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INSIGHTS

ACCOUNTING & TECHNOLOGY

NGO fund accounting in Cambodia: restricted and unrestricted funds

How Cambodian NGOs account for restricted and unrestricted donor funds, conditions, cost allocation and donor reports, and how that differs from the donor audit.



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HOW SHOULD A CAMBODIAN NGO ACCOUNT FOR RESTRICTED AND UNRESTRICTED DONOR FUNDS?

A Cambodian NGO should account for each donor agreement on its terms: a contribution with a purpose or time restriction is recognised in the restricted fund and released to unrestricted income only when the restriction is met; a contribution with a condition that creates a return obligation is a liability until the condition is met. Direct project costs are charged to the fund, shared costs are allocated on a documented and consistent basis, and the donor report reconciles to the ledger. In Cambodia, the statutory financial statements, the donor reports and the audit under ISA 800/805 are separate deliverables, and the accounting framework depends on the entity and the donor; there is no single NGO accounting standard.

IN SHORT

- A restriction limits how a contribution may be used; a condition creates a return obligation. The two are not the same.
- A restricted contribution is held in a restricted fund and released when the purpose or time restriction is met; a condition is a liability until it is met.
- Direct project costs go to the fund, and shared or indirect costs are allocated on a documented and consistent basis.
- The donor report should reconcile to the ledger, the budget and the bank accounts, in the currency and period the donor requires.
- There is no single NGO accounting standard in Cambodia; the framework depends on the entity and the donor, and the donor audit is separate from the statutory audit.

Restricted and unrestricted funds

A restricted fund holds contributions that the donor has restricted to a purpose, a time or a project. The restriction may be in the grant agreement, the donor's letter or the appeal materials. The NGO can use the funds only for the restricted purpose or period; if it cannot, it may need to return the funds or seek a variation.

An unrestricted fund holds contributions that the donor has not restricted. The NGO can use them for its general objectives, subject to its constitution, its budget and any internal designations. A board designation is not a donor restriction; it is an internal decision that can be reversed.

A contribution with a condition creates a return obligation if the condition is not met. The condition is a liability until it is met, not a restricted fund. A restriction limits use but does not create a return obligation. The grant agreement and the donor's correspondence decide which one applies.

RESTRICTION, CONDITION AND DESIGNATION

Type	Effect	Accounting

Type	Effect	Accounting
Unrestricted contribution	No donor restriction	Income when receivable
Purpose restriction	Use limited to a project or purpose	Restricted fund; release when spent
Time restriction	Use limited to a period	Restricted fund; release over time
Condition	Return obligation if not met	Liability until the condition is met
Board designation	Internal decision, not a donor right	Unrestricted fund with a designation

Recognition: contribution, exchange transaction or grant

The first question is whether the donor agreement is a contribution (a non-exchange transfer), an exchange transaction (the donor receives goods or services in return) or a government grant. A contribution with no return obligation is recognised as income when the NGO is entitled to it and the amount can be measured reliably; a contribution with a condition is a liability until the condition is met.

An exchange transaction is accounted for under the revenue standard (IFRS 15 / Section 23) if the NGO provides a service to the donor in return for the payment. A government grant is accounted for under IAS 20 / Section 24 if it is a transfer of resources in return for conditions. Many donor agreements contain a mix; the accounting should follow the substance, not the label.

A multi-year grant may be recognised over the period of the service or the restriction. A grant received in advance is deferred income or a liability, depending on the terms. A grant that is refundable if the project does not proceed is a liability, not income.

Cost allocation and indirect cost recovery

Direct project costs are charged to the fund: field staff, materials, travel, training, subcontracts and direct procurement. The invoice, the purchase order and the delivery evidence should identify the project and the donor.

Shared costs, such as office rent, management, finance, HR and IT, are allocated across funds on a documented and consistent basis. The basis can be headcount, direct cost, floor area, transaction volume or another driver that reflects the benefit. The allocation method should be in the finance manual and approved by management; a donor may cap the indirect cost rate or require a specific method.

A sub-grant to a partner organisation is a separate agreement. The NGO should obtain the partner's reports, receipts and supporting documents, and should not recognise the sub-grant as its own project cost without evidence that the partner incurred it. A related-party sub-grant needs the related-party disclosure and a procurement check.

> **A restriction is not a liability**
>
> A purpose restriction limits how the money is used; a condition creates a return obligation. The first is a restricted fund, the second is a liability. The grant agreement decides which one applies.

Donor reporting and reconciliation

The donor report should reconcile to the ledger, the budget and the bank accounts. It should show the opening balance, the receipts, the expenditure by budget line, the closing balance and the exchange rate. A report that does not reconcile to the accounting records is a common donor audit finding.

Multi-currency grants need a clear policy: the currency of the grant, the exchange rate used, the gain or loss on conversion and the presentation currency. The donor may require expenditure in USD or KHR; the ledger and the report should use the same basis.

A close-out report should account for the remaining funds, the disposal of assets purchased with the grant, the audit and any refund. The donor agreement may require a final audited report or a specific close-out format.

Statutory accounts, donor audit and the framework

Cambodian NGOs prepare statutory financial statements and, where required, an audit. The Law on Accounting and Auditing and ACAR set the filing and audit requirements for the entity; the donor may also require an audit under ISA 800/805 for a specific project or a specific financial statement. The two engagements are separate.

There is no single NGO accounting standard in Cambodia. The framework depends on the entity, the donor and the statutory requirement: some NGOs apply CIFRS or CIFRS for SMEs, others apply a donor-specific basis or a special-purpose framework. The financial statements should state the framework and the basis of preparation.

The auditor tests the grant agreements, the conditions, the fund balances, the cost allocation, the sub-grants, the procurement and the donor reports. The auditor should also consider the related-party transactions and the tax position, which depends on the NGO's registration and activities.

- Grant agreement, donor correspondence and conditions.
- Fund ledger, cost allocation and indirect cost recovery.
- Sub-grant agreements and partner reports.
- Donor report, budget and bank reconciliation.
- Statutory accounts, ACAR filing and donor audit report.

Cambodian practice

Cambodian NGOs often manage multiple donors, multi-year projects and sub-grants to provincial partners. The finance team should maintain a fund ledger that maps each transaction to a donor, a project and a budget line, and should reconcile the fund balances to the bank accounts and the donor reports.

Procurement is a high-risk area. The donor may require competitive quotes, a procurement committee or a specific threshold. The NGO should keep the quotations, the evaluation and the purchase order, not only the invoice. A related-party supplier needs the disclosure and the donor's approval if the agreement requires it.

The tax position of an NGO depends on its registration and activities. The accounting treatment of a grant does not determine whether it is taxable or exempt; the tax advice should be separate from the fund accounting.

Key facts

How this article is checked

Figures were verified against the sources listed below in November 2026 and are re-checked each January or when the rule changes. Written by Liv Bonito, Co-founder & Managing Director. General information, not advice on your situation: for that, talk to a partner.

QUESTIONS

Questions people ask

Is a donor grant revenue?

It depends on the agreement. A contribution with no return obligation is income when the NGO is entitled to it. An exchange transaction is revenue under the revenue standard. A government grant is accounted for under IAS 20 / Section 24. A condition that creates a return obligation is a liability until it is met.

When is restricted income recognised?

A restricted contribution is recognised in the restricted fund when the NGO is entitled to it, and released to unrestricted income when the purpose or time restriction is met. A condition is a liability until the condition is met, not income.

Can an NGO use CIFRS?

The framework depends on the entity, the donor and the statutory requirement. Some NGOs apply CIFRS or CIFRS for SMEs, others apply a donor-specific basis or a special-purpose framework. The financial statements should state the framework and the basis of preparation.

What does the donor audit cover?

A donor audit under ISA 800/805 covers the specific project, financial statement or element the donor requires. It is separate from the statutory audit. The engagement letter should define the scope, the period, the reporting format and the addressee.

SOURCES

Where the rules come from

01 ISA 800 and ISA 805 Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks and Audits of Single Financial Statements and Specific Elements — IAASB / KICPAA

02 IAS 20 Accounting for Government Grants and Disclosure of Government Assistance (https://www.ifrs.org/issued-standards/list-of-standards/ias-20-accounting-for-government-grants-and-disclosure-of-government-assistance/) — IFRS Foundation

03 IFRS 15 Revenue from Contracts with Customers and IFRS for SMEs Section 23 — IFRS Foundation

04 Law on Accounting and Auditing (Royal Kram NS/RKM/0416/006, 11 April 2016) and ACAR filing requirements (https://www.acar.gov.kh) — Kingdom of Cambodia / Accounting and Auditing Regulator