

## CICA handbook accounting and auditing highlight summary no. 87 March 1996

### HIGHLIGHT SUMMARY

(Note: New Handbook material or changes in existing material are identified in each HANDBOOK REVISIONS RELEASE.)

#### Prior period adjustments, Section 3600

This Section has been withdrawn and two new Recommendations have been added to ACCOUNTING CHANGES, Section 1506 to clarify the effect of the withdrawal of Section 3600. The effective date of the new Recommendations is for fiscal years beginning on or after April 1, 1996.

#### NOT-FOR-PROFIT ORGANIZATIONS

Included with this release are six new Handbook Sections that apply only to not-for-profit organizations. All other Sections of the Handbook continue to apply to not-for-profit organizations, unless otherwise stated. Recommendations on new areas considered unique to not-for-profit organizations or changes to these Recommendations will be issued periodically when considered necessary.

The Recommendations of these new Sections are effective for fiscal periods beginning on or after April 1, 1997, but earlier adoption is encouraged.

#### Financial statement presentation by not-for-profit organizations, Section 4400

This new Section establishes presentation and disclosure standards for financial statements of not-for-profit organizations. The main features of the Section are:

- Organizations using fund accounting in their financial statements should disclose the purpose of each fund presented.
- Interfund transfers are to be reported separately from revenues and expenses as changes in net assets.
- Organization-wide totals for each financial statement item for all funds reported are required in the statement of financial position. Such totals, including total excess of revenues over expenses, are also required in the statement of operations for organizations following the deferral method of accounting for contributions. Organizations following the restricted fund method of accounting for contributions are required to present totals, including total excess of revenues over expenses, for all general funds, all restricted funds and the endowment fund.
- The statement of financial position should present separately net assets invested in capital assets, permanently restricted net assets (i.e., endowments), other restricted net assets and unrestricted net assets. Separate disclosure of externally restricted amounts and the nature of the restrictions is also required.
- The statement of changes in net assets should present changes in each category of net assets presented in the statement of financial position.
- The statement of cash flows should present changes in cash from operations and changes in cash from financing and investing activities.

The Recommendations of the Section should be applied retroactively, unless the necessary financial information is not reasonably determinable.

An appendix presents sample financial statements illustrating some of the different methods of presentation that would comply with the Recommendations.

#### Contributions — revenue recognition, Section 4410

This new Section establishes standards for the recognition, measurement, presentation and disclosure of contributions, and related investment income, by not-for-profit organizations. Organizations are required to follow either the deferral method or the restricted fund method of accounting for contributions.

Under the deferral method, organizations are required to recognize:

- endowment contributions as direct increases in net assets;
- externally restricted contributions and externally restricted investment income as revenue in the same period in which the related expenses are incurred; and
- unrestricted contributions and unrestricted investment income as revenue in the current period.

Under the restricted fund method, organizations are required to recognize:

- endowment contributions as revenue of the endowment fund;
- externally restricted contributions and externally restricted investment income for which there is a corresponding restricted fund as revenue of that fund;
- externally restricted contributions and externally restricted investment income for which there is no corresponding restricted fund in the general fund in accordance with the deferral method; and
- unrestricted contributions and unrestricted investment income as revenue of the general fund.

In addition, the Section requires all organizations to measure contributions at fair value and to disclose:

- the policies followed in accounting for each type of contribution;
- contributions by major source;
- the nature of changes to any deferred contributions balances; and
- total investment income earned on resources held for endowment and how it was recognized in the financial statements.

The Recommendations should be applied retroactively, unless the necessary financial information is not reasonably determinable.

An appendix provides an overview of the Recommendations.

#### **Contributions receivable, Section 4420**

This new Section establishes standards for the recognition and disclosure of contributions receivable by not-for-profit organizations.

Organizations are required to recognize contributions receivable when the amount to be received can be reasonably estimated and collection is reasonably assured. Disclosure of the amount of pledges and bequests recognized as assets and the amount recognized as revenue is required.

#### **Capital assets held by not-for-profit organizations, Section 4430**

This new Section establishes standards for the recognition, measurement, presentation and disclosure of capital assets by not-for-profit organizations. Organizations are required to:

- record capital assets on the statement of financial position at cost. For a contributed capital asset, cost is considered to be fair value at the date of contribution;
- amortize capital assets with limited lives;
- recognize amortization as an expense in the statement of operations;
- write down capital assets that no longer have any long-term service potential; and
- disclose the amount of amortization expense, the amount of any write-downs and information about major categories of capital assets and contributed capital assets.

Small not-for-profit organizations may limit the application of this Section to certain required disclosures about capital assets if the total average annual revenues recognized in the statement of operations in the current and preceding periods is less than \$500,000.

#### **Collections held by not-for-profit organizations, Section 4440**

This new Section establishes disclosure standards for collections held by not-for-profit organizations. Organizations are required to disclose a description of the collection and the accounting policies followed along with certain information about changes in the collection.

#### **Reporting controlled and related entities by not-for-profit organizations, Section 4450**

This new Section establishes standards for the presentation and disclosure of controlled, jointly controlled, significantly influenced and other related entities in the financial statements of not-for-profit organizations. Organizations are required to:

- Either present consolidated financial statements that include controlled not-for-profit organizations or disclose information about them. This information would include summary financial information, unless the controlled organization is one of a large number of individually immaterial organizations.
- Either present consolidated financial statements that include controlled profit oriented enterprises or account for them using the equity method. Summary financial information about enterprises accounted for using the equity method is required to be disclosed.
- Account for interests in joint ventures using either the proportionate consolidation method or the equity method. When the equity method is used, summary financial information about the joint ventures is required to be disclosed.
- Disclose information about significantly influenced not-for-profit organizations. Significantly influenced profit oriented enterprises would be accounted for using the equity method.

- Disclose the nature and extent of any economic interest in another not-for-profit organization, including controlled and significantly influenced not-for-profit organizations.

The Recommendations of the Section should be applied retroactively, unless the necessary financial information is not reasonably determinable.

Appendices summarize the Recommendations and provide sample disclosures.

#### **EIC Abstracts**

New

- Transfer of a business between entities under common control (EIC-66)
- Non-monetary transactions — application of CICA 3830.09 (EIC-67)

Amended

- Accounting for Part VI.1 tax (EIC-2)
- Preferred shares whose redemption is outside of the control of the issuer (EIC-13)
- Accounting by newly formed joint ventures (EIC-38)
- Leveraged leases (EIC-46)
- Exchangeable debentures (EIC-56)

Withdrawn

- Accounting for assets contributed to a joint venture (EIC-28)

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