FAR-1 — FINANCIAL ACCOUNTING & REPORTING 1

Topic: ACCOUNTING FOR NPOs

1 TOPIC OVERVIEW

WHAT IS IT?
Not-for-Profit Organisations (NPOs) apply the Accounting Standard for Not-for-Profit Organisations (ASNPO), which uses fund accounting and detailed contribution-revenue recognition guidance — mandatory for NPOs registered as companies under SECP.

WHY IMPORTANT?
NPOs don't aim to make profit for owners — they must instead account transparently for how restricted and unrestricted resources are used, for donors, trustees and regulators.

CORE PRINCIPLE
Under the deferral method, a contribution's **recognition timing** depends entirely on the type and nature of any restriction attached — matched against when the related expense is incurred, not simply on receipt.

2 KEY TERMINOLOGY — PROFIT-ORIENTED vs NPO

Profit-oriented entities	Not-for-Profit Organisations
Statement of comprehensive income	Statement of income and expenditure
Net profit	Excess of income over expenditure / Surplus
Net loss	Excess of expenditure over income / Deficit
Equity / share capital and reserves	Net assets / Accumulated fund / Fund balance
Statement of changes in equity	Statement of changes in net assets
Specific reserve	Restricted contribution / grant
Fee	Subscription
Owners / Shareholders	Trustees / sponsors / donors

ASNPO is compulsory for NPOs registered under company law; recommended for others. If any ASNPO requirement conflicts with IFRS, **IFRS prevails**. Measurement is primarily at **historical cost**, with no adjustment for changes in general purchasing power.

3 RECOGNITION CRITERIA [ASNPO:2.35, 2.38, 2.40–2.45]

Item	When recognised
Revenue (general)	When performance is achieved and reasonable assurance of measurement/collectability exists.
Unrestricted contributions	Generally when received or receivable (performance not usually relevant).
Restricted contributions	Based on the nature of the restriction (see deferral method table, page 2).
Gains	Generally when realised.
Expenses and losses	When an expenditure/asset no longer has future economic benefit; matched to the period via the matching concept.

4 FUND ACCOUNTING [ASNPO: Definitions, 4.3, 4.16, 4.19]

Fund accounting = a self-balancing set of accounts per fund; involves accounting (not necessarily physical) segregation of resources. Two methods exist — **deferral method** (examinable, used by most NPOs) and restricted fund method (not examinable).

Fund type	Definition
Endowment fund	Accumulates endowment contributions; only endowment contributions + investment income restricted to add to principal are its revenue. Internal allocations to it are inter-fund transfers.
Restricted fund	Reports restricted resources (other than endowment) and related externally-restricted revenue only.
General / unrestricted fund	Reports all unrestricted revenue, plus restricted contributions with no corresponding restricted fund. Balance = net assets free of external restriction.

WORKED CHECK [Example 01]
Rs.100m allocated, principal preserved, 80% of investment income for student support/20% added to principal → **Endowment fund**. Overseas donations for routine drug operations → **General fund** (used for regular operations, not permanently restricted). Fund raised specifically for building a school at one location → **Restricted fund**.

CONTRIBUTIONS & THE DEFERRAL METHOD (CORE EXAM TOPIC)

5 TYPES OF CONTRIBUTION [ASNPO: Definitions]

Type	Definition
Restricted	Subject to externally-imposed stipulations specifying the purpose the asset must be used for.
Endowment	A restricted contribution requiring resources be maintained **permanently** (constituent assets may change).
Unrestricted	Neither restricted nor endowment.

Restrictions may only be **externally** imposed initially; internal restrictions can subsequently be imposed formally by the NPO itself (directors/trustees). [Example 02 pattern: land restricted to build a specific hospital/school → restricted; land or its sale proceeds usable for general objectives → unrestricted; funds where principal must be invested permanently and only earnings used → endowment.]

6 RECOGNITION OF CONTRIBUTION REVENUE — DEFERRAL METHOD [ASNPO:6.27–6.46]

Contribution type	Recognition
Endowment contributions	Direct increase in net assets in the current period; **excluded from revenue** (never available for service delivery expenses).
Restricted — for current period expenses	Recognise as revenue in the **current period**.
Restricted — for future period expenses	**Defer**; recognise as revenue in the same period(s) as the related expenses. If restriction is purely "not usable until a future period," recognise in full in that future period whether spent or not.
Restricted — for capital assets (depreciable)	**Defer**; recognise as revenue on the same basis as the related depreciation/amortisation.
Restricted — for capital assets (non-depreciable)	Recognise as a **direct increase in net assets**.
Restricted — for debt repayment (debt funded future expenses)	Defer; recognise as revenue in the same period(s) as the related expenses.
Restricted — for debt repayment (debt funded capital asset)	Defer on depreciation basis (depreciable) or direct increase in net assets (non-depreciable).
Restricted — for debt repayment (otherwise)	Recognise as revenue in the **current period**.
Unrestricted contributions	Recognise as revenue in the **current period**.

Deferred contribution balances are presented on the SFP **outside net assets, as a liability**. A contribution is only treated as restricted-for-capital-assets if the contributor **specifically designates** that portion — otherwise it's recognised as revenue when spent for the restricted purpose generally.

7 WORKED CHECKS — CONTRIBUTION RECOGNITION [Examples 03–05]

Donation to fund construction of a club house (under construction)	Restricted for a capital asset → recognise as **deferred contribution (liability)** now; recognise as revenue on the **same basis as depreciation** once built.
Board sets aside accumulated fund for an internal scholarship scheme	NOT a restricted contribution (internal, not external, restriction) → shown in **statement of changes in net assets** only: Dr General fund / Cr Special fund; later Dr Special fund / Cr Cash on payment.
Donation to repay a loan taken for general operations (not future-period or capital-related)	Recognise as revenue **in the current period** — none of the deferral exceptions apply.

8 CONTRIBUTED MATERIALS, SERVICES & RECEIVABLES [ASNPO:6.15–6.17, 7.2, 7.4, 7.5]

Contributed materials/services measured at **fair value** only if (a) FV reasonably estimable, AND (b) used in normal NPO operations and would otherwise have been purchased. Contributed items forming part of a constructed/developed capital asset are always recognised at fair value. **Contributions receivable** (incl. pledges) recognised only if the amount is reasonably estimable AND collection is reasonably assured (pledge: also needs reasonable assurance conditions will be met and no outside contingency). **Bequests**: usually not recognised until actually received, given high uncertainty.

MEMBERSHIP FEES, GOVERNMENT FUNDING & OTHER INCOME

9 MEMBERSHIP FEE / SUBSCRIPTION [ASNPO:6.4]

Both arrears and prepayments are carried on one subscription account; cash received is credited; the balancing figure transfers to the statement of income and expenditure as the year's income.

Subscriptions account [Worked check — Examples 06–07]	
b/d (arrears)	48,000
Income & expenditure (balancing)	600,000 (or 576,000 net of bad debts)
c/d (advance)	31,200
Credit side	
b/d (advance)	12,000
Cash	624,000
Bad debts (written off, if any)	24,000
c/d (arrears)	19,200

Bad debts on written-off subscriptions are charged as an expense in the I&E statement **and** included in the subscription account to arrive at the correct net subscription revenue.

10 JOINING FEE & LIFE MEMBERSHIP FEE

Recognised as income spread over the years the NPO expects to provide services (judgement-based) — sometimes recognised fully in the year they become due instead.

WORKED CHECK [Example 08]

20 members pay Rs.80,000 life membership each (avg. 10-year service expectation) → recognise **Rs.160,000/yr** (20×80,000/10) in I&E. Next year's Rs.160,000 → current liability; remaining Rs.1,280,000 → non-current liability.

11 FEE FOR SERVICE vs CONTRIBUTION [ASNPO:6.4]

Membership fees are fees-for-service when members get value commensurate with fees paid; otherwise they're in substance contributions. Mixed fees are **split** between the two portions. [Example 09: subscription income is fee-for-service, reported gross (Rs.600m) or net of bad debts (Rs.576m); a separate no-strings donation from members is contribution revenue, reported **separately**.]

12 GOVERNMENT FUNDING & GROSS vs NET PRESENTATION [ASNPO:6.3, 4.45–4.48, 4.49–4.52]

Government funding is normally a **contribution** (even if calculated per unit of service) because services are delivered to the NPO's community, not the government — UNLESS the NPO provides goods/services **directly to government**, in which case it's a fee for services.

NPO acts as PRINCIPAL (own discretion in contracting, sets price, bears risk)	Present funding revenue and related costs on a **gross** basis. [Ex.11: NPO contracts scientist at its own discretion.]
NPO is the employer, seconds staff, reimbursed for costs	Report reimbursement as revenue and employee costs as expense — **gross** basis. [Ex.12]
NPO organises event in its own name, sets fundraiser fees, bears credit risk	**Gross** basis — full amounts raised as revenue, all costs (incl. outside fundraiser fees) as expense. [Ex.13]
NPO is NOT the organiser and bears no risk (third party runs the event, gives net proceeds)	Neither gross revenue nor gross expense recognised — only the **net proceeds received** as a contribution. [Ex.14]

13 INVESTMENT INCOME & OPERATING PROFIT

INVESTMENT INCOME [ASNPO:6.47–6.48]

Recognised the same way as contributions: externally restricted to endowment principal → direct increase in net assets; other externally restricted → per the deferral table; no restriction → straight to the I&E statement.

PROFIT FROM OPERATIONS (coffee bar/shop)

Calculated separately as a trading account (sales − cost of sales − opening stock + purchases − closing stock = gross profit, less direct operating expenses e.g. staff salary) and shown as **one net line** in the I&E statement.

ASSETS, FINANCIAL STATEMENTS & QUICK RECAP

14 INVENTORIES, COLLECTIONS & PPE

INVENTORIES [ASNPO:5.3–5.4]

Contributed materials → cost = FV at contribution date. Inventory held for distribution at no/nominal charge (or consumed to produce such items) → measured at **lower of cost and current replacement cost**. [Ex.15: pick the lower of cost vs replacement cost per item — NOT NRV, which doesn't apply here.]

COLLECTIONS [ASNPO: Definitions,10.2–10.4, 8.8]

Works of art/historical treasures held for exhibition/education/research, preserved, with a policy that sale proceeds fund further collection items — excluded from PPE/intangibles definitions. Capitalisation is **not required** (not precluded). Items with virtually unlimited life (given technical/financial ability to preserve) are **not depreciated**.

PPE — CONTRIBUTED & IMPAIRED ASSETS

Contributed capital asset → fair value at contribution date (or nominal value for both asset and contribution if FV can't be estimated). Purchased substantially below FV → recognise at FV, difference = contribution. Grant-funded moveable asset may be shown net of the grant, with the grant reducing depreciation expense over the asset's life. Land is not depreciated. **Impairment:** write down to residual value when the asset no longer helps deliver services; any related **unamortised deferred contribution** is simultaneously recognised as revenue (matching).

WORKED CHECK [Example 16]

Furniture CA Rs.600,000 destroyed by fire; related deferred contribution Rs.400,000 → **Dr Impairment loss (I&E) / Cr PPE Rs.600,000**; **Dr Deferred contribution / Cr Contribution revenue (I&E) Rs.400,000**.

15 FINANCIAL STATEMENTS [ASNPO:3.9, 4.18, 4.25, 4.29, 4.31, 4.35, 4.37, 4.38]

NPOs prepare: SFP, statement of income and expenditure, statement of changes in net assets, and statement of cash flows. SFP splits current/non-current as usual. Under the deferral method: endowment contributions → accumulated in net assets; internal restrictions → shown as appropriations of unrestricted net assets; external restrictions → **deferred contributions (liability)**. I&E may classify expenses by object, function, or program — whichever gives the most meaningful presentation — and must show total surplus/deficit across **all funds combined**. Inter-fund transfers appear in the statement of changes in net assets (not I&E); allocations made when revenue/expense is first recognised are NOT transfers.

COMPREHENSIVE WORKED CHECK [Example 17 pattern]

Contribution restricted for land not yet acquired → stays a **deferred contribution** (non-current liability), excluded from current-year contribution revenue. Government funding for 5 years of general operations, received mid-year → recognise **1/5 × time elapsed** in I&E, balance split current/non-current deferred funding. Endowment contribution + its restricted investment income → both go **directly to net assets**, excluded from I&E. Internally-designated franchise fund transfer → shown only in **statement of changes in net assets**. Collections meeting the "preserve perpetually" test → excluded from depreciable capital assets.

16 CALCULATION ROADMAP — NPO QUESTIONS

1. Identify income source & any restriction
2. Classify: unrestricted / restricted / endowment
3. Apply deferral-method recognition rule
4. Gross or net presentation? (principal test)
5. Post to correct fund / statement
6. FS effect (I&E / SOCNA / SFP)

⚠ EXAM TRAPS — COMMON MISTAKES

- Recognising a **restricted-for-capital-asset** contribution immediately as revenue instead of deferring it on the depreciation basis (depreciable assets).
- Recognising **endowment contributions** as revenue at all — they are always a direct increase in net assets and excluded from I&E.
- Treating an **internal** board-approved fund transfer as a restricted contribution — internal restrictions only ever appear in the statement of changes in net assets, never as I&E revenue.
- Forgetting to write off **bad subscriptions** both as an I&E expense AND within the subscription T-account.
- Using **NRV** instead of the lower of cost and current replacement cost for inventory held for nominal-charge distribution.
- Assuming government funding is always a fee-for-service just because it's calculated per unit of output — it's a **contribution** unless the service goes directly to government.
- Getting the **gross vs net** presentation judgment backwards for fundraising/funded projects — the deciding factor is whether the NPO acts as principal (discretion, risk, pricing) or merely passes on someone else's net proceeds.
- Depreciating **collections** or land that qualifies for perpetual preservation.
- Forgetting to also recognise the related **unamortised deferred contribution as revenue** when a contributed/grant-funded asset is impaired.
- Confusing **life membership fee** recognition (spread over expected service years, split current/non-current liability) with an ordinary annual subscription (recognised year by year via the subscription account).

17 QUICK DECISION TREE — ANSWERING ANY NPO QUESTION

1. Question given
2. Income, asset, or fund-transfer issue?
3. Apply relevant ASNPO rule
4. Calculate / classify fund
5. Journal entry / statement line
6. ✔ Final answer

ACCOUNTING FOR NPOs IN 60 SECONDS

3 fund types: Endowment (permanent principal), Restricted (external purpose), General/unrestricted (everything else).

Endowment contributions → direct increase in net assets, never revenue.

Restricted for future expense → defer, match to expense period. **For capital asset** → defer on depreciation basis (or direct to net assets if non-depreciable).

Unrestricted → revenue immediately.

Deferred contributions = liability on SFP, outside net assets.

Government funding = contribution unless service is direct-to-government (then fee).

Gross vs net: principal (discretion + risk) → gross; pass-through of someone else's net proceeds → net contribution only.

Inventory (nominal-charge distribution): lower of cost and replacement cost.

Internal fund transfers → statement of changes in net assets only, never I&E.