

Financial Statements of Not-for-Profit Organizations

What you need to know (May 2020)

What's the issue?

1. COVID-19 has significantly affected not-for-profit organizations (NFPOs) that may be facing challenges such as reduced donations, forecasted deficits, and negative cash flows.
2. As a result, there are accounting implications that NFPOs should consider. This resource highlights topics to consider when preparing financial statements in accordance with Part III of the CPA Canada Handbook – Accounting.
3. The following topics are addressed in this resource. Click on each heading for additional information.

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Subsequent events

4. Depending on an organization's year-end, the COVID-19 pandemic may have started after year-end. Organizations will need to use professional judgment to determine the timeline of events leading up to the pandemic in reference to their year-end. If the NFPO's year-end is December 31, 2019 year-end, it is likely that COVID-19 is a subsequent event. If its year-end is March 31, 2020, the initial effect of COVID-19 may have occurred during the organization's fiscal year. In this case, those effects would

be reflected in the current period financial statements. However, as the pandemic has continued there would be further subsequent events to be considered for those entities as well.

5. To determine the appropriate accounting for an event after the reporting period, organizations should refer to the guidance in Section 3820, *Subsequent Events*, in Part II of the CPA Canada Handbook – Accounting.¹ Paragraph 3820.07 provides the following guidance:

Financial statements shall be adjusted when events occurring between the date of the financial statements and their completion provide additional evidence relating to conditions that existed at the date of the financial statements. (3820.07)

As such, organizations will need to assess whether an event after the reporting period provided evidence about conditions that existed at the financial statement date.

6. Organizations whose year-end is December 31, 2019, may conclude that COVID-19-related conditions did not exist at the financial statement date. Therefore, there may be disclosure requirements.
7. In accordance with *Subsequent Events*, paragraph 3820.10, “disclosure should be made of those events occurring between the date of the financial statements and their date of completion that do not relate to conditions that existed at the date of the financial statements but:
 - (a) Cause significant changes to assets or liabilities in the subsequent period; or
 - (b) Will, or may have a significant effect on the future operations of the enterprise.” (3820.10)

For example, the decision to take cost-cutting measures subsequent to year-end (e.g., terminating staff or reducing wages for a period of time) could have a significant effect and require disclosure. Although COVID-19 will affect NFPOs in various ways, it is likely significant enough to require disclosure. Organizations will need to use judgment to assess the impact.

8. The effect of a subsequent event may be so pervasive that the organization’s viability is brought into question. In this case, an organization would need to consider whether it is appropriate to use the going concern assumption (3820.05). Refer to the [Going concern](#) section below for more information.

Going concern

9. COVID-19 may have had significant and pervasive effects on an NFPO, such as receiving lower contributions than usual and experiencing or forecasting deficits. This could affect the organization’s ability to continue operations for the foreseeable future.
10. In accordance with Section 1401, *General Standards for Financial Statement Presentation for Not-for-Profit Organizations*, when preparing financial statements, management shall assess the organization’s ability to continue as a going concern. In making this assessment, management should

¹ An NFPO applying Part III of the Handbook also applies the accounting standards for private enterprises in Part II of the Handbook to the extent that the topics are applicable and not covered in Part III.

consider all available information about the future, which is at least, but not limited to, 12 months from the balance sheet date. (1401.07-08)

11. Should management have any material uncertainties that may cast doubt on an organization's ability to continue as a going concern, those uncertainties should be disclosed. (1401.18) Management will need to use professional judgment to assess how COVID-19 affect the organization's ability to continue as a going concern and whether disclosure is required.
12. If an organization concludes that the going concern assumption is not appropriate and the financial statements are not prepared on a going concern basis, that shall be disclosed, together with the basis for its conclusion. (1401.19)

Government relief

13. In response to COVID-19-related economic challenges, governments have provided relief measures to NFPOs. These relief measures are continuously changing but as of April 2020, such measures include the [Canada Emergency Wage Subsidy](#) and the [Canada Emergency Business Account](#). Organizations will need to consider the nature of any government relief received and how to account for them in accordance with Part III of the Handbook.
14. In accordance with Section 4410, *Contributions – Revenue Recognition*, government funding provided to an NFPO is considered a contribution (4410.02(b)). Therefore, accounting for government funding would be addressed in this standard. Contributions are accounted for in accordance with the deferral or the restricted fund method, in accordance with an organization's accounting policy for contributions.
15. Organizations would also need to consider the timing of when government funding should be recognized. In accordance with Section 4420, *Contributions Receivable*, a contribution should be recognized as an asset when it meets the following criteria:
 - (a) the amount to be received can be reasonably estimated; and
 - (b) ultimate collection is reasonably assured (4420.03).
16. There may also be additional disclosure for organizations to consider as a result of any funding received. *Contributions – Revenue Recognition*, paragraph 4410. 26 indicates that "information about the sources of contributions will help financial statement users to assess the organization's economic relationship with other entities and to predict its ability to generate future cash flows." Since government funding received in response to COVID-19 may be non-recurring, separate disclosure about the source of the contribution may be necessary.

Impairment

17. The effects of COVID-19 on an organization may indicate that assets are impaired. Organizations need to consider whether tangible capital assets and intangible assets need to be written down.
18. Section 4433, *Tangible Capital Assets Held by Not-for-Profit Organizations*, and Section 4434, *Intangible Assets Held by Not-for-Profit Organizations*, provide guidance with regards to the write-

down of such assets. Tangible capital assets and intangible assets may be impaired when conditions indicate that the asset no longer contributes to an organization's ability to provide goods and services, or that the value of future economic benefits or service potential associated with the asset is less than its net carrying amount (4433.18, 4434.08).

19. An organization should also consider whether a tangible capital asset or an intangible asset is integrated with other assets such that it is necessary to consider the value of the asset's future economic benefits for the group of assets. In this case, a write-down may be measured for the group and allocated on a pro rata basis using the relative carrying amount of those assets (4433.19, 4434.10).
20. When conditions indicate that a tangible capital asset or an intangible asset is impaired it should be written down to its fair value or replacement cost. A write-down is accounted for as an expense in the current period and write-downs are not reversed. (4433.16, 4434.06)
21. When a write-down is recognized, an organization shall disclose whether it is based on the asset's fair value or replacement cost (4433.22, 4434.12).

Debt restructuring

22. Due to COVID-19-related challenges, organizations may have restructured their borrowing agreements. As this is not specifically addressed in Part III of the Handbook, organizations should refer to the guidance in Part II of the Handbook. For more information, see this [Debt Modification \(ASPE\)](#) resource.

What other resources are available?

23. Do you need more information? The following publication may provide more insights:

CPA Canada, ["ASNPO Alert – Assessing COVID-19 Effects on Financial Statements: Subsequent events and other considerations,"](#) April 2020.