901a Ferry Rd
PO Box 13 625
Christchurch
Ph (03) 669 0542
info@commaccounting.co.nz

How-To Guide GR2

Accounting for Grants: Income Method.

This How-To Guide describes how to account for Grants and present them in your annual Financial Statements. You will need a tracking system for each grant as well, to satisfy funder requirements.
The relevant accounting standard, NZIAS 20, is not compulsory for Public Benefit Entities such as non-profits. While most accountants will use the Liability Method described in How-To Guide GR1, the Income Method described here and the Equity Method (GR3) will give you more intuitive results.

- ***For the Liability Method for all grants see How-To-Guide GR1.***
- ***For the Equity Method for one-off grants see How-To-Guide GR3.***
- ***This method is recommended only for recurring grants.***

The Principle:

Many non-profits re-apply for grants from a variety of sources to cover their baseline and the costs of delivering their service or product. The conditions of such operational grants are usually quite wide and can easily be met by continuing normal operations. Unlike the liability method, the income method shows grants as income when received and makes an organisation's ability to acquire grants a part of their financial performance.

The Practice:

1. Set up an income account for each grant and record it here as it comes in. No more accounting entries are required.
2. You will also need to *track* each grant, regardless of which accounting method you use.

Comparison with Liability Method:

Income Method	Liability Method
Income Statement: Income section shows all grant money an organisation has received during the year.	Grant money not yet spent is deducted from income, and grant money left over from the previous year is added.
An organisation shows a surplus if it received more money from all sources during the year than it spent.	An organisation shows a surplus only if it received more *non-grant* money than it spent. Grant money for operating expenses has no bearing on an organisation's surplus or deficit.
Possible distortions: large fluctuations in grants towards the end of the financial year will disproportionally affect income.	Possible distortions: Large drops or increases in grant income are smoothed out and do not show until the next year.
Balance Sheet: Equity contains cash assets of the organisation (higher).	Equity only contains those cash assets not tagged against a grant (lower).