

The background of the lower two-thirds of the page is a light green color with a fine, repeating pattern of small white arrows pointing to the right. Overlaid on this background are several larger, semi-transparent white arrows pointing right, and one prominent, solid red arrow pointing right that starts from the left edge and extends towards the right edge.

Contributions – Revenue Recognition and Related Matters

Exposure Draft Feedback Statement

May 2024

Table of Contents

Introduction	3
Extent of Feedback	3
Key Messages Heard	5
Recognition of restricted contributions	5
Key messages.....	5
Usefulness of the underlying financial statements	6
Alignment with the financial statement concepts	6
Added costs to preparers	7
Feedback from those who agreed with the proposals.....	7
How the AcSB responded	7
The project’s purpose	8
Key messages.....	9
How the AcSB responded	9
The Path Forward	10
The project’s purpose	10
Recognition of restricted contributions	10
Next Steps	11
Staff Contact	11

Introduction

The Accounting Standards Board’s (AcSB) [Contributions](#) project sought to improve not-for-profit organizations’ (NFPOs) financial reporting by developing requirements that would result in financial statements that are less complex and more comparable for financial statement users.

In May 2015, the AcSB approved a research project to understand current Canadian and international practices for recognizing revenue from contributions. In May 2020, after completing the research phase, the Board issued the Consultation Paper, “[Contributions – Revenue Recognition and Related Matters](#),” seeking input on the accounting for contributions and related matters.

In response to the input on the [Consultation Paper](#), in March 2023, the AcSB issued the Exposure Draft, “[Contributions – Revenue Recognition and Related Matters](#),” which closed for comment on September 30, 2023.

The [Exposure Draft](#) proposed a new Section in Part III of the CPA Canada Handbook – Accounting Standards for NFPOs to replace the existing standards on contributions and proposed a single approach for recognizing revenue from restricted contributions. The proposals also included specific guidance on special types of contributions, including contributed materials and services, capital asset contributions and endowments. Further, the proposals included a revised definition of “restricted contribution” and additional presentation and disclosure requirements for NFPOs.

This Feedback Statement details the extensive consultations, messages received and the AcSB’s response. It also provides details of the next steps for the [Contributions](#) project, including the Board’s plan to develop a new exposure draft that will continue allowing an accounting policy choice for recognizing contributions. This new exposure draft will propose improvements to the two existing methods and will incorporate relevant proposals and feedback from the first Exposure Draft.

Extent of Feedback

The AcSB conducted extensive outreach on the [Exposure Draft](#)’s proposals and promoted the project through various communications channels, including the online newsletter *The Standard*, the Board’s website and various social media platforms. During the comment period, the Board provided interested and affected parties with opportunities to give feedback on the proposals by:

- hosting public virtual and in-person roundtables at locations across the country;
- consulting with its advisory committees, including the [Not-for-Profit Advisory Committee](#) and [Small Practitioners Working Group](#);

- meeting with various industry groups; and
- soliciting feedback through several online surveys on the [Connect.FRASCanada.ca](https://connect.frascanada.ca) platform.

The AcSB was pleased with the amount of feedback it received during the [Exposure Draft](#) comment period. Table 1 breaks down how the Board received that feedback and from whom. Table 2 breaks down the number of respondents and where they were located.

Table 1

Type	Roundtable attendees	Comment letters	Survey participants	Total respondents	Percentage of total
Practitioners	66	13	45	124	39%
Preparers	92	24	38	154	48%
Users	3	0	7	10	3%
Academics	3	0	5	8	2%
Other*	15	1	9	25	8%
Total	179	38	104	321	100%

* “Other” includes individuals who do not fall in the other categories, such as representatives from the Provincial CPA Institutes and retired individuals.

Table 2

Location	Number	Percentage of total
Alberta	28	9%
British Columbia	49	15%
Manitoba	7	2%
New Brunswick	5	2%
Newfoundland and Labrador	2	1%
Nova Scotia	15	5%
Ontario	148	45%
Quebec	35	11%
Saskatchewan	14	4%
National	15	5%
Other	3	1%
Total	321	100%

Key Messages Heard

The Exposure Draft asked specific questions and sought feedback on all aspects of the proposals. This Feedback Statement is not a complete analysis of all feedback received for each proposal. Instead, it focuses on the key messages heard regarding the proposed single recognition model for restricted contributions. The key messages and how the AcSB responded are summarized below. The Board felt it was important to address the feedback on this topic first as it is this core recognition model that underlies the proposals. It is critical to first resolve this topic before determining the overall direction and next steps for the project, discussed later in this document.

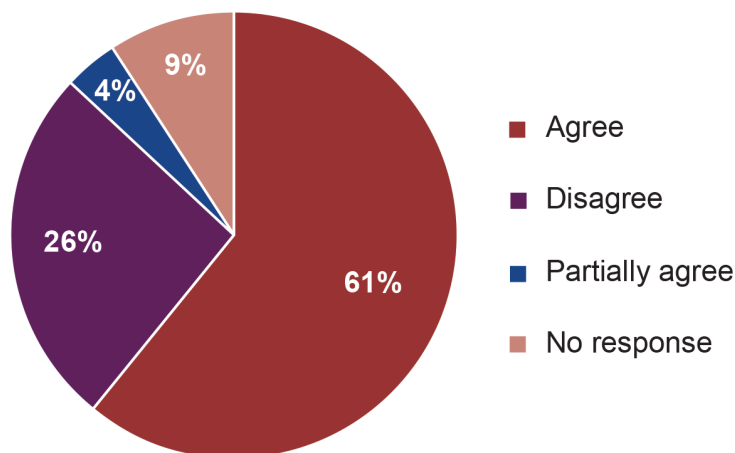
Recognition of restricted contributions

The Exposure Draft proposed a single recognition model for restricted contributions, which would replace the current accounting policy choice to use either the deferral method or the restricted fund method. When applying the proposed single recognition model, an NFPO would recognize restricted contributions in revenue when (or as) the external restriction(s) associated with the contribution is met, provided the contribution is measurable and collection is reasonably assured.

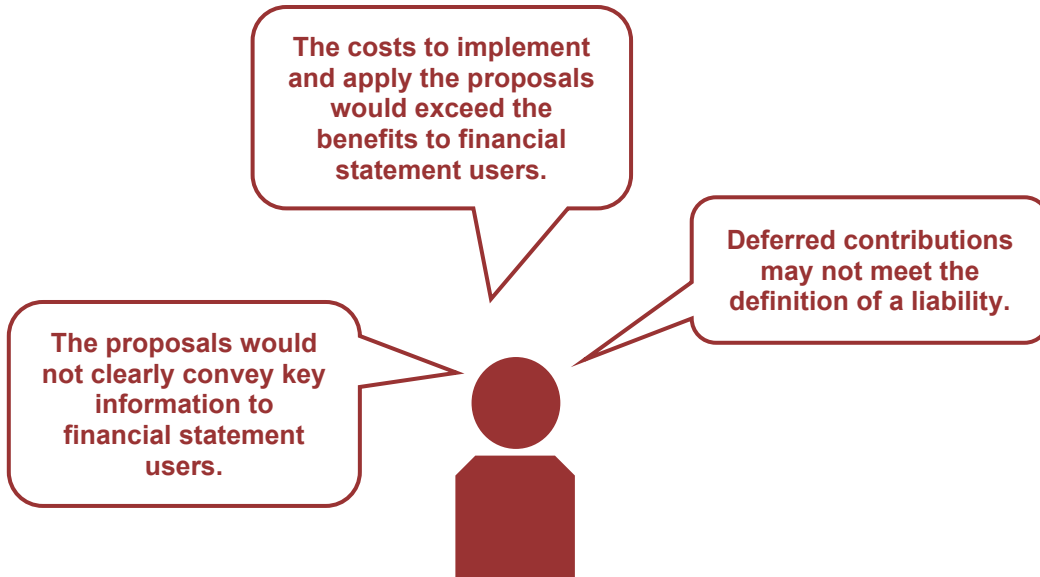
Key messages

The AcSB heard diverse views on this proposal. Figure 1 below shows that a majority of respondents supported the proposed recognition model. However, those who disagreed with the proposals provided compelling arguments and additional information that the Board had not considered when developing the Exposure Draft.

Figure 1



Those who disagreed with the proposals expressed the following concerns:



Usefulness of the underlying financial statements

For NFPOs whose main source of revenue is from fundraising activities or donations, many respondents thought financial statements would not clearly convey the results of fundraising efforts during the year, which is relevant information. These respondents also thought that this approach would be more difficult for users to understand. They expressed concern that deferring restricted contributions, instead of recognizing immediately in revenue as received under the current restricted fund method, could negatively impact a potential donor's view of the organization, as NFPOs are often evaluated on their ability to raise funds and the ratio of funds raised to fundraising costs. As a result, these respondents felt that additional reporting would be needed for their donors.

Many of these respondents supported the current restricted fund method. They think it more clearly communicates the results of fundraising efforts and amounts received during the year, including endowments and capital asset contributions.

Alignment with the financial statement concepts

Some respondents expressed concern that the proposals were not aligned with the financial statement concepts in Part III of the Handbook. Specifically, they noted that the nature of most restrictions imposed on NFPOs do not meet the definition of a "liability". Some respondents thought a moral or ethical obligation exists for all contributions (not just those with restrictions), as they are expected to be used prudently to fulfill the organization's mandate. Based on this concept, all contributions carry a restriction as the organization does not have discretion in use.

Added costs to preparers

Many respondents who disagreed with the proposals also expressed concern about the added cost to preparers of applying the proposals. In addition to the upfront costs of implementing a new standard, they noted that NFPOs currently using the restricted fund method would incur ongoing additional costs to analyze contribution agreements and to set up and track deferred contributions. Some thought this would ultimately lead to higher audit costs.

Feedback from those who agreed with the proposals

Those who agreed with the proposals thought it would result in better information for financial statement users as restricted contributions would be deferred and, therefore, the deferred liability would clearly show the obligation to the contributor that the organization must fulfill. Some respondents indicated that the current restricted fund method is not well understood and, therefore, the proposals, which are more aligned with the current deferral method, would be more easily understood.

The AcSB also heard that volatility in the statement of operations is a concern for many NFPOs because it can affect a user's perception of the organization's financial sustainability and impact funding decisions. Therefore, these respondents agreed with the [Exposure Draft](#)'s proposals as the proposed recognition approach for restricted contributions would limit volatility in the financial statements.

How the AcSB responded

The AcSB discussed the feedback on the [Exposure Draft](#) as a Board and with its [Not-for-Profit Advisory Committee](#). They both considered several options to address this feedback and discussed the pros and cons of each. The Board narrowed down the options and conducted additional targeted outreach activities with those who agreed and disagreed with the proposals. The narrowed-down list of options included:

- a revised single recognition model that proposed new criteria for recognizing restricted contributions, which would result in deferring fewer contributions compared to the Exposure Draft's proposals; and
- a recognition model consistent with the Exposure Draft's proposals but with additional presentation or disclosure requirements that provided information about total fundraising efforts, which is important information for certain financial statement users.

The AcSB held 10 additional targeted outreach sessions and spoke to more than 70 interested and affected parties, including preparers, practitioners and financial statement users from across the country.

Most outreach participants agreed that additional presentation or disclosure requirements alone would not address respondents' concerns raised in the [Exposure Draft](#). While they would allow NFPOs to communicate relevant information relating to the total funds raised during the period, the proposed requirements would not address concerns relating to the added cost of deferring contributions or concerns relating to the alignment with the financial statement concepts. The AcSB also heard concerns that this approach would add clutter to financial statements and potentially make them more confusing for financial statement users.

There were mixed views on a revised recognition model – some respondents preferred it to what was proposed in the Exposure Draft because it would set a higher bar for deferral. This would result in a deferred liability balance more aligned with the current definition of a “liability”, and revenues more aligned to total fundraising efforts in the year. However, other respondents thought the current recognition model results in more decision-useful information. This included NFPOs currently using the restricted fund method, and those currently using the deferral method. The AcSB also heard that this revised recognition approach, which would no longer link revenue recognition to the restrictions on the contribution, would add complexity to financial statements.

The AcSB also spoke to additional financial statement users. They continued to support a single approach to recognizing restricted contributions and thought it would be helpful. However, they also reaffirmed that they can navigate the two current methods and do not have significant concerns about their ability to compare financial statements prepared using two different revenue recognition methods.

The project's purpose

The Basis for Conclusions to the [Exposure Draft](#) sets out the original purpose for this project, which was to:

- reduce complexity and increase comparability of NFPO financial statements in Canada by eliminating the existing accounting policy choice;
- improve the consistent interpretation and application of NFPO accounting standards regarding the recognition of revenue and presentation of financial statements; and
- align Canadian NFPO accounting standards with international best practice, where all jurisdictions provide a single approach to contribution revenue recognition.

Although the [Exposure Draft](#) did not directly ask for input on the project's purpose, the AcSB received a significant amount of feedback on this aspect.

Key messages

Many respondents supported reducing the complexity created by the current accounting policy choice for recognition of contributions and enhancing comparability.

Several respondents, however, indicated that the existing accounting policy choice is not an issue in practice as the financial statements in the not-for-profit sector are not compared in the same way as they are in the for-profit sector. These respondents noted that comparability is not important across all NFPOs applying the standards in Part III of the Handbook but instead within subsectors. Trying to achieve comparability across the sector will inevitably decrease the usefulness of some NFPOs' financial statements.

Furthermore, as discussed in the “How the AcSB responded” section above, financial statement users informed the AcSB that the existing accounting policy choice does not impact their ability to compare NFPO financial statements. These users indicated that comparability is achievable provided there is sufficient and appropriate disclosure in the financial statement notes.

Some respondents also noted that the restricted fund method, which allows for immediate recognition of restricted contributions in a restricted fund, is less complex than the proposals in the [Exposure Draft](#). Therefore, these respondents thought the proposals would increase complexity for NFPOs currently using the restricted fund method.

While many respondents indicated that the current accounting policy choice works well in practice, they noted that many known application issues in practice lead to increased complexity. For example, under both methods, the definition of a “restricted contribution” and an “endowment contribution” can be unclear, which leads to diversity in practice. Under the restricted fund method, the standards provide significant flexibility in how the approach can be applied, which results in inconsistent application and leaves room for potential manipulation of financial results.

How the AcSB responded

The AcSB considered this feedback on the [Contributions](#) project's purpose as the Board discussed the path forward for the project.

The Path Forward

The project's purpose

The AcSB discussed how the feedback on the [Contributions](#) project's purpose should affect its objective going forward.

This discussion included the important role the financial statements play in assessing the overall stewardship and transparency of an NFPO's operations. The AcSB agreed that these factors must be included as critical considerations in re-affirming the project's objective.

The AcSB also agreed that the cost-benefit principle is an important consideration as part of the underlying financial statement concepts and the Board's due process. In the not-for-profit sector, there can be increased scrutiny of how resources are spent – particularly administrative costs – and, therefore, cost to the sector must remain a key consideration.

Although enhancing comparability and reducing complexity are important considerations, they must be balanced against these other objectives.

Reflecting on this feedback, the AcSB decided that the purpose of the project going forward should be to improve the quality and understandability of NFPOs' financial statements. This will be achieved by reducing the flexibility in application of the standards, which will improve consistency. By improving the consistency in application of the standards, the financial statements will become less complex.

Recognition of restricted contributions

After significant consideration of both the [Exposure Draft](#) feedback and the additional outreach, the AcSB concluded that a single recognition model may not meet the diverse needs of the not-for-profit sector and the benefits to financial statement users may not exceed the cost to preparers.

Therefore, the AcSB plans to develop a new exposure draft, proposing to continue allowing an accounting policy choice for recognizing contributions. This new exposure draft will propose improvements to the two existing methods. In line with the project's revised purpose discussed above, the new objective will be to improve the quality and understandability of the financial statements through improved consistency in the application of the accounting standards for NFPOs.

The AcSB recognizes that many aspects of the [Exposure Draft](#) generally were positively received. The Board also acknowledges that significant time and effort went into developing the Exposure Draft and providing feedback on its proposals. So, the Board intends to carry forward many aspects of the Exposure Draft's proposals and the feedback on those proposals into the new exposure draft.

This will include topics such as definitions (e.g., “restricted contributions” and “endowments”), recognition of restricted contributions using the deferral method and other recognition topics (e.g., contributed materials and services), and certain presentation and disclosure requirements.

Next Steps

The AcSB will continue to make this project a priority. The Board will provide updates on when a new exposure draft will be published and when the final amendments will be effective, through its Decision Summaries and on the [Contributions](#) project page.

Staff Contact

Katharine Christopoulos, CPA, CA

Director, Accounting Standards

416-204-3270

kchristopoulos@acsbcanada.ca

Copyright © 2024 Financial Reporting & Assurance Standards, Chartered Professional Accountants of Canada

All rights reserved. This publication is protected by copyright and written permission is required to reproduce, store in retrieval system or transmit in any form or by any means (electronic, mechanical, photocopying, recording or otherwise).

For information regarding permission, please contact info@frascanada.ca.