, in November 1985, 20 months after it published its Discussion Paper *Accounting by Charities.* There are more than 80 recommendations in ED 38. The main provisions of the *SORP*, which covers the whole of the annual report, not just the financial statements, are:

- Full legal and administrative details must be given, including the charity's objective;
- There must be a trustees' report explaining how the charity works and outlining its plans;
- A balance sheet, income and expenditure account and source-and-application-of-funds statement must be provided, using the accruals concept, showing comparative figures, and showing all income, expenditures, assets and liabilities which make up the different funds;
- All major funds should be identified and details disclosed;
- All fixed assets must be capitalized, even when received as a gift, and depreciated over their useful lives.

International

The International Accounting Standards Committee has not been active yet in the area of non-profit organizations. A number of internationally active organizations such as United Way have been developing and publishing accounting standards as part of their broader role. An interesting example of the broader accountability approach is provided by the Evangelical Council for Financial Responsibility. It has developed broad standards for member organizations (some 600), amplified with additional detail, that include subscription to the Christian faith, governance by a responsible board, provision for an annual audit, maintenance of an audit review committee, provision of a copy of current audited statements upon written request, avoidance of conflict of interest and integrity in fund raising.