



How-To Guide GR1

Accounting for Grants: Liability 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 here, the Income Method (see GR2) or Equity Method (GR3) will give you more intuitive results.

- *For the Income Method for recurring grants see How-To-Guide GR2.*
- *For the Equity Method for one-off grants see How-To-Guide GR3.*
- *For Government Contracts see How-To Guide GC*

The Principle:

Grants and government income are usually paid in advance, before you delivered the service or bought the item. If you are unable or unwilling to meet the grant conditions, you have to repay all or part of the grant. This means that the grant should be treated as a liability (much like a bank loan) until spent. Every time you buy something or pay someone from the grant, the liability is reduced accordingly. This also means that *only the part of the grant that you spent counts as your income.*

The Practice:

First Year:

- 1. Set up an Income account called available grants.**
- 2. During the year,** simply put all grant money you receive into this Income account.
- 3. Set up an Income account called unexpended grants(Income).**
- 4. Set up a Liability account called unexpended grants (Liability).**
- 5. At the end of the year,** you need to:
 - add up all amounts not yet spent (**\$\$ unspent**) from grants.
 - work out the amount spent from grants ('grants received' - \$\$ unspent = **\$\$ spent**)
 - Then make journal entries like this
 - a) Credit account: unexpended grants (liability); amount: Balance of 'available grants'

Debit account: unexpended grants (income); amount: Balance of 'available grants'.
(Note: this takes the grants you have received out of income and into a liability)

b) Credit account: unexpended grants (income); amount: \$\$ spent

Debit account: unexpended grants (liability); amount: \$\$ spent
(Note: this takes the expended grant money out of the liability and back into income)

Future Years:

A further journal entry is necessary at the end of the year, provided you have spent all of the previous year's unexpended grants (= \$\$ previous year)

c) Credit account: available grants; amount: \$\$ previous year

Debit account: unexpended grants (liability); amount: \$\$ previous year
(Note: this takes last year's unspent grants out of liability and into income)

Financial Statements:

The grant section in your Income Statement will now look like this:

Available Grants:	'available grants' account
Less Grants unexpended:	<u>('unexpended grants (income)' account)</u>
Income from Grants:	Total

You will also need a Note in your Financial Statements, saying this:

Grants are considered a liability until spent. Only the portion of grants expended is shown as Income, with the unexpended balance shown as a liability.

Individual Grants:

Although for accounting purposes you add up all grants, funders usually require you to show their grant separately in their financial statements.

You can achieve this by adding a Note to your financial statements listing all grants received during the year and the amounts. It is best practice to also show which grants make up the 'unspent' portion.

Example:

Non-profit group TheGoodGuys had \$4,530 left in unspent grant money at the end of their financial year 2011. During 2011/12 they received:

- A Lottery grant of \$14,000
- A Canterbury Community Trust grant of \$6,000
- A COGS grant of \$3,000

They spent all the leftover grant money from 2011 and much of the new grants, and have \$6,840 left in unspent grant money at the end of the financial year 2012.



Total Available grants: \$23,000

Total spent grants: (\$23,000 - \$6,840) = \$16,160

Their journal entries at the end of the year 2012 will look like this:

- a) Credit: unexpended grants (liability) : \$ 23,000
Debit: unexpended grants (income): \$ 23,000
- b) Credit: unexpended grants (income): \$ 16,160
Debit: unexpended grants (liability): \$ 16,160
- c) Credit: available grants \$4,530
Debit: unexpended grants (liability): \$ 4,530.

After this, account balances are:

Available Grants: \$ 27,530

Unexpended Grants (Income): \$ 6,840

Unexpended Grants (Liability): \$ 6,840

Their Income Statement (grants section) will look like this:

Available Grants: \$ 27,530

Less Grants unexpended: (\$ 6,840)

Income from Grants: \$ 20,690

In the Balance Sheet in the Liability Section there will be this item:

Unexpended Grants \$ 6,840