

Exposure Draft, “Contributions – Revenue Recognition and Related Matters”

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Presenters



Armand Capisciolo, FCPA, FCA
Chair, Accounting Standards Board



Danielle MacLeod, CPA, CA
Principal, Accounting Standards Board

Agenda

○ Project overview

○ Exposure draft proposals

○ How to share your views

○ Questions

Polling question #1

What is your current role?

- a) Public practitioner or professional advisor
- b) Financial statement preparer
- c) Financial statement user
- d) Academic
- e) Other (for example, student)

Project overview

Why did the AcSB undertake this project?

- Evolving reporting landscape for NFPOs
- The current accounting policy for recognition of revenue from restricted contributions results in challenges including:
 - Added complexity
 - Reduced comparability

Project timeline



Exposure Draft proposals

What are the key proposals in the Exposure Draft?

- a single approach for recognizing revenue from **restricted contributions**
- specific guidance on **special types of contributions**
- amendments to the current guidance **on financial statement presentation**

AcSB
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Exposure Draft
Proposed Accounting
Standards for Not-for-
Profit Organizations

**Contributions –
Revenue Recognition
and Related Matters**

March 2023

This Exposure Draft closes for comments on September 30, 2023.

Unrestricted and restricted contributions

Unrestricted contributions

- Continue to recognize **unrestricted contributions** in the period in which the organization is entitled to the contribution, provided:
 - reasonable assurance exists regarding the measurement of the contribution; and
 - collection is reasonably assured.

Restricted contribution - definition

- A **restricted contribution** is a contribution subject to an external restriction(s) that meets the following criteria:
 - the restriction has been explicitly communicated between the organization and the contributor; and
 - the restriction requires the resources be used for a designated purpose and/or within a designated period of time.

Restricted contributions - recognition

- Recognize in revenue when (or as) the external restriction(s) associated with the contribution is met provided the contribution is measurable and collection is reasonable assured.
- External restrictions are met when the contribution has been used for the **designated purpose** and/or in a **designated period of time**.

If the recognition requirements have not yet been met, revenue is deferred, and a liability is recognized.

Example – Recognition of a restricted contribution

Scenario

- ABC University has a June 30 fiscal year-end and spends approximately \$200,000 per month on operating expenditures
- Receives a \$100,000 government operating grant on January 15, 2030
 - Signed agreement specifying grant must be used by December 31, 2030

Example – Recognition of a restricted contribution (continued)

Is the operating grant a restricted contribution?

- Yes!
- The grant must be spent in a fixed period of time, and this has been explicitly communicated in the contribution agreement.

Example – Recognition of a restricted contribution (continued)



When is the contribution recognized in revenue?

- The contribution is deferred once received on January 15, 2030 and recognized in revenue as operating expenses are incurred.
- As of year-end on June 30, 2030, the grant is fully recognized in revenue.

What if the agreement required the organization to spend the grant equally over each quarter of the calendar year?

- As of June 30, 2030, the organization would have recognized one half of the grant (i.e., \$50,000) in revenue and deferred the remaining balance of \$50,000.

Restricted contributions – Effects analysis

- NFPOs currently using the restricted fund method:
 -  Timing of revenue recognition **will** change for certain contributions.
- NFPOs currently using the deferral method:
 -  Timing of revenue recognition **may** change for certain contributions.

Endowment contributions

Endowment contribution - Definition

- An **endowment contribution** is a type of restricted contribution subject to an external restriction(s) specifying that the contribution must be maintained permanently, although the constituent assets may change from time to time.

Endowment contribution - Recognition

- Recognize as a direct increase in **net assets** in the period in which the organization is entitled to the resources, provided:
 - reasonable assurance exists regarding the measurement of the contribution; and
 - collection is reasonably assured.

Capital asset contributions

Capital asset contribution - Definition

- A **capital asset contribution** is cash or other assets subject to an external restriction(s) requiring that the contribution be used to acquire, develop, or construct a capital asset.
 - These contributions also include contributions of capital assets directly.

Capital asset contribution - Recognition

- For contributions related to **amortizable** assets:
 - Defer and recognize in revenue on the same basis as the amortization on the related capital asset.
- For contributions related to assets **not subject to amortization**:
 - Recognize as direct increases in net assets.

Capital asset contributions - Presentation and disclosure

- Present
 - amortization of deferred capital contributions separately on the statement of operations.
- Disclose
 - the change in the deferred capital contribution balance during the period separately from other deferred contributions.
 - the nature of any restrictions on capital assets.

Polling question #2

Which of these proposals do you expect to have the biggest impact on NFPOs?

- a) Restricted contributions
- b) Endowment contributions
- c) Capital asset contributions

Contributed materials and services

Contributed materials and services - Recognition

- Accounting policy choice to either:
 - 1) Not recognize them in the financial statements; or
 - 2) Recognize them but **only** if the following criteria are met:
 - fair value can be reasonably estimated;
 - they are used in the normal course of the organization's operations; and
 - they would otherwise have to be purchased to fulfill the organization's mandate.

Contributed materials and services – Presentation and disclosure

- Present
 - revenue from contributed materials and services separately on the statement of operations.
- Disclose
 - qualitative information about the nature of contributed materials and services not recognized in the financial statements; and
 - any dependence on contributed materials and services to achieve future objectives.

Pledges and bequests

Pledges and bequests

- Recognize only when the proposed recognition criteria are met **for each individual pledge or bequest**, which includes the requirement that collection of each individual pledge or bequest is reasonably assured.
- No disclosure requirements proposed for pledges **not** recognized in financial statements.
 - Organizations are encouraged to disclose to the extent the information is available and would be helpful to users.

Presentation and disclosure topics

Disclosure

- the **economic dependence** on another party when the ongoing operations depend on a significant contribution(s) from that party.
- information about requirements related to restricted contributions, including endowment contributions, and the assets available to meet those requirements.

Fund accounting presentation

- Continues to be an **optional** presentation choice.
- Organizations that use fund accounting presentation would be required to:
 - present or disclose comparative period information;
 - disclose information about the factors used to determine the funds presented; and
 - continuing to disclose the purpose of each fund reported.

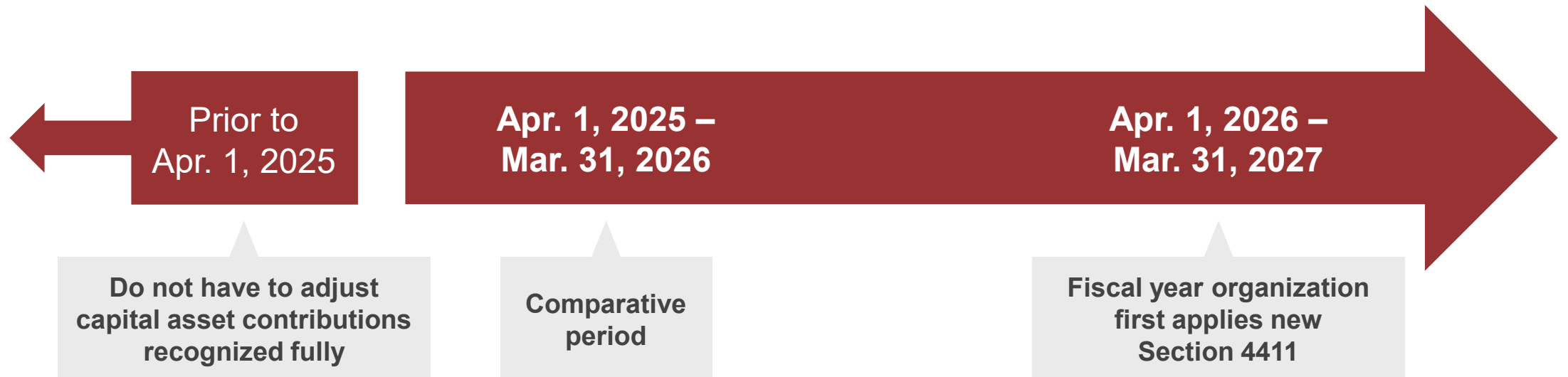
Transition and effective date

Transition

- Apply **retrospectively**
- Optional transition **relief for capital asset contributions**
 - Organizations would not be required to make retrospective adjustments for capital asset contributions recognized in revenue in full prior to beginning of earliest comparative period presented.

Transition Relief

- Example
 - Organization has a March 31 year-end and presents one year of comparative information
 - Organization first applies Section 4411 in the fiscal year ended March 31, 2027



Effective Date

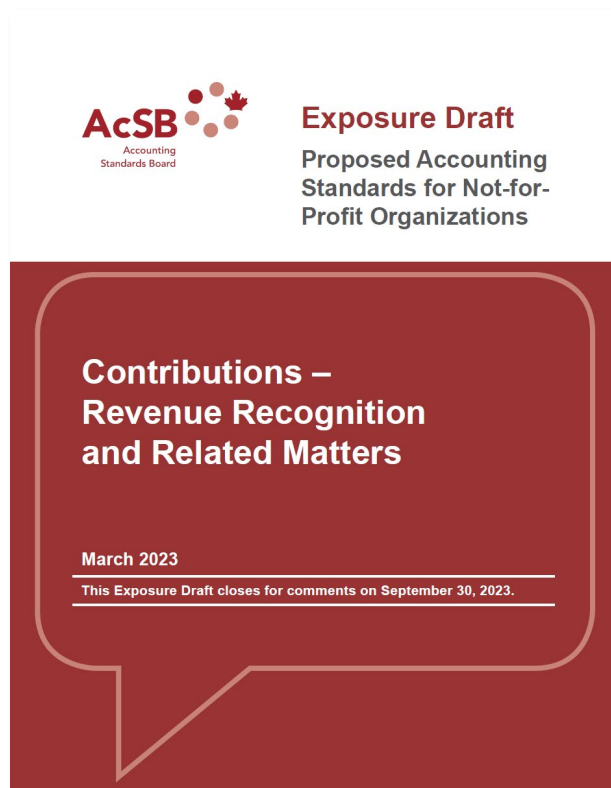
- Effective for fiscal years beginning on or after January 1, 2026.
- Earlier application permitted as long as proposed new Section 4411 and the proposed amendments to Section 4400 are applied at the same time.

How to share your views

We want to hear from you!

- Submit a **comment letter** through our [online form](#)
- Attend a **roundtable**
 - Registration details available on our Project Page
- Complete our [Connect.FRASCanada.ca](#) **surveys** as they become available throughout the comment period.
- Share your views by **September 30, 2023**

Resources



The image shows the cover page of an Exposure Draft. At the top left is the AcSB Accounting Standards Board logo. To its right, the text reads "Exposure Draft Proposed Accounting Standards for Not-for-Profit Organizations". Below this, a large dark red speech bubble contains the title "Contributions – Revenue Recognition and Related Matters" in white. Underneath the title, it says "March 2023" and "This Exposure Draft closes for comments on September 30, 2023."

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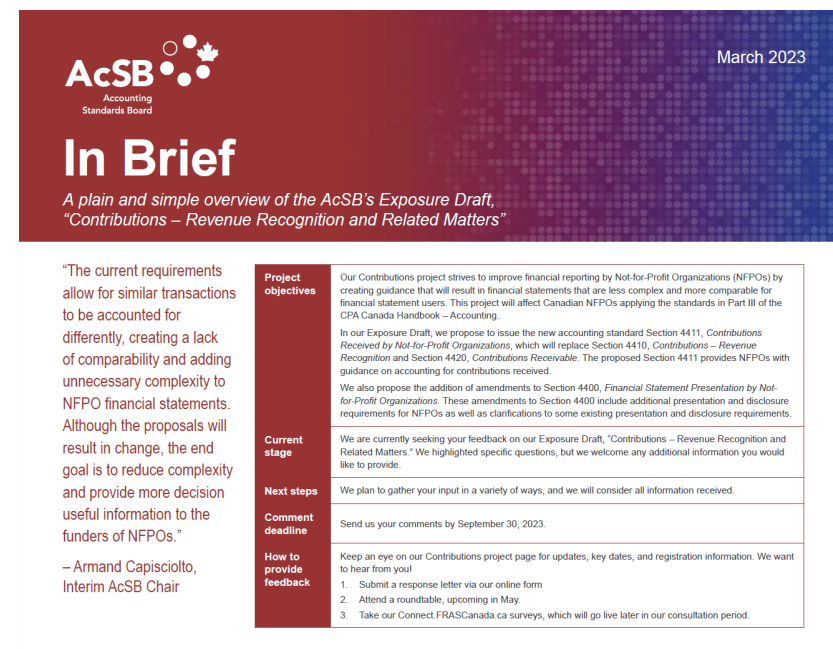
Exposure Draft
Proposed Accounting Standards for Not-for-Profit Organizations

Contributions – Revenue Recognition and Related Matters

March 2023

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Exposure Draft



The image shows the cover of an "In Brief" document. It features the AcSB logo and the date "March 2023" in the top right. The title "In Brief" is prominently displayed, followed by a subtitle: "A plain and simple overview of the AcSB's Exposure Draft, 'Contributions – Revenue Recognition and Related Matters'". Below the title is a quote from Armand Capisciolto, Interim AcSB Chair. To the right of the quote is a table with four rows: "Project objectives", "Current stage", "Next steps", and "Comment deadline". A fifth row, "How to provide feedback", contains a list of three actions.

AcSB
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March 2023

In Brief

A plain and simple overview of the AcSB's Exposure Draft, "Contributions – Revenue Recognition and Related Matters"

"The current requirements allow for similar transactions to be accounted for differently, creating a lack of comparability and adding unnecessary complexity to NFPO financial statements. Although the proposals will result in change, the end goal is to reduce complexity and provide more decision useful information to the funders of NFPOs."

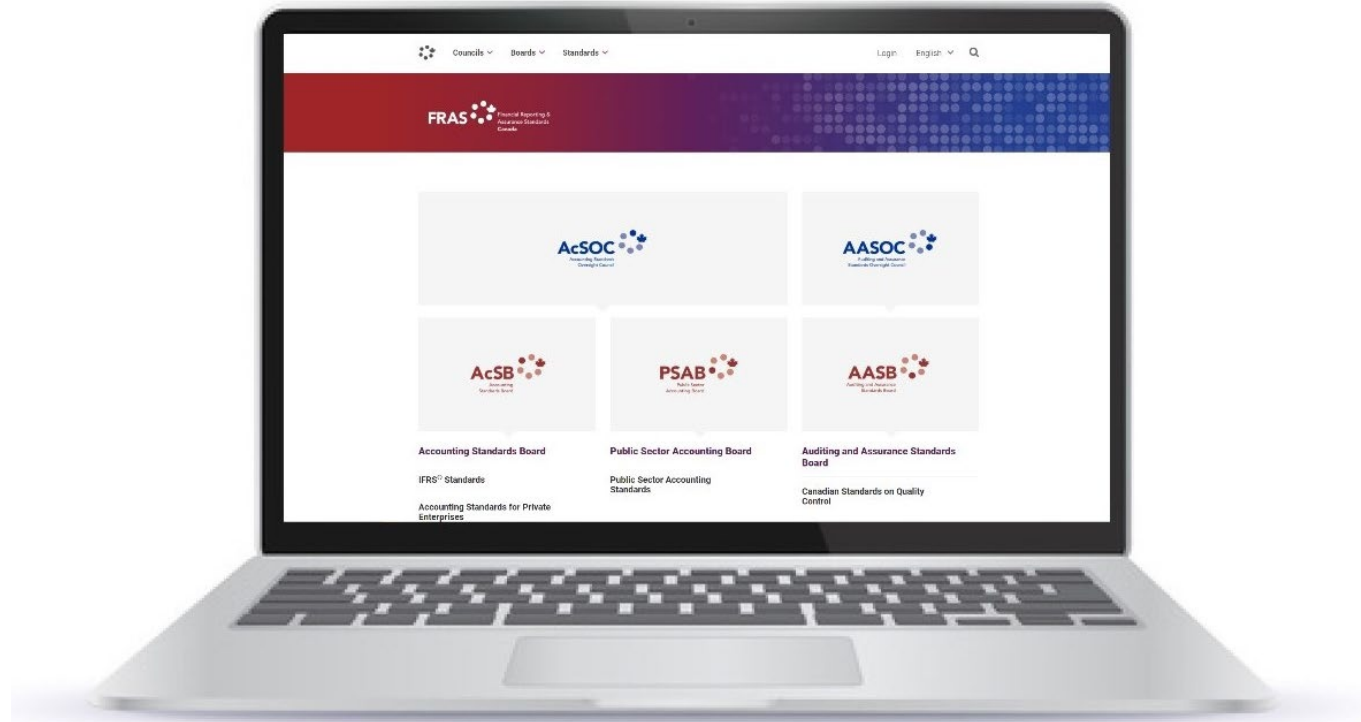
– Armand Capisciolto,
Interim AcSB Chair

Project objectives	Our Contributions project strives to improve financial reporting by Not-for-Profit Organizations (NFPOs) by creating guidance that will result in financial statements that are less complex and more comparable for financial statement users. This project will affect Canadian NFPOs applying the standards in Part III of the CPA Canada Handbook – Accounting. In our Exposure Draft, we propose to issue the new accounting standard Section 4411, <i>Contributions Received by Not-for-Profit Organizations</i> , which will replace Section 4410, <i>Contributions – Revenue Recognition</i> and Section 4420, <i>Contributions Receivable</i> . The proposed Section 4411 provides NFPOs with guidance on accounting for contributions received. We also propose the addition of amendments to Section 4400, <i>Financial Statement Presentation by Not-for-Profit Organizations</i> . These amendments to Section 4400 include additional presentation and disclosure requirements for NFPOs as well as clarifications to some existing presentation and disclosure requirements.
Current stage	We are currently seeking your feedback on our Exposure Draft, "Contributions – Revenue Recognition and Related Matters." We highlighted specific questions, but we welcome any additional information you would like to provide.
Next steps	We plan to gather your input in a variety of ways, and we will consider all information received.
Comment deadline	Send us your comments by September 30, 2023.
How to provide feedback	Keep an eye on our Contributions project page for updates, key dates, and registration information. We want to hear from you! <ol style="list-style-type: none">1. Submit a response letter via our online form2. Attend a roundtable, upcoming in May.3. Take our Connect.FRASCanada.ca surveys, which will go live later in our consultation period.

In Brief

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Inside Canada's financial reporting and assurance standard-setting activities

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Post-webinar quiz

<https://forms.office.com/r/B3LEdr79td>



Questions?





For more information, visit www.frascanada.ca

Contact

Danielle MacLeod, CPA, CA
Principal

Accounting Standards Board

☎ +1 (416) 204-3951

✉ dmacleod@acsbcanada.ca

Katherine Knowlton, CPA, CA
Associate Director

Accounting Standards Board

☎ +1 (416) 204-3332

✉ kknowlton@acsbcanada.ca