

# Frequently Asked Questions

## FAQ: Accounting Standards for Private Sector Not-for-Profit Organizations (NFPOs)

### 1. Who sets accounting standards for NFPOs?

It is the mandate of the Canadian Accounting Standards Board (AcSB) and the Public Sector Accounting Board (PSAB) to issue standards for private and public sectors organizations. Entities within the scope of the CICA Public Sector Accounting Handbook refer to the CICA Public Sector Accounting Handbook to determine the basis of accounting for purposes of their financial reporting. Public sector refers to federal, provincial, territorial and local governments, government organizations, government partnerships and school boards. Entities that are not in the public sector apply the private sector standards in the CICA Handbook – Accounting.

### 2. How do I determine if my organization is a private sector NFPO?

A private sector NFPO is defined in the Preface to the CICA Handbook – Accounting as 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 not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization. The definition applies to Canadian NFPOs that are not government NFPOs.

To determine whether you are a government NFPO, refer to the Introduction to Accounting Standards in the CICA Public Sector Accounting Handbook, which defines a government not-for-profit organization as an organization that is controlled by the government and exhibits all of the following characteristics:

- (a) It has counterparts outside the “public sector”, which term is defined as referring to federal, provincial, territorial and local governments, government organizations, government partnerships, and school boards.
- (b) It is an entity normally without transferable ownership interests.
- (c) It is an entity organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose.
- (d) Its members, contributors and other resource providers do not receive any financial return directly from the organization.

### 3. If I am a private sector NFPO, what standards do I apply?

NFPOs in the private sector follow the CICA Handbook – Accounting.

#### **4. What is the CICA Handbook – Accounting? How do I access it?**

The CICA Handbook – Accounting contains the accounting standards followed by private sector NFPOs in Canada. This Handbook is available, on a subscription basis, through Knotia. To learn more about how to access the standards, go to [www.knotia.ca](http://www.knotia.ca) or call 1-866-256-6842.

#### **5. Why is the CICA Handbook – Accounting divided into "Parts"?**

The CICA Handbook – Accounting is now made up of five parts, with each part containing standards applicable to certain entities:

- Part I – International Financial Reporting Standards
- Part II – Accounting Standards for Private Enterprises
- Part III – Accounting Standards for Not-for-Profit Organizations
- Part IV – Accounting Standards for Pension Plans
- Part V – Pre-changeover accounting standards

This division is necessary as the Handbook is referred to in legislation as constituting the principal source of Canadian GAAP. With the creation of different standards for different sectors, each of which constitutes Canadian GAAP, it is necessary to house all of these standards in the CICA Handbook – Accounting, thus the creation of "Parts".

Not-for-profit organizations have the choice of adopting accounting standards for not-for-profit organizations in Part III or International Financial Reporting Standards in Part I of the CICA Handbook – Accounting. In either case, a not-for-profit organization will be able to state that its financial statements have been prepared in accordance with Canadian GAAP.

#### **6. What standards do private sector NFPOs currently follow?**

Private sector NFPOs currently follow the pre-changeover accounting standards in Part V of the CICA Handbook – Accounting.

#### **7. Why are private sector NFPOs being asked to follow another set of accounting standards?**

Adoption of a new strategic plan by the AcSB made it necessary to consider the future of financial reporting by not-for-profit organizations. The CICA Handbook – Accounting has been restructured and the accounting standards NFPOs currently follow in Part V will be replaced by either accounting standards for not-for-profit organizations in Part III or International Financial Reporting Standards (Part I).

#### **8. When am I required to transition to the new standards?**

For fiscal years beginning on or after January 1, 2012, NFPOs will be required to follow either accounting standards for not-for-profit organizations or International Financial Reporting Standards.

## **9. Can I early adopt the new standards?**

Yes. An NFPO can choose to early adopt accounting standards for not-for-profit organizations.

## **10. What accounting standards do I follow until 2012?**

NFPO's will continue to follow the pre-changeover accounting standards in Part V of the CICA Handbook – Accounting until transitioning to the new standards in 2012, unless it chooses early adoption.

## **11. Can I choose to follow International Financial Reporting Standards (IFRSs)?**

Yes. Following IFRSs is one of the options available to private sector NFPOs.

## **12. Can I choose to follow accounting standards for private enterprises?**

No. NFPOs do not have the option to follow accounting standards for private enterprises. However, a private sector NFPO applying accounting standards for not-for-profit organization in Part III also applies accounting standards for private enterprises in Part II to the extent that the Part II standards address topics not addressed in Part III. The interrelationship is described in the Introduction to Part III and in Section 1101, *Generally Accepted Accounting Principles for Not-For-Profit Organizations*.

## **13. What are the main similarities and differences between the pre-changeover accounting standards in Part V and accounting standards for not-for-profit organizations in Part III of the CICA Handbook – Accounting?**

Many of the principles and concepts underlying the two sets of standards are similar. NFPOs will be able to continue their existing accounting for matters covered in the 4400 series on their transition to accounting standards for not-for-profit organizations, with a few exceptions. It is areas that are not addressed in the 4400 series where NFPOs may need to change their accounting policies. For example, in areas such as post-employment and retirement benefits and financial instruments, policy changes may be required. An NFPO should become familiar with accounting standards for private enterprises in Part II that are applicable in its particular circumstances.

## **14. Can I use accounting standards for not-for-profit organizations in Part III of the CICA Handbook – Accounting if I am not an NFPO?**

No. Only entities that are NFPOs, as defined in the Preface to the CICA Handbook – Accounting, can apply these standards.

## **15. Is there first-time adoption and transition guidance?**

Yes. Section 1501, *First-time Adoption by Not-for-Profit Organizations*, provides guidance on preparing the first set of financial statements under Part III of the CICA Handbook – Accounting. A number of exceptions and exemptions are provided to make the transition process less onerous.

**16. What source of GAAP will be referenced on my organization’s financial statements after transition?**

Financial statements and auditors’ reports will refer to Canadian accounting standards for not-for-profit organizations for NFPOs.

**17. Is the AcSB planning to make changes to the 4400 series of Sections in Part III in the near future? If so, what is the process for these changes and when will they be completed?**

While no changes have been identified at this time, the AcSB and the Public Sector Accounting Board have agreed to perform a joint review of the standards for both the private and public sectors. Included in the joint [review](#) will be an assessment of the various aspects of the 4400 series and its counterpart in the public sector standards (the PS 4200 series) relative to other requirements in the CICA Handbook – Accounting and the CICA Public Sector Accounting Handbook. Further communications will be issued regarding the timing and content of this review.

**18. Is the AcSB planning to make changes to accounting standards for private enterprises in Part II that may apply to NFPOs in the future? If so, what is the process for making changes and when will they be completed?**

There will be changes made to accounting standards for private enterprises that will have implications for NFPOs applying accounting standards for not-for-profit organizations. Private sector NFPOs should monitor these changes by following [the AcSB](#) and [Private Enterprise Advisory Committee](#) activities.

**19. How can I get involved in the standard-setting process? How do I share my opinions on existing and new accounting standards?**

The AcSB follows a rigorous consultative process in the development of private sector accounting standards. As part of the due process, the AcSB surveys constituents about what issues they consider to be priorities, does research, appoints [advisory committees and task forces](#), and develops and issues exposure drafts for public comment, prior to publishing final standards. All stakeholders are welcome to provide feedback on its [documents for comment](#).

**20. Where can I get more information and resources for NFPOs transitioning to accounting standards for not-for-profit organizations in Part III of the CICA Handbook – Accounting?**

There are a number of resources available if you are interested in learning more on this topic. You can read the [Basis for Conclusions document](#) and click [here](#) for the section of the AcSB’s website focused on NFPOs.

**21. If I have questions about accounting standards that apply to not-for-profit organizations in the private sector, who do I contact?**

You can contact Brian Barrington, Consultant, Accounting Standards Board, at [brian.barrington@cica.ca](mailto:brian.barrington@cica.ca) or call 1-416-204-3436.