



CA
PAKISTAN

Topic wise Selected Opinions

Accounting Standard for NPO

Table of Content

1.	Application of transitional provisions of accounting standard for NPO	3
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1. Application of transitional provisions of accounting standard for NPO

Brief facts of the enquiry

The Accounting Standards Board (the Board) received an enquiry seeking guidance on the application of transitional requirements of Accounting Standard for Not-for-Profit Organizations (NPO Standard). In the fact pattern described in the enquiry:

- (a) An NPO receives a plot of land as an in-kind contribution, on July 01, 2011
- (b) The NPO recognizes and measures this in-kind contribution (land) at a nominal amount (i.e. Rupee 1), till June 30, 2016. Resultantly, NPO did not assess or measure the plot of land at fair value during the period from July 2011 to June 2016.
- (c) NPO for financial reporting purposes adopts and applies NPO Standard for the first time, effective from July 2016.

The enquirer submitted two alternative views regarding measurement of in-kind contributed asset (i.e. land), on the date of first time application of NPO Standard.

- **View A:** Under view A, on transition to NPO Standard, the tangible asset held by the NPO shall be re-measured at fair value. This fair value of the asset shall be as of the first time adoption of NPO Standard i.e. July 01, 2016. The asset shall be re-measured irrespective of the fact when such asset was first recognized in the books.
- **View B:** Under view B, on transition to NPO Standard, the tangible asset held by the NPO shall be re-measured at fair value. However, this fair value shall be as of the date of receiving the asset as a contribution i.e. July 01, 2011. This view also considers that in case it is impracticable to determine the fair value of an asset at the transaction/contribution date, such asset shall be continued to be measured at its nominal value.

The submission also noted that due to above-noted divergent views regarding measurement of tangible asset received by an entity as an in-kind contribution, there could also be differing views about the accounting treatment of plot of land on the first time adoption of NPO Standard.

On transition to NPO Standard on July 01, 2016, the land received as in-kind contribution is:

- (i) measured at nominal value (Rupee 1), as the fair value of the plot as on July 01, 2011 (i.e. the contribution date of plot) cannot be reasonably determined.
- (ii) measured at its fair value as on July 01, 2016. Fair value of July 2016 is recognized in the opening balance sheet as at July 01, 2016, with a corresponding gain recorded in the opening retained earnings as of July 01, 2016.
- (iii) measured at its fair value at the end of the first time adoption year i.e. June 30, 2017. Fair value (e.g. Rupees 1 million determined as at June 30, 2017) is recognized in the balance sheet as at June 30, 2017, with a corresponding gain recorded in the income statement for the year ended June 30, 2017.

The submission, in context of the above fact pattern and alternative views, requested the Board to provide guidance on the accounting treatment of the plot of land in the financial statements of NPO, on the first time adoption of NPO Standard (i.e. financial statements for the year ended June 30, 2017).

The Accounting Standards Board comments and conclusion

1. The Board noted that NPO Standard in section 14, First Time Adoption, provides transition requirements and guidance that an entity must follow when it adopts the NPO Standard for the first time as the basis for preparing its financial statements.

Included in the transition requirements is the requirement for measurement of assets and liabilities at the time of adopting NPO Standard. Paragraph 14.2 of section 14 of NPO Standard states that

“An organization shall in its opening balance sheet as of its date of transition (beginning of the earliest period presented in financial statements) to the Accounting Standards for NPOs:

- a) *Recognize all assets and liabilities whose recognition is required by the Accounting Standards for NPOs;*
- b) *Not recognize items as assets or liabilities if the Accounting Standards for NPOs do not permit such recognition;*
- c) *Reclassify items that it recognized under its previous financial reporting framework as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under the Accounting Standards for NPOs; and*
- d) *Apply the Accounting Standards for NPOs in measuring all recognized assets and liabilities.”* (Emphasis is ours)

2. The Board also observed that for the measurement of tangible assets, section 8, Property, Plant & Equipment, of NPO Standard contains the relevant guidance.

Paragraph 8.3 of the NPO Standard notes *that “for a contributed asset, cost is considered to be fair value at the date of contribution. In unusual circumstances when fair value cannot be reasonably determined, the asset should be recorded at nominal value to ensure monitoring and accountability.”* (Emphasis is ours)

NPO Standard defines fair value as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Paragraph 8.4 of NPO Standard further explains that organizations may receive substantial contributions of property, plant and equipment. Recognition of contributions of such assets helps provide an understanding of the resources available to the organization and enables users of the financial statements to make comparisons with other organizations. A contributed asset would be recognized at its fair value at the date of contribution. When an estimate of fair value cannot reasonably be made, both the asset and the related contribution would be recognized at nominal value.

3. The Board, based fact pattern provided in the submission and above discussion, concluded that an entity that is first time adopting NPO Standard shall follow the requirements of paragraphs 8.3 and 14.2(d) of the NPO Standard for measurement of a tangible asset received by an entity as an in-kind contribution prior to entity's first time adoption of the NPO Standard. Based on these requirements:

- a) NPO, on the date of first time adoption of NPO Standard, shall measure the plot of land at its fair value. This fair value shall be as of the date on which the plot of land was received by NPO as a contribution (i.e. July 01, 2011).
 - b) However, in case, NPO cannot reasonably determine fair value of plot of land as of July 01, 2011, then plot of land should be measured at a nominal value. In such a case, plot of land should be continued to be measured at nominal value in the subsequent periods, and shall not be re-measured at fair value.
4. The Board also noted that, in general, it is presumed that fair value (both current and historic) of land can be determined by an entity by making every reasonable effort to do so. There would, accordingly, be rare and unusual circumstances in which an entity cannot reasonably determine the fair value of land.

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