16. CONTRIBUTIONS AND INCOME

16.1 Grants and Donations

There is no provision in the IAS for Grants Received by NPOs. The AICPA Audit and Accounting Guide on Contributions may also be a reference. Contributions are defined as "transactions in which one entity makes an unconditional voluntary transfer to another entity without directly receiving equal value in exchange." The transfer may involve cash or any other asset such as securities, land, buildings, use of facilities or utilities, material and supplies, intangible assets, services, and unconditional promises to give those items in the future".

In determining whether a transaction is a contribution or not, the guide provides that the organization needs to assess the extent of discretion it has over the asset received and whether it has given up assets, rights, or privileges approximately equal to the assets, rights, or privileges received. If it has little or no discretion, the transaction is an agency transaction (discussed separately in 4.13). If it has discretion over the asset's use, the transaction is a contribution, an exchange or a combination of the two.

Accounting for donations and grants is one of the major and specific issues for NPOs.

Unrestricted Grants and Donations

Unrestricted grants and donations should be treated as Revenue of the NPO. Project grants are treated as revenues for the period and presented as such in the statement of activities. Project expenses are deducted from the grant resulting in excess or deficit which will then be added or deducted from the Net Asset. However, unless otherwise stipulated in the agreement with the grantor, grant and the resulting net asset should be treated as Restricted Fund. Many NPOs treat grants as revenue because these are the principal sources of resources for its operations.

Illustration:

On July 1, 2005 Pinoy Tayo Foundation, Inc. received a grant from International Good Governance Institute (IGGI) for Php 1,000,000.

Journal Entries to record the above transactions in the books of Pinoy Tayo:

	Debit	Credit
Cash in Bank	1,000,000.00	
Grant – IGGI		1,000,000.00

Pinoy Tayo Foundation, Inc.
Statement of Activities
For the year ended December 31, 200X

Revenues	Php 1,000,000

Restricted Grants and Donations

Case 1: Many grants and donations have a stipulation that unspent portion shall be returned, or effectively returned, to the grantor/donor thereby creating a possibility of resource outflow. In this case, grants and donations are recognized as a liability - Deferred Grant - upon receipt. Periodically, a portion of the Deferred Grant is recognized as revenue based on the expenses incurred for the period. This method follows the proposition that the NPO earns its revenue based on its activities or performance, as expressed in its expenses. The revenue is always equal to expenses; unspent portion of the grant remains as a liability.

Illustration

On July 1, 2005, Pinoy Tayo Foundation, Inc. received a grant from Concerned Poverty Removal (CPR) Inc. in the amount of Php 2,000,000.00. Based on their Grant Agreement an amount of Php 1,100,000.00 shall be spent for January 2006 for Monitoring and Evaluation (M&E) Activities.

a. To record the receipt of the grant on July 1, 2005

	Debit	Credit
Cash in Bank	2,000,000.00	
Grant – CPR		900,000.00
Deferred Grant		1,100,000.00

Note : The Grant of PhP 900,000.00 will be shown in the Statement of Activities for the calendar year ended December 31, 2005 under the caption REVENUE; the unspent portion of the Grant which is Php 1,100,000.00 at the end of the calendar year 2005 will be shown in the Statement of Financial Position under the caption LIABILITIES.

b. To record the expenses incurred for M&E activities on January 25, 2006.

	Debit	Credit
M&E expenses	1,1000,000.00	
Cash in Bank		1,100,000.00

c. To record the recognition of the Deferred Grant as Revenue in 2006.

	Debit	Credit
Deferred Grant	1,100,000.00	
Grant – CPR		1,100,000.00

Case 2: For grants and donations that are treated as non-exchange transactions, the asset-liability approach can be adopted since the IASB and IPSASB have both taken this approach to recognize the revenue arising from non-exchange transactions.

16.2 Contributions in Kind

Contributions in kind may be in the form of goods, equipment, use of facilities, and services rendered.

Valuation

Non-Cash Contributions are valued at fair value if the fair value can be measured reliably, but whenever this is not possible, any of the following alternatives, which should be disclosed in the notes to financial statements were suggested:

a. Quoted market prices for similar assets
b. The assets replacement cost
c. Independent appraisal of the asset's fair value
d. Other valuation techniques, such as discounting the estimated future cash flows.

Fair Value means "the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction" If the contributions have no value, these should not be recognized. "No value" means that these cannot be used by the Organization.

Illustration

Pinoy Tayo Foundation, Inc. received an equipment from CPR with the following information:

Equipment	Php 1,000,000.00
Accumulated Depreciation	400,000.00
Book Value	600,000.00
Fair Value as independently appraised	700,000.00

To record the above receipt of equipment:

	Debit	Credit
Equipment	700,000.00	
Grant – CPR		700,000.00

Contributed Services are reported as contribution revenue and as assets or expenses on the following conditions:

a. if the services create or enhance a non-financial asset

b. if the service would typically be needed to be purchased

c. if the service requires specialized skills

d. if these services are provided by individuals with such skills

For contributed services that do not meet the criteria above, such as "walk-in" volunteer services, it is recommended that these are disclosed in the notes to financial statements.

Illustration:

Mr. Pedro Tubig, had approached the Executive Director of Pinoy Tayo Foundation and had offered his services as a Hydro Engineer Specialist for the Water Distribution Project of Pinoy Tayo Foundation for free, as part of his Good Samaritan work. The latest proposal received by Pinoy Tayo from a private Hydro Specialist Company was Php 300,000.00 for the consultancy.

To record the Non-cash contribution/donation:

	Debit	Credit
Consultancy – Hydro Specialist	300,000.00	
Non-cash contribution/donation		300,000.00

16.3 Membership Fees

Imagine the following situation: a new professional membership organization is offering a one-year membership fee for 6,000.00. How should this organization account for these revenues? In accrual accounting, an organization recognizes that it has rights to payments that have not yet been received. These rights are called ***Accounts Receivable***. The organization also recognizes that it does not have rights to cash that has been received in advance or providing the related services. These amounts are called ***Deferred Revenue***.

In the above example, the 6,000.00 membership fee is for one year's worth of services, or 500.00 a month. Under both cash and accrual accounting, the cash increases by 6,000.00 when the membership fee is received. With cash accounting, the full 6,000.00 is shown as revenue on the day that the cash is received. In contrast, an organization using accrual accounting would recognize the revenue as it was earned, which would be

500.00. In the first month, the organization would have just 500.00 in revenue, and the remaining 5,500.00 would be shown as deferred revenue. Each month, an additional 500.00 would be recognized as revenue, reducing the deferred revenue.

RELATED LITERATURE on GOVERNMENT GRANTS

At this point, this Accounting Guide presents illustrations on Government Grants, as some NPOs may have transactions regarding this item. IAS 20 defines government grants as "assistance by government in the form of transfers of resources to an enterprise in return for part or future compliance with certain conditions relating to the operating activities of the enterprise".

Government grants, including non-monetary grant at *fair value,* should be recognized when there is reasonable assurance that:

a. The enterprise will comply with the conditions attaching to them.

b. The grants will be received.

Classification of government grants:

a. Grants related to assets – These are government grants whose primary condition is that an enterprise qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

b. Grants related to income – These are government grants other than those related to assets.

Accounting for government grants

1. Income approach – Government grants should be recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. In other words, the grant is taken to income over one or more periods. This is the more **acceptable** approach.

2. Capital approach – Government grants should be credited directly to shareholders' equity. The reason for this is that government grants are not earned but represent an incentive provided by government without related costs. This does not apply to NPOs.

Illustration A:

Community Based Network (CBN) receives a grant of 30,000,000.00 from the National Government, through the Department of Environment and Natural Resources, for the purpose of reforestation of the portion of Sierra Madre Mountains over the period of three years. The reforestation expenses that will be incurred by CBN are as follows:

First year	4,000,000.00
Second year	6,000,000.00
Third year	10,000,000.00
	20,000,000.00

The standard provides that "grants" in recognition of specific expenses should be recognized as income over the period of the related expense.

Accordingly, the grant of 30,000,000.00 is allocated as income over three years in proportion to the costs incurred.

First year

	Debit	Credit
Cash	30,000,000.00	
Deferred income – government grant		30,000,000.00
To record the grant received from DENR		
Deferred income – government grant	6,000,000.00	
Income from government grant		6,000,000.00
To record the deferred income (4/20 x 30,000,000.00)		
Reforestation expenses	4,000,000.00	
Cash		4,000,000.00
To record the 1st year reforestation expense		

Second year

	Debit	Credit
Deferred income – government grant	9,000,000.00	
Income from government grant		9,000,000.00
To record the 2nd year deferred income (6/20 x 30,000,000.00)		
Reforestation expenses	6,000,000.00	
Cash		6,000,000.00
To record the 2nd year reforestation expense		

Third year

	Debit	Credit
Deferred income – government grant	15,000,000.00	
Income from government grant		15,000,000.00
To record the 3rd year deferred income (10/20 x 30,000,000.00)		
Reforestation expenses	10,000,000.00	
Cash		10,000,000.00
To record the 3rd year reforestation expense		

Illustration B

Coco Power receives a grant of 50,000,000.00 from the Australian government for the construction of a virgin coconut oil facility with an estimated cost of 80,000,000.00 and useful life of 5 years.

The standard provides that "grants related to *depreciable assets* should be recognized as income over the periods and in proportion to the depreciation of the related assets."

Accordingly, the grant of 50,000,000.00 should be allocated as income over 5 years. The pertinent entries in the first year are:

	Debit	Credit
1. Cash	50,000,000.00	
Deferred income – government grant		50,000,000.00
2. Building	80,000,000.00	
Cash		80,000,000.00
3. Depreciation	16,000,000.00	
Accumulated depreciation		16,000,000.00
(80,000,000 / 5)		
4. Deferred income – government grant	10,000,000.00	
Income from government grant		10,000,000.00
(50,000,000 / 5)		

Illustration C

PhilCoco is granted a large tract of land in Mindanao by the national government. The fair value of the land is 60,000,000. The grant requires that PhilCoco should construct a coco-diesel refinery on the site. The cost of the refinery is estimated to be 100,000,000.00 and the useful life is 20 years.

The standard provides that "grants related to *non-depreciable assets* requiring fulfillment of certain conditions should be recognized as income over the periods which bear the cost of meeting the conditions."

Accordingly, the grant of 60,000,000.00 should be allocated over 20 years. The pertinent entries in the first year are:

	Debit	Credit
1. Land	60,000,000.00	
Deferred income – government grant		60,000,000.00
2. Refinery	100,000,000.00	
Cash		100,000,000.00
3. Depreciation	5,000,000.00	
Accumulated depreciation		5,000,000.00
(100,000,000 / 20)		
4. Deferred income – government grant	3,000,000.00	
Income from government grant		3,000,000.00
(60,000,000 / 20)		

Illustration D

PeoplesRehab receives grant of 50,000,000.00 from the USA government to compensate for massive losses incurred because of a recent tsunami.

The standard provides that "a government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the enterprise *with no further related costs* should be recognized as income of the period in which it becomes receivable, as an extraordinary item if appropriate."

Accordingly, the grant of 50,000,000.00 is recognized as income immediately as follows:

Cash	50,000,000.00	
Income from government grant		50,000,000.00

Since the tsunami losses suffered are extraordinary in nature, the income from the government grant should be presented also as an extraordinary item.