

## Question 1 of 3

For each of the independent transactions listed, indicate which accounts are needed to record the entry and whether the account will be debited or credited. If no entry is required, write "No entry required" in the box, being sure to leave no cell blank.

Independent Transaction	Debit	Credit
1. A local CPA firm donated their services to perform the regular annual financial statement audit and preparation of IRS Form 990 for a not-for-profit museum.	<input type="text"/>	<input type="text"/>
2. Several local rotary club members used their personal vehicles to deliver meals to senior citizens for Meals on Wheels.	<input type="text"/>	<input type="text"/>
3. A donor contributed \$2 million to a not-for-profit hospital.	<input type="text"/>	<input type="text"/>
4. A donor contributed \$4 million to a not-for-profit university to be permanently invested.	<input type="text"/>	<input type="text"/>
5. \$100,000 in earnings from a permanent scholarship endowment are released to fund scholarships (the scholarships have not been awarded yet).	<input type="text"/>	<input type="text"/>
6. A donor offers to donate \$500,000 to a local mental health clinic if the clinic can raise a matching amount in the next 60 days.	<input type="text"/>	<input type="text"/>
7. A psychiatrist volunteers ten hours each week at a not-for-profit counseling center to assist persons with drug and alcohol addiction.	<input type="text"/>	<input type="text"/>
8. A museum receives a Picasso painting to add to its modern art collection. The modern art collection is held for public exhibition, is protected and cared for, and is subject to a policy that requires the proceeds of items that are sold to be used to acquire other items for the collection.	<input type="text"/>	<input type="text"/>
9. A local chapter of United Way receives \$25,000 in cash from a donor who stipulates that the donation must go to a local drug rehabilitation half-way house.	<input type="text"/>	<input type="text"/>
10. A religious organization receives a donation of land valued at \$750,000. The donor does not indicate how the donated land should be used.	<input type="text"/>	<input type="text"/>

11. A museum receives \$150,000 in 20x1 from a donor who stipulates that the donated funds are to be used in 20x2 and 20x3.	<input type="text"/>	<input type="text"/>
12. A not-for-profit aquarium gift shop sells posters of Zelda, a popular sloth in its Caribbean exhibit.	<input type="text"/>	<input type="text"/>
13. A local art museum paid for television and radio announcements to request contributions.	<input type="text"/>	<input type="text"/>
14. A local art museum paid for brochures with general information about the museum's programs. The brochures were not printed as part of a fund drive.	<input type="text"/>	<input type="text"/>

**Options for Account Names:**

- A. No entry required
- B. Asset
- C. Revenue
- D. Bad debt expense
- E. Fundraising expense
- F. Program expense
- G. Contributions receivable
- H. Contributions payable
  - I. Contribution with donor restriction
  - J. Contribution without donor restriction
- K. Contribution—Unrestricted
- L. Contribution—Temporarily restricted
- M. Contribution—Permanently restricted
- N. Net assets released from donor restrictions out
- O. Net assets released from donor restrictions in
- P. Net assets with donor restrictions
- Q. Net assets without donor restrictions
- R. Allowance for uncollectible accounts
- S. Management and general expense
- T. Liability

---

## Explanation

1. The donated services meet the requirement for recognition:
  - Services require specialized skills.
  - The individual possesses those skills.
  - The Not For Profit (NFP) would have purchased the services if they had not been donated.
2. The donated services do not meet the requirement for contribution revenue recognition because they do not require specialized skills.
3. The donor did not place a restriction on the use of the contribution.
4. The donor placed a restriction on the use of the contribution.
5. The donor restriction was satisfied and therefore the amount is reclassified from net assets with donor restriction to net assets without donor restriction.
6. The promise to give contains a condition that must be met before contribution revenue can be recognized.
7. The donated services meet the requirement for recognition:
  - Services require specialized skills.
  - The individual possesses those skills.
  - The NFP would have purchased the services if they had not been donated services are related to programs.
8. Gifts to a collection are not recognized as contribution revenue if the NFP:
  - Maintains the collection for public exhibition or education.
  - Preserves the collection.
  - Uses the proceeds from the sale of items in the collection to acquire other items for the collection.
9. Since the intermediary does not have variance power, the donation is a liability rather than a revenue.
10. The donor did not restrict the use of the land.
11. The donor placed a time restriction on the donated amount.
12. Auxiliary sales are revenues.
13. Functional expense reporting is required for fundraising expenses.
14. Since the brochures are not related to a fundraising event, they are general expense.

## Question 2 of 3

Scroll down to complete all parts of this task.

Metro Charity is a nongovernmental, not-for-profit entity that had the following transactions. For each transaction identified in the table below, write the letter of the appropriate effect on Metro's statement of financial position in the corresponding empty box. Consider the impact of each transaction independently of the others.

Transaction	Effect on total assets	Effect on total liabilities	Effect on net assets with donor restrictions	Effect on net assets without donor restrictions
A cash gift is received to establish a permanent endowment.	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Metro receives a cash donation from a donor who specifies that the funds must be transferred to a specific animal shelter that is unrelated to Metro.	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Metro receives a cash gift that is restricted to support of its health clinic.	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
A donor advances Metro cash that is not restricted but is conditioned on Metro raising a matching amount within 90 days.	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Metro receives a house that was donated to provide emergency shelter for orphans.	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Metro's board of directors designates a portion of its cash balance to complete a construction project.	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

<p>Metro received cash from a donor who made an unconditional contribution in the prior period.</p>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<p>Metro recorded an adjusting journal entry to recognize unpaid wages at the end of the year.</p>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<p>A lawyer on Metro's board of directors designed a new logo for the organization that saved Metro from hiring a design agency.</p>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

**Options for the effects:**

- A. Increase
- B. Decrease
- C. No impact

## Explanation

### Background information

The financial statements of a not-for-profit organization (NPO) provide useful information to members, creditors, and donors. Like a balance sheet, the **statement of financial position** reports **assets**, **liabilities**, and **net assets**.

**Net assets** (assets less liabilities) are similar to retained earnings and are categorized based on donor-imposed restrictions:

- **Net assets *with* donor restrictions:** resources subject to donor-imposed stipulations (ie, for a specific purpose, use, or period of time)
- **Net assets *without* donor restrictions:** resources available for general use or at the discretion of the entity (includes board-designated funds)

This distinction is important because it discloses information about the types of resources provided to the NPO and the NPO's current accessibility to these resources.

Since an NPO has no shareholders, its *total net assets* generally can change only when the NPO has a revenue or expense transaction, which would affect its change in net assets (ie, net income for a for-profit business). Some transactions may also change the *categorization of net assets*, such as a release from donor-imposed restrictions.

### Row 2: Cash gift for permanent endowment

A permanent endowment means the gift will be invested perpetually by the NPO, which is a donor-imposed restriction on the gift's use. Thus, the cash gift **increases total assets** and **increases net assets *with* donor restrictions**.

### Row 3: Donation received for another organization

Because Metro has no discretion (or "variance power") to redirect the funds and is acting merely as an intermediary, Metro will increase a payable account, such as "funds held for

others." Since this is *not* a contribution, no revenue is recorded, and it has no impact on the NPO's change in net assets. Thus, this transaction **increases total assets** and **increases total liabilities**.

#### **Row 4: Cash gift restricted for health clinic**

This cash gift has a donor-imposed restriction on its use. Thus, the cash gift **increases total assets** and **increases net assets *with* donor restrictions**.

#### **Row 5: Conditional cash advance (matching grant)**

Conditional contributions are not recognized as revenue until the condition is met (ie, the NPO obtains the matching amount). Therefore, no revenue is recorded, and it has no impact on the NPO's change in net assets. Instead, Metro will increase a liability account, such as "refundable advance." This treatment is similar to a for-profit business receiving an upfront cash deposit, which is initially recorded as a liability (ie, deferred revenue). Thus, this transaction **increases total assets** and **increases total liabilities**.

#### **Row 6: Donated house for shelter**

This noncash gift has a donor-imposed restriction on its use. Thus, the gift **increases total assets** (increases the property account) and **increases net assets *with* donor restrictions**.

#### **Row 7: Board designates cash for construction**

Only **donor-imposed restrictions** affect an entity's net asset classification. Board designations may reclassify portions of net assets *without* donor restrictions within that category (which has no effect on the total), but they cannot transfer amounts *between* categories. Thus, this transaction has **no impact** on any total balances.

#### **Row 8: Collection of prior period pledge**

The revenue was recognized in the prior period when the pledge was made (as an increase in pledge receivable and an increase in revenue *with* donor restrictions due to the implied time restriction). When the pledge is collected, the receivable decreases while cash increases; since one asset replaces another, there is **no impact on total assets**. However, the implied time restriction on the pledge has been met, which triggers a reclassification as the donor restriction is released. Thus, **net assets *with* donor restrictions decrease** and **net assets *without* donor restrictions increase**.

### **Row 9: Accrual of unpaid wages**

Accruing expenses **increases liabilities** (ie, wages payable), and all expenses for an NPO **decrease net assets *without* donor restrictions**.











### **Row 10: Contributed services**

Contributed services are recognized as revenue only if they are provided by someone with a specialized skill, and the entity needed that specialized skill (ie, the service would otherwise be purchased). In this scenario, the organization would not recognize any revenue because the contributed service is not provided by a specialist. Therefore, there is **no impact** on Metro's financial statements.

### Question 3 of 3

Chasing Stars is a not-for-profit (NFP) entity preparing their statement of cash flows for the current year. Help classify where the following items should appear in Chasing Stars' statement of cash flows (SCF) for financial reporting purposes in accordance with U.S. GAAP.

Write the letter of the best answer from the list provided in the empty box for each inflow or outflow activity described. Each answer may be used once, more than once, or not at all.

No.	Transaction	SCF Classification
1	Cash outflow for the repayment of principal amounts of debt	<input type="text"/> 
2	Cash inflow from the sale of a vehicle	<input type="text"/> 
3	Cash outflow for the purchase of computer equipment	<input type="text"/> 
4	Dividends restricted for long-term purposes	<input type="text"/> 
5	Cash inflow from the sale of a work of art	<input type="text"/> 
6	Cash inflow from a local supporter	<input type="text"/> 
7	Payment of staff wages	<input type="text"/> 
8	Donated piece of equipment	<input type="text"/> 
9	Cash inflow restricted for long-term purposes	<input type="text"/> 
10	Cash inflow from a government grant	<input type="text"/> 

#### Options for SCF Classification:

- A. Financing activity
- B. Investing activity
- C. Noncash investing and financing activity
- D. Operating activity
- E. Not applicable

---

## Explanation

### Rationale:

The statement of cash flows for a NFP entity is similar to that of a for-profit business. It includes cash flows from operating activities, from investing activities, from financing activities, reports the net change in cash during the period, and provides a supplemental disclosure of noncash investing and financing activities. Restricted contributions for NFPs are reported in the financing section while unrestricted contributions are reported in the operating section.

Operating activities include cash flows from the ongoing operations of the entity, including salaries, sale of goods or services, purchase of inventory, and unrestricted contributions, grants, or board-designated funds.

Investing activities include purchase or sale of plant, property, or equipment, and purchase or sale of investments, works of art, or noncapitalized collections.

Financing activities include issuance or repayment of debt and the receipt of both temporarily and permanently restricted resources stipulated by the donor to be used for long-term purposes. Related interest and dividends that are donor-restricted for long-term purposes must also be reported as a financing activity.

Noncash gifts, such as investments or tangible assets, are separately disclosed as noncash investing and financing activities.