

Changes to Accounting Standards for Not-for-Profit Organizations

Accounting standards for not-for-profit organizations are proposed to change for annual financial statements relating to fiscal years beginning on or after January 1, 2012.

Exposure drafts outlining proposed changes to accounting standards for not-for-profit organizations were released by the Accounting Standards Board and the Public Sector Accounting Board on March 3, 2010. The comment period is open until July 15, 2010.

The Accounting Standards Board proposes to give most not-for-profit organizations the choice of adopting International Financial Reporting Standards or following new standards applicable specifically to not-for-profit organizations, which include the 4400 series.

The Public Sector Accounting Board proposes that government not-for-profit organizations apply the accounting standards applicable to the public sector with the addition of the 4400 series. They will not have the option of adopting International Financial Reporting Standards.

Background

Accounting standards in Canada for the private sector are set by the Accounting Standards Board (AcSB). Standards for the public (government) sector are set by the Public Sector Accounting Board (PSAB).

Not-for-profit organizations in both sectors currently follow the same accounting framework, which includes a series of standards known as the 4400 series which address the unique circumstances of not-for-profit organizations.

Canada's accounting standards are in transition and the current framework is being replaced. Many profit-oriented enterprises will be adopting International Financial Reporting Standards (IFRSs) starting January 1, 2011. Adoption of these international standards is designed to provide more opportunities for Canadian businesses by increasing comparability of financial information and access to international capital markets. Those for-profit enterprises which do not adopt the international standards will apply newly-developed accounting principles for private enterprises.

In assessing the strategic direction of financial reporting standards for not-for-profit organizations, the Accounting Standards Board and the Public Sector Accounting Board conducted extensive stakeholder consultations and are proposing that not-for-profit organizations in the private and public sectors should continue to use the current 4400 series of standards, supported by different underlying reference standards.

Two Types of Not-for-Profit Organizations

The approach proposed recognizes the distinction between not-for-profit organizations in the private sector, and those controlled by a government. Control means the power to govern the financial and operating policies of an organization. This assessment is based on the facts and circumstances specific to the organization. In many provinces this includes hospitals and colleges. Some universities and arts organizations are also controlled by a government.

Accounting Standards for Not-for-Profit Organizations in the Private Sector

The Accounting Standards Board recognizes the diversity of Canadian not-for-profit organizations and the resultant diversity in the needs of the users of their financial statements. This diversity was the reason for providing not-for-profit organizations in the private sector with options for financial reporting.

The options available to not-for-profit organizations in the private sector are:

- 1) Adopting International Financial Reporting Standards. It is important to note that the international standards do not contain provisions equivalent to the existing 4400 series to address the particular circumstances of not-for-profit organizations.
- 2) Following the accounting principles for not-for-profit organizations, which would comprise standards specific to not-for-profit organizations, including the 4400 series, and, as appropriate, accounting standards applicable to private enterprises. There are no substantive changes being made to the existing 4400 series of standards at this time, so choosing this option will likely not result in a significant change in many not-for-profit organizations' financial reporting practices.

The choice between the options can be made freely. Organizations will simply indicate in the accounting policy note to their financial statements which set of standards they have applied.

Accounting Standards for Government Not-for-Profit Organizations

The Public Sector Accounting Board proposes that government not-for-profit organizations would be best served by using the accounting standards applicable to the public sector, as the focus of their operations is on the provision of public services and they are accountable to a broad group of users including legislators and the general public.

As a result, government not-for-profit organizations would adopt public sector accounting standards, which will incorporate the 4400 series to address the specific needs of not-for-profit organizations. This will allow organizations to continue to apply the 4400 series of standards that they are familiar with while using the public sector standards as the financial reporting foundation.

Government not-for-profits will not have the option of adopting International Financial Reporting Standards.

Effective Date and Transition

Comments on the exposure drafts of the new accounting standards must be received by July 15, 2010. The Accounting Standards Board and the Public Sector Accounting Board encourage all organizations involved in the public and private not-for-profit sectors to provide comments on the proposed reporting options. Final versions of the accounting standards will likely be released in late 2010.

Not-for-profit organizations would be required to apply the new accounting standards for annual financial statements relating to fiscal years beginning on or after January 1, 2012. Earlier application is permitted.

The current standards applicable to not-for-profit organizations will remain in effect until organizations have adopted the new standards.

Future Review of Standards

The standards boards are working to ensure that accounting standards for not-for-profit organizations are responsive to the diverse nature of the sector, allow for comparability between the private and public sectors and lead to the production of useful information for the varied users of financial statements. A review of the 4400 series of standards will be conducted by the Accounting Standards Board and the Public Sector Accounting Boards jointly following the transition to identify and propose any necessary improvements.

Where to Find More Information

Copies of the exposure drafts and further information on Canadian standards in transition is available on the CICA website at www.cica.ca/transition