

11. INVESTMENTS

Accounting of investments in NPOs is similar to that of other types of organizations. In many NPOs, investments form a significant part of their assets, especially those arising from endowments, in which the NPO invests funds in perpetuity. The income from the investments is then used by the NPO for its operations. Sometimes, the Board designates certain funds to be set aside as long-term investments which may be used to assist the NPO in collecting funds for use in major projects. However, some investments of NPOs are so liquid and have such maturities that they are classified as cash equivalents rather than investments.

Basically, there are two things to consider in accounting for investments: valuation and the recognition of investment income/gain (or loss).

Initial Recognition

Upon placement of the investment, the asset is recorded at the face amount of the investment instrument which is acquired in exchange of another asset, usually cash.

Entry:

Investment in _____	100,000	
Cash		100,000

To record investment in _____

Period-End

Investments (stocks, bonds, etc.) are reported in the statement of financial position at their fair value. Supposing that the fair value of the above investment on September 30, is 110,000, the entry on September 30, should be:

Investment in _____	10,000	
Unrealized gain(loss) from investment		10,000

*To record unrealized gain from investment
based on its fair value on Sep 30.*

Assuming that there may be a decrease in fair value in the succeeding period, such that the investment is valued at 105,000 only on December 31, the unrealized loss from investment should be recognized.

Unrealized gain(loss) from investment	5,000	
Investment in _____		5,000

To record unrealized loss from investment based on its fair value on Dec 31.

The unrealized gain(loss) should be presented at the net amount for the entire period. In the above example, the unrealized gain is 5,000 (10,000 less 5,000)

Income

Periodically, income from investments is recorded in the books of the NPO based on the declaration by the issuer of the investment instrument, e.g. dividend income.

Entry:

Cash		
(or other form of asset as the case may be)	2,000	
Income from investment		2,000

To record _____ income from investment in _____.

Important Note: The overall income and gain (net of losses) should be credited to the intended project fund or operations as defined by either the specific donor or the governing board.