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Introduction

Crowdfunding is an alternative way of raising funds for innovative, entrepreneurial, and creative projects, startups, and social causes, which provide funds at a lower cost and in less time. The project must be well planned for its success. Funds are raised from crowdfunding with the help of crowdfunding websites, which provide an online platform for investors and borrowers (Gedar & Lodha, 2024). Accounting for crowdfunding transactions is a difficult task. Crowdfunding is a new concept, and there are no clear guidelines regarding its accounting in India yet. There are four types of crowdfunding, and the accounting treatment varies for each type.

Accounting for Crowdfunding: A Practical Approach with Proposed Journal Entries

Crowdfunding is a trending and emerging concept that is an alternative way of raising funds for any project. As this method of fundraising gains momentum, it presents unique challenges and opportunities for financial reporting and accountability. This article explores the accounting implications of various crowdfunding models, like donation-based, reward-based, debt-based, and equity-based. The study aims to suggest a prospective accounting treatment for crowdfunding. This study is exploratory in nature. It is found that various countries are in the process of developing a dedicated accounting standard for this purpose. Yet, no country is able to provide complete guidance for accounting for various types of crowdfunding transactions. This is a unique attempt to provide accounting guidance for crowdfunding transactions.

Accounting of crowdfunding is important for both the lender and the borrower because it involves the exchange of funds and returns. Accounting for crowdfunding transactions is essential to ensure appropriate financial reporting, compliance with legal regulations, and transparency for stakeholders.

Challenges in Accounting for Crowdfunding

Accounting for crowdfunding presents significant challenges due to its diverse models and evolving regulatory landscape. Donation-based and reward-based crowdfunding complicate revenue recognition, liability classification, and regulatory compliance. Donations often lack enforceable obligations, while unfulfilled rewards generate contingent liabilities. Debt-based crowdfunding requires accurate treatment of interest, repayments, and disclosure. Equity-based crowdfunding necessitates valuation, regulatory adherence, and shareholder tracking. The absence of

standardized accounting guidelines leads to inconsistencies in financial reporting. Fundraisers failing to deliver promised outcomes may face issues of unearned revenue and potential refunds. Moreover, stakeholders demand transparent disclosures on fund utilization and project progress, further intensifying accounting complexities.

Accounting Standards and Crowdfunding

So far, there is no dedicated accounting standard for crowdfunding in any of the countries. Based on the type of crowdfunding, one can apply the provisions of the relevant applicable accounting standard. Equity-based and debt-based crowdfunding fall within the definition of financial instruments. Accordingly, they should be accounted for in line with their respective nature under IFRS 9 *Financial Instruments* and IAS 32 *Financial Instruments: Presentation*. Similarly, accounting of reward-based crowdfunding can be done as per IFRS 15 *Revenue from Contracts with Customers* because

in reward-based crowdfunding, a contract is made with the customer, which is similar to the nature of IFRS 15. For donation-based crowdfunding, no present accounting standard is applicable for its accounting. In spite of the identification of relevant accounting standards, no standard specifies accounting treatment of crowdfunding transactions.

Accounting Treatment for Different Types of Crowdfunding

There are three major issues related to accounting for crowdfunding transactions: the accounting for the amount raised, accounting for expenses made on fundraising, and accounting for the refund of the amount raised. The type of crowdfunding determines how it is treated in accounting. Generally, the amount raised through crowdfunding is initially deposited in an escrow account or a separate account of the platform to ensure legal compliance and investors' protection. After verification and completion of formalities, this amount is either transferred to the account of the fundraiser (company) or a refund is made. For the amount raised on crowdfunding, the platform debits its bank account and, based on the type of crowdfunding credits, either "Investor Payable" (equity-based and debt-based CF) or "Backers" (reward or donation-based CF) account. When the platform returns the money to investors or backers for some reason, a reverse entry is made. When the money is sent to the company on a successful campaign, the entry remains the similarly the funds are

going out. On receipt of money, the company debits the bank account and, based on the type of crowdfunding, credits the share capital account (equity-based CF) or loan payable (debt-based CF) or deferred revenue account (reward-based CF), or the Donation revenue account (donation-based CF).

For expenses made by a fundraiser company on crowdfunding, again, accounting treatment will be based upon the type of crowdfunding. For equity crowdfunding, expenses may be categorised into direct and indirect costs. While direct costs include platform fees, payment processing fees, legal fees, etc., indirect costs include marketing, advertising, and administration expenses. Direct costs should be debited to or deducted from the securities premium account, whereas indirect costs should be debited to the Income Statement. For debt-based, reward-based or donation-based crowdfunding, all expenses related to crowdfunding should be debited to the Income Statement as Financing Costs or operating expenses, respectively. An additional entry is required for reward-based crowdfunding when goods are delivered by debiting the Cost of Goods Sold account and crediting the Inventory account.

For accounting of the refund of the amount raised through crowdfunding, the entry made at the time of receipt of money is reversed. Generally, a refund is due when there is over-subscription or when the campaign is unsuccessful. Based on the type of crowdfunding, the necessary account will be debited from crediting bank account.

Research Problem and Gap

Despite the growing relevance of crowdfunding, there is a noticeable lack of accounting guidance on how to recognize, classify, and disclose such transactions. This absence of standardized frameworks compromises consistency, comparability, and transparency in financial reporting. Existing literature has primarily focused on the legal, technological, or marketing aspects of crowdfunding, while the accounting domain remains underexplored.

Research Methodology

This article studies an exploratory research design, aiming to propose journal entries for various crowdfunding models based on general accounting principles and applicable international standards. Data has been synthesized through a review of relevant literature and hypothetical case scenarios to illustrate proposed accounting treatments.

Objective of the study

To suggest prospective accounting practices for crowdfunding.

Examples for Accounting Treatment for various types of Crowdfunding have been presented below: -

Accounting for Equity-Based Crowdfunding

Example for Accounting of Equity-based Crowdfunding:

Example 1: X Ltd. raised funds through the 'Crowdcube' equity-based crowdfunding platform. Pass the journal entries in the books of the fundraiser and platform for the following crowdfunding transactions: -

Date	Particulars	Amount (₹)
2022 Apr 21	A company raises funds via an equity-based crowdfunding platform with a 10% premium, and fund is received by the platform.	1,10,000
Apr 23	The company spends on professional services (e.g., administrative, marketing) to set up the crowdfunding campaign.	4,000
May 21	Campaign fund is transferred to X Ltd. The platform charges a 5% fee, deducted from the total funds raised.	1,10,000
2023 Jul 1	The company declares dividends to be paid to equity-based crowdfunding investors.	10,000
Jul 15	The company pays the declared dividends to investors.	10,000

Solution:**Journal Entries for Equity Crowdfunding**

Journal of Fundraiser Company (X Ltd.)					Journal of CF Platform (Crowdcube)			
Date	Particulars	L. F.	Debit (Dr.)	Credit (Cr.)	Particulars	L. F.	Debit (Dr.)	Credit (Cr.)
2022 Apr 21					Bank A/c Dr. To Investor Payable A/c (Received funds from backers)		1,10,000	1,10,000
Apr 23	Crowdfunding Expenses A/c Dr. To Bank A/c (Paid for indirect expenses related to campaign)		4,000	4,000				
May 21	Crowdcube's A/c Dr. To Share Application A/c (Amount due from Platform)		1,10,000	1,10,000	Investor Payable A/c Dr. To X Ltd. A/c (Amount due to X Ltd.)		1,10,000	1,10,000
May 21	Bank A/c Dr. Platform Fees A/c Dr. To Crowdcube's A/c (Being funds received from platform after deducting platform fees)		1,04,500 5,500	1,10,000	X Ltd. A/c Dr. To Bank A/c To Revenue A/c (Platform fees) (Being funds transferred after deducting platform fees)		1,10,000	1,04,500 5,500
May 21	Share Application A/c Dr. To Share Capital A/c (Par value) To Securities Premium A/c (Being funds transferred to capital account)		1,10,000	1,00,000 10,000				
2023 Mar 31	Securities Premium A/c Dr. To Platform Fees A/c (Charging of platform fees from securities premium)		5,500	5,500				
Mar 31	Profit & Loss A/c Dr. To Crowdfunding Exp. A/c (Charging of other expenses from P&L A/c)		4,000	4,000	Profit & Loss A/c Dr. To Revenue A/c (Transfer of Revenue to P&L A/c)		5,500	5,500
Jul 1	Profit & Loss A/c Dr. To Dividend Payable A/c (Being declaration of dividend)		10,000	10,000				
Jul 15	Dividend Payable A/c Dr. To Bank A/c (Being payment of dividend)		10,000	10,000				

Note: According to section 52 of the Companies Act, 2013, securities premium can be used for the writing off the expenses of or the commission paid or discount allowed on, any issue of shares or debentures of the company. Crowdfunding platform fees are also an expense related to issuing shares, hence it can be written off from the securities premium, which is received in equity-based crowdfunding.

Accounting for Debt-Based Crowdfunding

Example for Accounting of Debt-based Crowdfunding:

Example 2: Y Ltd. raised funds through the 'Catapooolt' debt-based crowdfunding platform. Pass the journal entries in the books of fundraiser and platform for the following crowdfunding transactions:

Date	Particulars	Amount (₹)
2022 Jun 30	A company raises fund via a debt-based crowdfunding platform and fund is received by platform	100,000
Jul 1	The company paid for professional services (e.g., administrative, marketing) to set up the crowdfunding campaign.	2,000
Jul 30	Campaign's funds are transferred to Y Ltd. The platform charges a 5% fee, which is deducted from the total funds raised.	1,00,000
2023 Jan 1	Interest accrues on the loan for the period.	10,000
Jan 1	Payment of interest on the loan for the period.	10,000

Solution:

Journal Entries for Debt Crowdfunding

Date	Journal of Fundraiser Company (Y Ltd.)				Journal of CF Platform (Catapooolt)			
	Particulars	L. F.	Debit (Dr.)	Credit (Cr.)	Particulars	L. F.	Debit (Dr.)	Credit (Cr.)
2022 Jun 30					Bank A/c Dr. To Investor Payable A/c (Received funds from backers)		1,00,000	1,00,000
Jul 1	Crowdfunding Exp A/c Dr. To Bank A/c (Paid for marketing expenses related to campaign)		2,000	2,000				
Jul 30	Catapooolt's A/c Dr. To Loan Application A/c (Amount due from Platform)		1,00,000	1,00,000	Investor Payable A/c Dr. To Y Ltd. A/c (Amount due to Y Ltd.)		1,00,000	1,00,000
Jul 30	Bank A/c Dr. Financial Cost A/c Dr. To Catapooolt A/c (Being fund received through platform after deducting platform fees)		95,000 5,000	1,00,000	Y Ltd. A/c Dr. To Revenue A/c (Platform fees) To Bank A/c (Being deducted platform fees and transferring funds to fundraiser)		1,00,000	5,000 95,000
Jul 30	Loan Application A/c Dr. To Loan Payable A/c (Loan amount transferred to Loan Payable A/c)		1,00,000	1,00,000				
2023 Jan 1	Financial Cost A/c Dr. To Interest Payable A/c (Being interest accrued on loan)		10,000	10,000				
Jan 1	Interest Payable A/c Dr. To Bank A/c (Being repayment of the loan principal and interest)		10,000	10,000				

Date	Journal of Fundraiser Company (Y Ltd.)				Journal of CF Platform (Catapooolt)			
	Particulars	L. F.	Debit (Dr.)	Credit (Cr.)	Particulars	L. F.	Debit (Dr.)	Credit (Cr.)
Mar 31	Profit & Loss A/c Dr. To Crowdfunding Exp. A/c To Financial Cost A/c (Financial costs transferred to P&L A/c)		17,000	2,000 15,000	Profit & Loss A/c Dr. To Revenue A/c (Transfer of Revenue to P&L A/c)		5,000	5,000

Accounting for Reward-Based Crowdfunding

Example for Accounting of Reward-based Crowdfunding:

Example 3: Z Ltd. raised funds through the 'Patreon' reward-based crowdfunding platform. Pass the journal entries in the books of fundraiser and platform for the following crowdfunding transactions:

Date	Particulars	Amount (₹)
2022 May 1	A company receives fund in crowdfunding contributions from backers for rewards yet to be delivered and fund is received by the platform.	50,000
May 5	Expenses related to the crowdfunding campaign.	1,000
May 15	The company spends on advertising and promotional activities for the crowdfunding campaign.	5,000
Jun 1	Transfer of the campaign's funds to Z Ltd. The crowdfunding platform charges a 5% fee before transferring funds to the company.	50,000
Oct 1	The company spends on producing the promised rewards.	20,000
2023 Jan 1	The company delivers all promised rewards, fulfilling its obligations. The previously recorded as Unearned Revenue is now recognized as revenue.	50,000
Jan 1	The company spends on shipping the rewards to backers.	3,000
Jan 31	After fulfilling backer rewards, the worth of unsold inventory remains.	2,000

Solution:

Journal Entries for Debt Crowdfunding

Date	Journal of Fundraiser Company (Z Ltd.)				Journal of CF Platform (Patreon)			
	Particulars	L. F.	Debit (Dr.)	Credit (Cr.)	Particulars	L. F.	Debit (Dr.)	Credit (Cr.)
2022 May 1					Bank A/c Dr. To Backers' A/c (Received funds from backers)		50,000	50,000
May 5	Crowdfunding Expenses A/c Dr. To Bank A/c (Paid for expenses related to crowdfunding campaign)		1,000	1,000				
May 15	Crowdfunding Expenses A/c Dr. To Bank A/c (Paid for advertising expense)		5,000	5,000				
Jun 1	Patreon A/c Dr. To Unearned Revenue A/c (Being amount due from platform)		50,000	50,000	Backers' A/c Dr. To Z Ltd. (Being amount due to Z Ltd.)		50,000	50,000

Date	Journal of Fundraiser Company (Z Ltd.)				Journal of CF Platform (Patreon)			
	Particulars	L. F.	Debit (Dr.)	Credit (Cr.)	Particulars	L. F.	Debit (Dr.)	Credit (Cr.)
Jun 1	Bank A/c Dr.		47,500		Z Ltd. A/c Dr.		50,000	
	Platform Fees A/c Dr.		2,500		To Revenue A/c (Platform fees)			2,500
	To Patreon A/c (Being funds transferred from platform)			50,000	To Bank A/c (Being deducted platform fees and transferred funds to fundraiser)			47,500
Oct 1	Production Cost A/c Dr.		20,000					
	To Bank A/c (Being cost of manufacturing the rewards is recognized as an expense)			20,000				
2023 Jan 1	Unearned Revenue A/c Dr.		50,000					
	To Revenue A/c (Being delivery of rewards)			50,000				
Jan 1	Shipping Fees A/c Dr.		3,000					
	To Bank A/c (Being charge shipping costs)			3,000				
Jan 31	Inventory A/c Dr.		2,000					
	To Production Cost A/c (Being excess inventory is recorded as an asset)			2,000				
Mar 31	Profit & Loss A/c Dr.		29,500					
	To Crowdfunding Expenses A/c			6,000				
	To Platform Fees A/c			2,500				
	To Production Cost A/c			18,000				
	To Shipping Fees A/c (Expenses transferred to P & L A/c)			3,000				

Accounting for Donation-Based Crowdfunding

The International Accounting Standards Board (IASB) does not have an international accounting standard for non-profit Organisations. However, not-for-profit organizations (NPOs) that are not controlled by the government can use the accounting standards for NPOs in Part III of the IAS plus handbook or the IFRS (International Financial Reporting Standards) in Part I of the handbook.¹

Example for Accounting of Donation-based Crowdfunding:

Example 4: An NGO raised funds through the 'Ketto' donation-based crowdfunding platform. Pass the journal entries in the books of the fundraiser and platform for the following crowdfunding transactions: -

Date	Particulars	Amount (₹)
2022 Apr 15	A donor contributes in a crowdfunding campaign, and fund is received by the platform.	60,000
Apr 16	A freelancer is paid for designing the campaign's promotional video.	1,200
Apr 17	Paid as salaries for project staff involved in managing the crowdfunding campaign and project execution.	4,000

¹ <https://www.iasplus.com/en-ca/standards/part-iii-asnp/about-asnp#:~:text=A%20not%2Dfor%2Dprofit%20organization's,Part%20I%20of%20the%20Handbook>

Date	Particulars	Amount (₹)
Apr 18	Other expenses related to the crowdfunding campaign.	1,000
Apr 19	Paid for social media advertising to promote the crowdfunding campaign.	2,000
May 15	Funds of campaigns are transferred to the NGO. Crowdfunding platform charges 3% for facilitating donations.	60,000

Solution:**Journal Entries for Donation-based Crowdfunding**

Date	Journal of Fundraiser (NGO)				Journal of CF Platform (Ketto)			
	Particulars	L. F.	Debit (Dr.)	Credit (Cr.)	Particulars	L. F.	Debit (Dr.)	Credit (Cr.)
2022 Apr 15					Bank A/c Dr. To Backers' A/c (Received funds from backers)		60,000	60,000
Apr 16	Crowdfunding Expenses A/c Dr. To Bank A/c (Paid for campaign design)		1,200	1,200				
Apr 17	Crowdfunding Expenses A/c Dr. To Bank A/c (Paid salary to project staff)		4,000	4,000				
Apr 18	Crowdfunding Expenses A/c Dr. To Bank A/c (Paid for expenses related to crowdfunding campaign)		1,000	1,000				
Apr 19	Crowdfunding Expenses A/c Dr. To Bank A/c (Paid for social media advertising)		2,000	2,000				
May 15	Ketto's A/c Dr. To Donation Revenue A/c (Being Amount due from platform)				Backers' A/c Dr. To NGO's A/c (Being amount due to NGO)		60,000	60,000
May 15	Bank A/c Dr. Platform Fees A/c Dr. To Ketto's A/c (Being donation received net of platform fees)		58,200 1,800	60,000	NGO's A/c Dr. To Revenue A/c (Platform fees) To Bank A/c (Being deducted platform fees and transferred funds to NGO)		60,000	1,800 58,200
2023 Mar 31	Profit & Loss A/c Dr. To Crowdfunding Expenses A/c To Platform Fees A/c (Crowdfunding expenses transferred to P & L A/c)		10,000	8,200 18,000				

Accounting for Crowdfunding Platform

Example for Accounting of Crowdfunding Platform: There may be some specific transactions for crowdfunding platforms. Their accounting treatment can be understood by following the example.

Example 5: Pass the journal entries in the books of crowdfunding platform 'Kickstarter' for the following crowdfunding transactions: -

Date	Particulars	Amount (₹)
2022 Apr 15	Funds pledged by backers, but not yet transferred to the campaign creator.	50,000
Apr 15	Net amount is transferred to campaign creators after the deducted platform charges a fee @ 5%.	2,500
May 1	Operating expenses, such as hosting fees or employee salaries.	10,000
Jul 15	Funds held in escrow earn interest before being distributed.	5,000
Aug 1	Funds are refunded to backers due to a campaign failing to meet its goal.	30,000

Solution:

Journal of Kickstarter (Platform)

Date	Particulars	L.F.	Debit (Dr.)	Credit (Cr.)
2022 Apr 15	Bank A/c Dr. To Backer's / Investor Payable A/c (Being received funds from backers)		50,000	50,000
Apr 15	Backer's / Investor Payable A/c Dr. To Revenue A/c (Platform fees) To Bank A/c (Being deducted platform fees and transferring funds to the fundraiser)		50,000	2,500 47,500
May 1	Operating Expenses A/c Dr. To Bank A/c (Being paid platform operating expenses, like hosting fees or employees' salaries etc.)		10,000	10,000
Jul 15	Bank A/c Dr. To Backer's / Investor Payable A/c (Being received funds from backers)		5,000	5,000
Aug 1	Backer's / Investor Payable A/c Dr. To Bank A/c (Being refund to backers due to the campaign failed)		30,000	30,000

Conclusion

The study presents significant accounting issues related to crowdfunding transactions. In a crowdfunding process, both the crowdfunding platform and the fundraiser face the problem of accounting for crowdfunding transactions. Various countries are in the process of developing a dedicated accounting standard for this purpose. Yet, no country is able to provide complete guidance for accounting for various types of crowdfunding transactions. Hence, an attempt has been made to summarize the significance accounting challenges

for crowdfunding and a review of the current accounting standards of various countries. Also, some hypothetical examples pertaining to the four types of crowdfunding have been provided along with journal entries to be done in the books of both the parties (the fundraiser and platform).

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