



Practitioners Advisory Group

AGENDA ITEM: PAGCP04-04

23 September 2020 – Online

Feedback on Accounting Basis tool

Summary	The paper highlights the history behind the development tool and the key questions for PAG members
Purpose/Objective of the paper	This paper provides
Other supporting items	Accounting Basis: Diagnostic & Strategy too for NPOs and Funders Power point introduction and Excel tool
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Actions for this meeting	<u>Advice</u> on ways to improve the tool

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1. Background

- 1.1 The IFR4NPO project is developing Guidance to address the needs of readers of general purpose financial reports of non-profit organisations, who include a wide range of stakeholders. As outlined in the Consultation Paper Preface 3.2 and Part 1 Section 3, it is our premise that accruals-based Guidance is most appropriate to meet the project objectives.
- 1.2 In the PAG meeting in December 2019, it was noted that reporting to donors with respect to the grants or projects they fund is often done on a cash or modified cash basis. Since the same accounting ledger and transactions should form the source for both general and special purpose reports, this presents a pragmatic challenge for grant funded NPOs required to prepare financial reports on different bases.
- 1.3 The IFR4NPO Consultation Paper presents a case for the Guidance to be on an accrual basis, with one of the General Matters or Comment relating to whether or not respondents agree.
- 1.4 Alongside the Guidance itself, it is acknowledged that challenges remain with respect to choice of accounting basis. Humentum developed a tool, as a supplementary resource to the Guidance, and a first draft was presented to the PAG on 4 August. The feedback has been considered and a revised version is presented for comment at this meeting.

2. The Accounting Basis tool

- 2.1 The tool developed by Humentum is called 'Accounting Basis: Diagnostic and Strategy Tool for Non-profit organisations and funders'. It is referred to as 'The Accounting Basis Tool' for short.
- 2.2 The Accounting Basis Tool consists will be located on the Humentum website and consist of:



- A self-read Power point deck explaining the purpose and audience for the tool, challenges associated with use of cash, accrual and modified cash accounting in NPOs, and instructions on how to use the tool.
- An Excel spreadsheet containing the tool itself, as well as descriptions and illustrated worked examples

2.3 The first presentation of the tool is scheduled to be made in October 2020 at the NGO Conference of the Institute of Certified Public Accountants Kenya.

Q1: Is it clear who the tool is for and how to use it? How could this be further clarified? (section 1 & 6). Any other comments on Section 1?

Q2: Do you agree with the description of the purpose of accounting in Section 2? Any other comments in section 2?

Q3: Does section 3, especially slides 17, 18 and 19 make a case that resonates with PAG members?

Q4: Do you agree with the comments and scores for the 5 scenarios? How might they be improved?

Q5: Is the layout of the tool itself clear? How could it be further improved?

Q6: Any feedback on the examples, especially 6.3 and 6.4 which propose a possible methodology to account for a 2-year rent prepayment or asset purchase on a cash basis for project reporting purposes, while continuing to capitalize assets and recognise prepayments.