ASNPO AT A GLANCE

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This publication has been compiled to assist users in gaining a high level overview of Accounting Standards for Not-for-Profit Organizations (ASNPO) included in Part III of the CPA Canada Handbook – Accounting as of December 1, 2017.

Not every standard in the ASNPO Handbook is included in this ASNPO at a Glance publication. This publication focuses on recognition, measurement and presentation of ASNPO standards and does not cover disclosure requirements. Many of the ASNPO standards that are not included in this publication are focused on disclosure.

A not-for-profit organization (NPO) applying Part III of the CPA Canada Handbook also applies the accounting standards for private enterprises (ASPE) in Part II of the CPA Canada Handbook to the extent that the standards in Part II address topics applicable for NPOs that are not addressed in Part III. Please refer to our series of ASPE a at Glance publications for a high level overview of these standards.

ASNPO at a Glance

Appendices

December 2014

Financial Statement Presentation[1]

Effective Date
Fiscal years beginning on or after January 1, 2012[2]

NOT-FOR-PROFIT ORGANIZATION

- A not-for-profit organization (NPO) is an entity, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. A NPO's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from an organization.
- A NPO that applies the standards in Part III of the CICA Handbook – Accounting (ASNPO) also applies the standards for private enterprises set out in Part II of the CICA Handbook – Accounting (ASPE) when the standards in Part II address topics not addressed in Part III.
  - Refer to the *Introduction to Part III* in Part III of the Handbook for additional guidance.

OVERALL CONSIDERATIONS

FAIR PRESENTATION IN ACCORDANCE WITH GAAP

- Financial statements are required to present fairly in accordance with GAAP the financial position, results of operations and cash flows of an organization.
- Fair presentation in accordance with GAAP is accomplished by:
  - Applying Section 1101, *Generally Accepted Accounting Principles for Not-for-Profit Organizations*.
  - Providing sufficient information about transactions or events that are of a size, nature and incidence that their disclosure is necessary to understand their effect on the organization's financial position, results of operations and cash flows for the periods presented; and
  - Providing information in a clear and understandable manner.

GOING CONCERN

- Financial statements are required to be prepared on a going concern basis, unless management either intends to liquidate the organization or to cease trading, or has no realistic alternative but to do so.
- Management must disclose material uncertainties about an organization's ability to continue as a going concern.
- If the financial statements are not prepared on a going concern basis, this fact, the reason why the organization is not considered a going concern and the basis on which the financial statements are prepared must be disclosed.

GENERAL PURPOSE FINANCIAL STATEMENTS

- An organization selects one set of accounting policies in a period to use to prepare its general purpose financial statements in accordance with accounting standards for not-for-profit organizations (ASNPO). Any additional sets of financial statements prepared using alternative accounting policies in accordance with ASNPO must refer to the general purpose financial statements.

COMPARATIVE INFORMATION

- Financial statements are prepared on a comparative basis unless comparative information is not significant or the standards in Part III of the Handbook permit otherwise.

BASIS OF PREPARATION

- Financial statements prepared in accordance with Canadian accounting standards for not-for-profit organizations must state this basis of presentation prominently in the notes.

COMPONENTS OF FINANCIAL STATEMENTS

- **A complete set of financial statements comprises:**
  - Statement of Financial Position
  - Statement of Operations
  - Statement of Changes in Net Assets (can be combined with the Statement of Operations)
  - Statement of Cash Flows
  - Notes
  - Supporting schedules
  - All statements are required to be presented with equal prominence.
  - Notes and supporting schedules which the financial statements are cross-referenced to are an integral part of the financial statements. The same does not apply to information set out in other material attached to or submitted with the financial statements.

[1] Includes Section 1401 – *General Standards of Financial Statement Presentation for Not-for-Profit Organizations* and Section 4400 – *Financial Statement Presentation by Not-for-Profit Organizations*.
[2] Except as specified in paragraph 4400.43A.

FUND ACCOUNTING

- Comprises the collective accounting procedures resulting in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions of an organization. Elements of a fund can include assets, liabilities, net assets, revenues and expenses (and gains and losses, where appropriate). Fund accounting involves an accounting segregation, although not necessarily a physical segregation, of resources.
- An organization makes an accounting policy choice whether or not to use fund accounting.
- An organization that uses fund accounting must provide a brief description of the purpose of each fund reported in its financial statements. This description would include the types of expenses reported in the fund and the extent to which the fund is used to report restricted resources.
- Each fund reported would be presented on a consistent basis from year to year. A change in the revenues and expenses reported in a particular fund would constitute a change in accounting policy unless the change results from events / transactions clearly different from those that previously occurred or those occurring for the first time.
- When an organization uses fund accounting it may present its financial statements using the multi-column format where resources / similar groups of resources are each assigned to a separate column.
- Other financial statement formats may also be used when an organization is using fund accounting as long as the financial information of the organization as a whole is presented in accordance with this Section.
- Different formats for individual statements may also be used as long as the information is presented in a way that satisfies the requirements of this Section.

INTERFUND TRANSFERS AND BALANCES

- Interfund transfers must be presented in the Statement of Changes in Net Assets as transfers between funds / between funds and reserves during a reporting period do not increase / decrease the economic resources of an organization as a whole.
- An organization must disclose the amount and purpose of interfund transfers during the reporting period.
- An organization must disclose the amounts, terms and conditions of interfund loans outstanding at the reporting date.
- When a multi-column format is used to present an organization's financial statements, interfund loans and advances are presented in the individual funds and eliminated in the totals column of the Statement of Financial Position.
- When a single column format is used, only the notes to the financial statements would provide disclosure of interfund loans and amounts receivable.

CONTRIBUTIONS

- In accounting for contributions an NPO follows either the deferral method or the restricted fund method which are set out in Section 4410, *Contributions – Revenue Recognition.* Our publication "ASNPO AT A GLANCE – Contributions" also provides a discussion of these two methods. The choice an NPO makes in accounting for contributions has implications for its financial statement presentation.

STRUCTURE AND CONTENT

GENERAL

- An NPO's financial statements must include a clear and concise description of the organization's purpose, intended community of service, status under income tax legislation and legal form.

STATEMENT OF FINANCIAL POSITION

- Must present a total that includes all funds reported for each financial statement item.
- Must present the following:
  - Net assets subject to restrictions requiring they be maintained permanently as endowments;
  - Other restricted net assets;
  - Unrestricted net assets; and
  - Total net assets.
- Current assets are presented separately from non-current assets and current liabilities are presented separately from non-current liabilities in accordance with Section 1510, *Current Assets and Current Liabilities* in Part II of the Handbook.
  - Cash and other assets subject to external restrictions that limit their use to beyond one year from the date of the Statement of Financial Position are classified as non-current assets.

STRUCTURE AND CONTENT (CONTINUED)

STATEMENT OF OPERATIONS

- NPO's can classify expenses by object (i.e. salaries, rent), by function (i.e. administration, research) or by program. The classification that results in the most meaningful presentation should be used.
- **Statement of Operations – Deferral Method**
  - The Statement of Operations must present the following:
    - A total that includes all funds reported for each financial statement item; and
    - The total excess or deficiency of revenues and gains over expenses and losses for the period.
  - The statement should present similar items of revenue and similar items of expense grouped together in meaningful categories as financial statement items.
- **Statement of Operations – Restricted Fund Method**
  - The Statement of Operations must present the following for the period:
    - A total for each financial statement item recognized in the general fund;
    - The total for each financial statement item recognized in the restricted funds, other than the endowment fund;
    - The total for each financial statement item recognized in the endowment fund; and
    - The excess or deficiency of revenues and gains over expenses and losses for each of the general fund, restricted funds other than the endowment fund and the endowment fund.
  - The statement should present similar items of revenue and similar items of expense grouped together in meaningful categories as financial statement items.
- **Presentation of Revenues and Expenses**
  - When an organization is acting as the principal in transactions, revenue and expenses must be recognized and presented at their gross amounts.
  - When an organization is not acting as the principal in transactions, such as when it has earned a commission / fee or received the equivalent of a contribution, it recognizes only the net amount received.

STATEMENT OF CHANGES IN NET ASSETS

- Must present changes in the following for the period:
  - Net assets subject to restrictions requiring that they be maintained permanently as endowments;
  - Internally restricted net assets and, separately, externally restricted net assets other than those requiring that they be maintained permanently as endowments;
  - Unrestricted net assets; and
  - Total net assets.
- The amount of remeasurements and other items arising from defined benefit plans is required to be presented as a separately identified line item (see Section 3463, *Reporting Employee Future Benefits by Not-for-Profit Organizations).*

STATEMENT OF CASH FLOWS

- Must be prepared in accordance with Section 1540, *Cash Flow Statement*, in Part II of the Handbook.
  - Refer to our publication "ASPE AT A GLANCE – *Financial Statement Presentation*" for information on what is included in the Statement of Cash Flows.
- Refer to paragraphs 4400.51-.52 for details on what would be included under the cash flows from operations, financing activities and investing activities sections of the Statement of Cash Flows.

December 2014

Section 1501 – *First-time Adoption by Not-for-Profit Organizations*

Effective Date
Fiscal years beginning on or after January 1, 2012[1]

SCOPE

- Section 1501 applies to the first set of financial statements an organization prepares in accordance with accounting standards for not-for-profit organizations (ASNPO).

GENERAL REQUIREMENTS

- Select ASNPO accounting policies – using latest version of the standards that are currently effective at the reporting date of the organization's first financial statements prepared under ASNPO.
- Recognize / derecognize assets and liabilities where necessary so as to comply with ASNPO.
- Reclassify items that the organization recognized under its previous accounting framework as one type of asset, liability or component of net assets, but are a different type of asset, liability or component of net assets under ASNPO.
- Remeasure all assets and liabilities recognized under ASNPO.
- An opening ASNPO Statement of Financial Position is prepared at the date of transition.
- The date of transition is the beginning of the earliest period for which an organization presents full comparative information under ASNPO.

RECOGNITION AND MEASUREMENT

OPTIONAL EXEMPTIONS

- An organization may elect to use one or more of the following exemptions related to standards in Part II of the Handbook (ASPE) on adoption of ASNPO:
  - Business combinations;
  - Fair value;
  - Employee future benefits;
  - Cumulative translation differences;
  - Financial instruments; and
  - Asset retirement obligations.

MANDATORY EXCEPTIONS

- Section 1501 prohibits retrospective application in relation to the following standards in Part II of the Handbook (ASPE):
  - Derecognition of financial assets and financial liabilities;
  - Hedge accounting;
  - Estimates; and
  - Non-controlling interests.

ACCOUNTING POLICIES

- Use the same accounting policies in the opening ASNPO Statement of Financial Position and throughout all periods presented in the first ASNPO financial statements.
- Those accounting policies must comply with each ASNPO effective at the end of the first ASNPO reporting period.
- If the accounting policies an organization uses in its opening ASNPO Statement of Financial Position differ from those used for the same date under its previous accounting policies, any resulting adjustments are recognized directly in net assets at the date of transition.

PRESENTATION AND DISCLOSURE

- An organization's first set of ASNPO financial statements are required to present three Statements of Financial Position.
- In the year of adoption of ASNPO an organization must disclose:
  - The amount of each charge to net assets at the date of transition resulting from the adoption of ASNPO and the reason therefor; and
  - A reconciliation of the excess of revenue over expenses reported in the organization's most recent previously issued financial statements to its excess of revenue over expenses under ASNPO for the same period.
- The disclosures must provide sufficient detail to enable users to understand the material adjustments to the Statement of Financial Position, Statement of Operations and Statement of Cash Flows.
- All exemptions used by the organization must be disclosed.

[1] Except as specified in paragraph 1501.17A.

June 2014

Section 3032 – *Inventories Held by Not-for-Profit Organizations*

Effective Date
Fiscal years beginning on or after January 1, 2012

SCOPE
• This Section applies to accounting for inventories of a NPO. • Except as stated in this Section, an NPO applies the guidance in Section 3031, *Inventories*[1], in Part II of the Handbook in accounting for inventories.

RECOGNITION AND MEASUREMENT
• When inventories have been contributed and a NPO recognizes contributions of materials and services, the amounts recorded as contributions in accordance with paragraph .19 of Section 4410, *Contributions – Revenue Recognition*, must be included in the cost of inventories.   • Note: paragraph 4410.19 requires that contributions be measured at fair value at the date of contribution if fair value can be reasonably estimated. • When an NPO does not recognize contributions of materials and services this Section does not apply to those materials and services. • When an NPO holds inventories for distribution at no charge / a nominal charge, or for consumption in the production of goods to be distributed at no charge / a nominal charge, these inventories must be measured at the lower of cost and current replacement cost.

[1] See also our publication ASPE AT A GLANCE: Section 3031 – *Inventories*.

Section 3463 – *Reporting Employee Future Benefits by Not-for-Profit Organizations*

Effective Date
Fiscal years beginning on or after January 1, 2014[1]

SCOPE
• This Section applies to accounting for employee future benefits provided by a NPO. • Except as stated in this Section, a NPO applies the guidance in Section 3462, *Employee Future Benefits,* in Part II of the Handbook in accounting for employee future benefits.   • Refer to our publication "ASPE AT A GLANCE: Section 3462 – Employee Future Benefits," for more information.

DEFINED BENEFIT PLANS – RECOGNITION AND PRESENTATION OF REMEASUREMENTS AND OTHER ITEMS

• **Remeasurements and other items** are defined in paragraph 3462.006(z) as the aggregate of:
  • The difference between the actual return on plan assets and the return calculated using the discount rate used to determine the defined benefit obligation;
  • Actuarial gains and losses;
  • The effect of any valuation allowance in the case of a net defined benefit asset, determined in accordance with paragraph 3462.086;
  • Past service costs; and
  • Gains and losses arising from settlements and curtailments.
• A NPO determines the amount of remeasurements and other items for the period in accordance with paragraphs 3462.085-.090.
• Remeasurements and other items are:
  • Recognized directly in net assets in the Statement of Financial Position, not in the Statement of Operations; and
  • Presented as a separate line item in the Statement of Changes in Net Assets.
• In a subsequent period, remeasurements and other items cannot be reclassified to the Statement of Operations.

[1] Earlier application is permitted, but only if applied to all of a NPO's benefit plans. This Section is applied retrospectively, in accordance with Section 1506, *Accounting Changes,* except as set out in paragraphs 3463.06-.07.

March 2013

Contributions[1]

Effective Date
Fiscal years beginning on or after January 1, 2012

SCOPE

Applies to:
- Contributions, related investment income and contributions receivable.

Does not apply to:
- Recognition of other revenue by NPOs, such as revenue arising from the sale of services or goods (see Section 3400, *Revenue*[2], in Part II of the Handbook).

DEFINITIONS

CONTRIBUTION

- **Contribution**
  - A non-reciprocal transfer to a NPO of cash / other assets or a non-reciprocal settlement / cancellation of its liabilities.
  - Government funding provided to a NPO is considered a contribution. Refer to paragraphs 4410.08-.09 for more guidance on determining whether government funding received is a restricted or unrestricted contribution.
  - There are three types of contributions:
    - **Restricted contribution**
      - A contribution subject to externally imposed stipulations that specify the purpose for which the contributed asset is to be used.
        - For example, a contribution restricted for the purchase of a capital asset or a contributed capital asset is a type of restricted contribution.
    - **Endowment contribution**
      - A type of restricted contribution subject to externally imposed stipulations specifying the resources contributed be maintained permanently, although the constituent assets may change from time to time.
    - **Unrestricted contribution**
      - A contribution that is neither a restricted contribution nor an endowment contribution.

RESTRICTIONS

- Stipulations imposed that specify how resources must be used.
- External restrictions are imposed from outside the organization, usually by the contributor of the resource.
- Internal restrictions are imposed in a formal manner by the organization itself, usually by a resolution of the board of directors.
- Restrictions on contributions may only be externally imposed.
- Net assets / fund balances may be internally or externally restricted. Internally restricted net assets / fund balances are often referred to as reserves or appropriations.

REVENUE RECOGNITION

- A NPO must recognize contributions in accordance with either:
  - The deferral method; or
  - The restricted fund method.
- The method chosen must be applied consistently to all contributions received. An organization that changes its method of accounting for contributions treats that change as a change in accounting policy in accordance with Section 1506, *Accounting Changes*, in Part II of the Handbook.

CONTRIBUTED MATERIALS AND SERVICES

- An organization may choose to recognize contributed materials and services, but only when:
  - The fair value can be reasonably estimated; and
  - The materials and services are used in the normal course of the organizations operations and would have been purchased otherwise.
- Contributed materials and services that are part of a constructed / developed capital asset are recognized at fair value in accordance with Section 4431, *Tangible Capital Assets Held by Not-for-Profit Organizations*, or Section 4432, *Intangible Assets Held by Not-for-Profit Organizations*[1].

[1] Includes Section 4410 – *Contributions – Revenue Recognition* and Section 4420 – *Contributions Receivable.*
[2] See also our publication ASPE AT A GLANCE: Section 3400 - *Revenue*.
[3] See also our publication ASNPO AT A GLANCE: *Capital Assets*.

MEASUREMENT

- Contributions must be measured at fair value at the date of contribution if fair value can be reasonably estimated.

DEFERRAL METHOD

- Under the deferral method of accounting for contributions, restricted contributions related to expenses of future periods are deferred and recognized as revenue in the period in which the related expenses are incurred.
- Restricted contributions for which related restrictions remain unfulfilled are accumulated as deferred contributions.
- All other contributions are reported as revenue of the current period.
- Organizations that use fund accounting in their financial statements without following the restricted fund method, account for contributions under the deferral method.

RECOGNITION

- **Endowment contributions**
  - Must be recognized as direct increases in net assets in the current period.
- **Restricted contributions for expenses of one or more future periods**
  - Must be deferred and recognized as revenue in the same period / periods in which the related expenses are recognized.
- **Restricted contributions for the purchase of capital assets**
  - That will be amortized – must be deferred and recognized as revenue on the same basis as the amortization expense related to the capital assets acquired.
  - That will not be amortized – must be recognized as direct increases in net assets.
  - Refer to the guidance provided in paragraph 4410.37 on how to account for contributions for the purchase of capital assets when a NPO meets the criteria outlined in paragraph 4431.03 or paragraph 4432.03 and expenses capital assets on acquisition or capitalizes capital assets but does not amortize them.
- **Restricted contributions for the repayment of debt**
  - That was incurred to fund expenses of one or more future periods – must be deferred and recognized as revenue in the same period / periods in which the related expenses are recognized.
  - That was incurred to fund the purchase of capital assets that will not be amortized – must be recognized as direct increases in net assets.
  - That was incurred for purposes other than those described above – must be recognized in revenue in the current period.
- **Restricted contributions for expenses of the current period**
  - Must be recognized as revenue in the current period.
- **Unrestricted contributions**
  - Must be recognized as revenue in the current period.
- **Net investment income**
  - Not externally restricted – must be recognized in the Statement of Operations.
  - Externally restricted net investment income that must be added to the principal amount of resources held for endowment – must be recognized as direct increases / decreases in net assets.
  - Other externally restricted net investment income – must be recognized in the Statement of Operations, in the appropriate deferred contribution balances or in net assets depending on the nature of the restrictions set out in paragraphs 4410.31-.48 described above.

PRESENTATION

- **Deferred contributions**
  - Deferred contribution balances must be presented in the Statement of Financial Position outside of net assets (i.e. as a liability).

RESTRICTED FUND METHOD

- The restricted fund method of accounting for contributions is a specialized type of fund accounting which involves the reporting of details of financial statement elements by fund in such a way that the organization reports total general funds, one or more restricted funds, and an endowment fund, if applicable.
- All similar contributions recognized by an organization are to be treated consistently.

GENERAL FUND

- A self-balancing set of accounts which reports all unrestricted revenue and restricted contributions for which no corresponding restricted fund is presented.
- The fund balance represents net assets not subject to externally imposed restrictions.

RESTRICTED FUND

- A self-balancing set of accounts the elements of which are restricted or relate to the use of restricted resources.
- Only restricted contributions, other than endowment contributions, and other externally restricted revenue would be reported as revenue in a restricted fund.
- Allocations of resources that result from the imposition of internal restrictions are recorded as interfund transfers to the restricted fund.

ENDOWMENT FUND

- A self-balancing set of accounts which report the accumulation of endowment contributions.
- Only endowment contributions and investment income subject to restrictions stipulating that it be added to the principal amount of the endowment fund would be reported as revenue of the endowment fund.
- Allocations of resources to the endowment fund that result from the imposition of internal restrictions are recorded as interfund transfers.

RECOGNITION

- **Endowment contributions**
  - Must be recognized as revenue of the endowment fund in the current period.
- **Restricted contributions reported in restricted funds**
  - When a NPO presents a corresponding restricted fund for the type of restricted contribution received, the restricted contribution must be recognized as revenue of that specific restricted fund in the current period.
- **Restricted contributions reported in the general fund**
  - When a NPO does not present a corresponding restricted fund for the type of restricted contribution received, the restricted contribution must be recognized in the general fund in accordance with the deferral method depending on the nature of the restriction imposed (refer to paragraphs 4410.31, .33, .34, .38, .39, .40, .45).
  - If a NPO receives a restricted contribution and the organization does not currently present a corresponding restricted fund the organization may decide to establish such a fund. This represents a change in accounting policy and would be accounted for in accordance with Section 1506, *Accounting Changes*, in Part II of the Handbook, with restatement of prior periods. Any similar restricted contributions received in the future would be accounted for in this new fund.
- **Unrestricted contributions**
  - Must be recognized as revenue of the general fund in the current period.
- **Net investment income**
  - Not externally restricted – must be recognized in the Statement of Operations in the general fund.
  - Externally restricted net investment income that must be added to the principal amount of resources held for endowment – must be recognized in the Statement of Operations in the endowment fund.
  - Other externally restricted net investment income – must be recognized in the Statement of Operations, in the appropriate restricted fund, or if no such fund exists, in the general fund on the same basis as described in paragraph 4410.65.

PRESENTATION

- **Deferred contributions**
  - Deferred contribution balances must be presented in the Statement of Financial Position outside of net assets (i.e. as a liability) when restricted contributions are recognized in the general fund in accordance with paragraph 4410.65.

CONTRIBUTIONS RECEIVABLE

RECOGNITION

- A contribution receivable must be recognized as an asset when it meets the following criteria:
  - The amount to be received can be reasonably estimated; and
  - Ultimate collection is reasonably assured.

PLEDGES AND BEQUESTS

- A promise to contribute cash / other assets to a NPO is a pledge.
  - An uncollected pledge would only be recognized if the recognition criteria described above for contributions receivable are met.
  - Often, pledges are not recognized until the pledged assets are received, as whether or not a pledge will be collected depends on factors outside the NPO's control and thus in many cases the pledge does not meet the criteria for recognition as a contribution receivable.
- Bequests are often not recognized until received, as they are often subject to considerable uncertainty regarding both the timing and amount that will be received and thus do not meet the recognition criteria for contributions receivable.

March 2013

Capital Assets[1]

Effective Date
Fiscal years beginning on or after January 1, 2012

SCOPE

Applies to:
- Accounting for tangible capital assets held by NPOs.
- Accounting for tangible capital assets recognized under Section 3065, *Leases*, in Part II of the Handbook.
- Intangible assets acquired or developed by NPOs. Except as otherwise stated in Section 4432, a NPO applies Section 3064, *Goodwill and Intangible Assets* in Part II of the Handbook, to such assets.

Does not apply to:
- Items held as part of a collection (see Section 4440, *Collections held by Not-for-Profit Organizations).*

DEFINITIONS

TANGIBLE CAPITAL ASSETS

- Identifiable tangible assets that meet all the following criteria:
  - Are held for use in the provision of services, for administrative purposes, for production of goods or for the maintenance, repair, development or construction of other tangible capital assets;
  - Have been acquired, constructed or developed with the intention of being used on a continuing basis;
  - Are not intended for sale in the ordinary course of operations; and
  - Are not held as part of a collection (see Section 4440).

INTANGIBLE ASSETS

- Identifiable non-monetary assets without physical substance.

RECOGNITION AND MEASUREMENT – TANGIBLE CAPITAL ASSETS

COST

- A tangible capital asset must be recorded on the Statement of Financial Position at cost.
- ***Cost includes:***
  - The amount of consideration given up to acquire, construct, develop, or better a tangible capital asset.
  - All costs directly attributable to the acquisition, construction, development or betterment of the capital asset including installing it at the location and in the condition necessary for its intended use.
  - Any asset retirement costs accounted for in accordance with Section 3110, *Asset Retirement Obligations*, in Part II of the Handbook.
- A tangible capital asset purchased by a NPO at a price substantially below its fair value is recognized at its fair value and the difference between the fair value recorded and the consideration paid is recognized as a contribution.
- A NPO determines the cost of each tangible capital asset acquired together as part of a single purchase by allocating the total price paid to each item on the basis of its relative fair value at the time of the acquisition.
- When at the time of acquisition, a portion of an acquired tangible capital asset is not intended for use, its cost plus any costs of disposal less any estimated proceeds, are added to the portion of the acquired tangible capital asset that is intended for use.
- ***Cost of a tangible capital asset constructed or developed over time includes:***
  - Direct construction or development costs.
  - Overhead costs directly attributable to the construction or development activity.
  - The fair value, determined at the date of contribution, of contributed materials or labour.

[1] Includes Section 4431 – *Tangible Capital Assets Held by Not-for-Profit Organizations* and Section 4432 – *Intangible Assets Held by Not-for-Profit Organizations.*

COST (CONTINUED)

- **Contributed tangible capital asset**
  - A contributed tangible capital asset is recognized at its fair value at the date of contribution.
  - However, in unusual circumstances where the fair value cannot be reasonably determined, both the tangible capital asset and the related contribution are recorded at nominal value.
- **Betterment**
  - The cost incurred to enhance the service potential of a tangible capital asset.
  - A betterment is capitalized not expensed like repair costs.

AMORTIZATION

- The cost of a tangible capital asset with a limited life less any residual value is amortized over the asset's useful life.
- Amortization must be recognized in a rational and systematic manner appropriate to the nature of the tangible capital asset and its use by the organization.
- Amortization is recognized as an expense in the Statement of Operations.
- An organization must review the amortization method and the estimate of the useful life of a tangible capital asset on a regular basis.

ASSET RETIREMENT OBLIGATIONS

- An obligation associated with the retirement of a tangible capital asset is accounted for in accordance with Section 3110, *Asset Retirement Obligations*[2], in Part II of the Handbook.

WRITE-DOWNS

- When a tangible capital asset ceases to have any long-term service potential to the organization, the excess of its net carrying amount over any residual value is recognized in the Statement of Operations as an expense.
- A write-down cannot be reversed.
- If there are any unamortized deferred contributions related to the tangible capital asset written down, the contributions would be recognized as revenue, as long as all restrictions had been satisfied (see Section 4410, *Contributions – Revenue Recognition*[3]).

DISPOSAL

- When a tangible capital asset is disposed of (i.e. by sale, destruction, loss, abandonment or expropriation), the difference between the following is recognized in the Statement of Operations:
  - The net proceeds on disposition; and
  - The net carrying amount.
- If there are any unamortized deferred contributions related to the tangible capital asset that was disposed of, these contributions would be recognized as revenue in the period of the disposal, as long as all restrictions had been satisfied (see Section 4410, *Contributions – Revenue Recognition*[3]).

RECOGNITION AND MEASUREMENT - INTANGIBLE ASSETS

- Refer to Section 3064, *Goodwill and Intangible Assets*[4] in Part II of the Handbook for guidance on accounting for intangible assets except for contributed intangible assets and write-downs as outlined below.

CONTRIBUTED INTANGIBLE ASSET

- A contributed intangible asset is recognized at its fair value at the date of contribution.
- However, in unusual circumstances where the fair value cannot be reasonably determined, both the intangible asset and the related contribution are recorded at nominal value.

[2] See also our publication ASPE AT A GLANCE: Section 3110 – *Asset Retirement Obligations*
[3] See also our publication ASNPO AT A GLANCE: *Contributions*
[4] See also our publication ASPE AT A GLANCE: *Intangible Assets.*

WRITE-DOWNS

- When an intangible asset[5] ceases to have any long-term service potential to the organization, the excess of its net carrying amount over any residual value is recognized in the Statement of Operations as an expense.
- A write-down cannot be reversed.
- If there are any unamortized deferred contributions related to the intangible asset written down, the contributions would be recognized as revenue, as long as all restrictions had been satisfied (see Section 4410, *Contributions – Revenue Recognition*[3]).

TANGIBLE CAPITAL ASSETS / INTANGIBLE ASSETS HELD BY SMALL ORGANIZATIONS[6]

- If the average annual revenues recognized in the Statement of Operations for the current and prior period of a NPO, including the average annual revenues of any entities it controls, are below $500,000, then the organization may choose to limit the requirements of Section 4431 and Section 4432 to the requirements outlined in paragraph 4431.38 (discussed below). However, all NPOs are encouraged to follow the requirements of Sections 4431 and 4432 even if they meet this limit, unless these requirements would be too difficult or costly.
- Once a NPO's revenues exceed the $500,000 limit discussed above, it must follow the requirements of Sections 4431 and 4432 and it must continue to follow the requirements of these Sections even if its average revenues fall below $500,000 in subsequent years.
- According to paragraph 4431.38 NPOs that meet the $500,000 limit discussed above must disclose the following information:
  - The policy the NPO follows in accounting for tangible capital assets / intangible assets;
  - Information about major categories of tangible capital assets / intangible assets not recorded in the Statement of Financial Position, including a description of the assets; and
  - If the NPO expenses tangible capital assets / intangible assets when they are acquired, the amount expensed in the current period.

[3] See also our publication ASNPO AT A GLANCE: *Contributions*
[5] Per paragraph 4432.06, a NPO applies Section 4432 to the write-down of intangible assets instead of paragraphs 3064.64-.68 in Part II of the Handbook.
[6] The Accounting Standards Board and the Public Sector Accounting Board created a Joint Not-for-Profit Task Force which is reviewing not-for-profit organization standards with the aim of improving them to better meet user needs. A statement of principles is expected to be issued in the first half of 2013. One of the proposed changes is the removal of the size exemption for reporting tangible capital assets / intangible assets.

Section 4440 – *Collections Held by Not-for-Profit Organizations*

Effective Date
Fiscal years beginning on or after January 1, 2012

SCOPE

Applies to:
- Disclosure of collections held by NPOs.

Does not apply to:
- Works of art, historical treasures and similar items that are not part of a collection and are instead dealt with in Sections 4431, *Tangible Capital Assets Held by Not-for-Profit Organizations,* and Section 4432, *Intangible Assets Held by Not-for-Profit Organizations.*

COLLECTIONS

- Works of art, historical treasures or similar assets that are:
  - Held for public exhibition, education or research;
  - Protected, cared for and preserved; and
  - Subject to an organizational policy that requires any proceeds from their sale to be used to acquire other items to be added to the collection or for the direct care of the existing collection.

NATURE OF COLLECTIONS

- They are made up of rare and unique items.
- They have cultural and historical significance.
- They are usually held by museums and galleries, but may be held by other organizations as well.
- Collections are not required to be capitalized by a NPO since the costs would often exceed the benefit. Instead, disclosure is required. However, a NPO is not prohibited from capitalizing its collections.

DISCLOSURE

- A NPO must disclose the following in its financial statements about collections it holds:
  - A description of its collection;
  - The accounting policy followed with respect to the collection;
  - Details of any significant changes to the collection in the period;
  - The amount of expenditures on collection items in the period; and
  - Proceeds of any sales of collection items in the period and how those proceeds were used.
- Refer to paragraphs 4440.08-.11 for more guidance on disclosure.

Section 4450 – *Reporting Controlled and Related Entities by Not-for-Profit Organizations*

Effective Date
Fiscal years beginning on or after January 1, 2012[1]

SCOPE

- This Section sets out standards for presentation and disclosure of controlled, significantly influenced and other related entities in a NPOs financial statements.
- Section 1582, *Business Combinations,* in Part II of the Handbook does not apply to:
  - A combination between NPOs; or
  - The acquisition of a profit-oriented enterprise by an NPO.
  - Until further guidance is issued regarding these situations other sources of GAAP that specifically relate to these types of situations may be applied as described in Section 1101, *Generally Accepted Accounting Principles for Not-for-Profit Organizations.*

CONTROL

- The continuing power to determine an entity's strategic operating, investing and financing policies without the co-operation of others.
- Normally the holder of the right to appoint the majority of the voting members to an entity's board of directors would have the power to determine an entity's strategic policies and thus would be presumed to control the entity.
- If two organizations have the same board of directors it is presumed that one of the organizations controls the other.
- The presumption of control is only overcome if there is clear evidence control does not exist.
- Section 1591, *Subsidiaries*[2], in Part II of the Handbook provides further guidance on determining whether an organization controls a profit-oriented enterprise.
- In the case where the right to appoint the majority of the voting members of an NPO's board of directors is absent, the reporting enterprise would need to consider other aspects of its relationship with the NPO to determine whether other indicators of control are present, such as:
  - A significant economic interest in the other organization (see paragraphs 4450.10-.12);
  - Provisions in the other organization's charter / bylaws that cannot be changed without the reporting organization's consent and which limit the other organization to activities that provide future economic benefits to the reporting organization; or
  - The purpose of the other organization is integrated with the purpose of the reporting organization so that the two organizations have common or complementary objectives.
- In some cases a single indicator of control is sufficient for an organization to conclude that control exits, while in other cases more than one indicator may be required.

PRESENTATION AND DISCLOSURE OF CONTROLLED NOT-FOR-PROFIT ORGANIZATIONS

- Each controlled NPO must be reported by the reporting organization in one of the following ways:
  - By consolidating the controlled organization in its financial statements;
  - By providing the disclosure in paragraph 4450.22; or
  - By providing the disclosure in paragraph 4450.26 when the controlled organization is one of a large number of individually immaterial organizations.
- Regardless of whether or not a controlled organization is consolidated the following must be disclosed:
  - The policy that is followed in reporting the controlled organization;
  - A description of the relationship with the controlled organization;
  - A clear and concise description of the controlled organization's:
    - Purpose;
    - Intended community of service;
    - Status under income tax legislation;
    - Legal form; and
  - The nature and extent of any economic interest that the reporting organization has in the controlled organization.

[1] Except as specified in paragraph 4450.51.
[2] See also our publication ASPE AT A GLANCE: Section 1591 – *Subsidiaries.*

PRESENTATION AND DISCLOSURE OF CONTROLLED NOT-FOR-PROFIT ORGANIZATIONS (CONTINUED)

- Controlled organizations that are similar may be grouped together for disclosure purposes.
- Any disclosure required by Section 4460, *Disclosure of Related Party Transactions by Not-for-Profit Organizations*, must also be provided.
- An organization can follow different policies for reporting different controlled organizations; however, similar types of controlled organizations would be reported in the same manner.

CONSOLIDATED FINANCIAL STATEMENTS

- A NPO that prepares consolidated financial statements would follow the guidance in Section 1601, *Consolidated Financial Statements*[3].
- When consolidated financial statements are prepared:
  - The elements of the controlled organization's financial statement are combined with those of the reporting organization.
  - Transactions between the organizations are eliminated as well as inter-organization balances.
- When resources of controlled organizations are subject to restrictions on their use, information about major categories of restrictions on those resources must be presented in the consolidated financial statements in accordance with Section 4400, *Financial Statement Presentation by Not-for-Profit Organizations*.
- When there are external restrictions that require resources to flow to the reporting organization and external restrictions that prohibit the transfer of resources to the reporting organization this information must be disclosed.
- For consolidation purposes the accounting policies of each controlled organization must be adjusted to conform with the accounting policies of the reporting organization.

CONTROLLED ORGANIZATIONS THAT ARE NOT CONSOLIDATED

- The following must be disclosed for each controlled NPO or group of similar controlled organizations that are not consolidated in the reporting organization's financial statements, unless the group of controlled organizations is made up of a large number of individually immaterial organizations (refer to paragraph 4450.26):
  - Total assets, liabilities and net assets at the reporting date;
  - Revenues (including gains), expenses (including losses) and cash flows from operating, financing and investing activities reported in the period;
  - Details of any restrictions, by major category, on the resources of the controlled organizations; and
  - Significant differences in accounting policies from those followed by the reporting organization.
- When the information disclosed above for the unconsolidated controlled organizations is not presented using the same accounting policies as the reporting organization any significant differences in the accounting policies would be disclosed.
- When resources of controlled organizations are subject to restrictions on their use, information about major categories of restrictions on those resources must be disclosed.
- When there are external restrictions that require resources to flow to the reporting organization and external restrictions that prohibit the transfer of resources to the reporting organization this information must be disclosed.

CONTROL OVER A LARGE NUMBER OF INDIVIDUALLY IMMATERIAL ORGANIZATIONS

- A group of controlled organizations may be excluded from both consolidation and the disclosure requirements of paragraph 4450.22 by the reporting organization when:
  - The group of organizations is made up of a large number of individually immaterial organizations; and
  - The reasons why the controlled organizations have not been consolidated nor included in the disclosure requirements of paragraph 4450.22 are disclosed by the reporting organization.

PRESENTATION AND DISCLOSURE OF CONTROLLED PROFIT-ORIENTED ORGANIZATIONS

- Each controlled profit-oriented enterprise must be reported by the reporting organization in one of the following ways:
  - By consolidating (in accordance with Section 1601[3]) the controlled enterprise in its financial statements; or
  - By accounting for its investment in the controlled enterprise using the equity method (in accordance with Section 3051, *Investments*[4], in Part II of the Handbook) and providing the disclosure required in paragraph 4450.32.

[3] See also our publication ASPE AT A GLANCE: Section 1601 – *Consolidated Financial Statements.*
[4] See also our publication ASPE AT A GLANCE: Section 3051 – *Investments.*

PRESENTATION AND DISCLOSURE OF CONTROLLED PROFIT-ORIENTED ORGANIZATIONS (CONTINUED)

- Regardless of whether or not a controlled profit-oriented enterprise is consolidated or accounted for using the equity method the following must be disclosed:
  - The policy that is followed in reporting the controlled enterprise; and
  - A description of the relationship with the controlled enterprise.
    - This description would include information on how the controlled entity's operations relate to / complement the reporting organization's operations.
    - Any disclosure required by Section 4460 must also be provided.
- The following must be disclosed for each controlled profit-oriented enterprise or group of similar controlled enterprises that are accounted for using the equity method:
  - Total assets, liabilities and shareholders' equity at the reporting date; and
  - Revenues (including gains), expenses (including losses), net income and cash flows from operating, financing and investing activities reported in the period.
- When investments are accounted for using the equity method additional disclosures set out in Section 3051[5] are required.
- When consolidated financial statements are presented the disclosure requirements set out in Section 1601[6] are required.
- The accounting policies of the controlled organization must be adjusted to conform with the accounting policies of the reporting organization.
- Controlled enterprises that are similar may be grouped together for disclosure purposes.
- An organization may choose to consolidated some controlled enterprise and account for others using the equity method; however, similar types of controlled enterprises would be reported in the same manner.

JOINT VENTURE

- An economic activity resulting from a contractual arrangement whereby two or more venturers jointly control the economic activity.

PRESENTATION AND DISCLOSURE OF JOINT VENTURES

- Each interest in a joint venture must be reported by an organization in one of the following ways:
  - By accounting for its interest using the proportionate consolidation method (see paragraph 4450.02(g)); or
  - By accounting for its interest using the equity method and disclosing the information required by paragraph 4450.38.
- Regardless of whether an interest in a joint venture is reported using proportionate consolidation or the equity method the following must be disclosed:
  - The policy that is followed in reporting the interest; and
  - A description of the relationship with the joint venture.
- The following must be disclosed for each interest in a joint venture, or group of similar interests that are accounted for using the equity method:
  - The reporting organization's share of the joint venture's total assets, liabilities and net assets / shareholders' equity at the reporting date; and
  - The reporting organization's share of the joint venture's revenues (including gains), expenses (including losses), and cash flows from operating, financing and investing activities reported in the period; and
  - Significant differences in accounting policies from those followed by the reporting organization.
- An organization may follow different policies for reporting different interests in joint ventures.
- Interest in joint ventures that are similar can be grouped together for disclosure purposes.

SIGNIFICANT INFLUENCE

- Over an entity is the ability to affect the strategic operating, investing and financing policies of the entity.
- Significant influence may occur in situations where it is concluded that control does not exist.

[5] See also our publication ASPE AT A GLANCE: Section 3051 – *Investments.*
[6] See also our publication ASPE AT A GLANCE: Section 1601 – *Consolidated Financial Statements.*

SIGNIFICANT INFLUENCE (CONTINUED)

- The following factors may indicate the reporting organization has significant influence:
  - Representation on the board of directors;
  - Existence of economic interest;
  - Participation in the policy-making processes;
  - Material inter-entity transactions; or
  - Interchange of managerial personnel.
- When the reporting organization can temporarily affect the other entity's strategic process that is not considered to be significant influence for the purposes of this Section.

DISCLOSURE OF SIGNIFICANTLY INFLUENCED NOT-FOR-PROFIT ORGANIZATIONS

- The following must be disclosed when the reporting organization has significant influence in another NPO:
  - A description of the relationship with the significantly influence organization;
  - A clear and concise description of the significantly influenced organization's:
    - Purpose;
    - Intended community of service;
    - Status under income tax legislation;
    - Legal form; and
  - The nature and extent of any economic interest the reporting interest has in the significantly influence organization.
- Significantly influenced organizations that are similar may be grouped together for disclosure purposes.
- Disclosure of any economic interest the reporting organization has in the significantly influenced organization would be provided.
- Any disclosure required by Section 4460 must also be provided.

PRESENTATION OF SIGNIFICANTLY INFLUENCED PROFIT-ORIENTED ENTERPRISES

- When a reporting organization has significant influence over a profit-oriented enterprise, the investment must be accounted for using the equity method in accordance with Section 3051[7].
- Any disclosure required by Section 4460 must also be provided.

ECONOMIC INTEREST

- In another NPO exists if:
  - The other organization holds resources that must be used to produce revenue / provide services for the reporting organization; or
  - The reporting organization is responsible for the liabilities of the other organization.
- Possible indicators of economic interest:
  - Funds are solicited by the other organization in the name of and with the expressed / implied approval of the reporting organization, and substantially all of those funds are intended by the contributor or are otherwise required to be transferred to the reporting organization or used at its discretion / direction;
  - Significant resources are transferred to the other organization by the reporting organization and the other organization's resources are held for the benefit of the reporting organization;
  - Significant functions must be performed by the other organization on behalf of the reporting organization which are integral in order for the reporting organization to achieve its objectives; or
  - Significant liabilities of the other organization are guaranteed by the reporting organization.
- The degree of economic interest can vary in significance.

DISCLOSURE OF ECONOMIC INTEREST

- The nature and extent of an organization's economic interest in another NPO over which it does not have control or significant influence must be disclosed.

[7] See also our publication ASPE AT A GLANCE: Section 3051 – *Investments*.

FINANCIAL INFORMATION AT DIFFERENT DATES

• In the case where the fiscal periods of the reporting organization and the other entity do not substantially coincide:
  • The financial information required to be disclosed in accordance with paragraphs 4450.22, .32, and .38 must be as at the other entity's most recent reporting date; and
  • The following information must be disclosed:
    • The reporting period covered by the financial information; and
    • The details of any events / transactions in the intervening period that are significant to the reporting organization's financial position or results of operations.
• When the reporting periods do not substantially coincide and consolidated financial statements are presented refer to Section 1601[8] for guidance.
• When the reporting periods of the reporting organization and the investee accounted for by the equity method are different refer to Section 3051[9] for guidance.

[8] See also our publication ASPE AT A GLANCE: Section 1601 – *Consolidated Financial Statements.*
[9] See also our publication ASPE AT A GLANCE: Section 3051 – *Investments.*

APPENDIX 1 - STANDARDS NOT INCLUDED

The following ASNPO Sections are not covered in this publication:

Section 1001, Financial Statement Concepts for Not-for-Profit Organizations

Section 1101, Generally Accepted Accounting Principles for Not-for-Profit Organizations

Section 4460, Disclosure of Related Party Transactions by Not-for-Profit Organizations

Section 4470, Disclosure of Allocated Expenses by Not-for-Profit Organizations

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