Accounting Standards Board

Consultation Paper

Contributions – Revenue Recognition and Related Matters

May 2020

COMMENTS TO THE AcSB MUST BE RECEIVED BY
December 15, 2020

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We value your input and look forward to your feedback on this Consultation Paper. You can comment on this document by uploading your response letter via this online form.

Please address your response to:

Kelly Khalilieh, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

This Consultation Paper is designed to obtain further input from stakeholders on the Accounting Standards Board's (AcSB) Contributions – Revenue Recognition and Related Matters project. While the initial research aspect of this project has been completed for purposes of understanding the issues and stakeholder perspectives, the AcSB is interested in hearing further perspectives and input from stakeholders on this project.

While the AcSB welcomes comments on all aspects of the Consultation Paper, it particularly appreciates comments in response to the specific questions included throughout this Consultation Paper. Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with any of the statements in this Consultation Paper should clearly explain the issue, supported by specific reasoning.

All comments the AcSB receives will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

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OVERVIEW

Reason for the project

1. The existing contributions standards for Not-for-Profit Organizations (NFPOs) were established in 1996. Since their issuance, the contributions standards have remained largely unchanged even though research suggests that the landscape for many NFPOs has evolved. For example, it is now more common for NFPOs to receive contributions that have specific restrictions or requirements and contribution agreements are becoming increasingly complex.
2. In May 2015, the AcSB approved a research project on accounting for contributions that considered the stakeholder feedback in response to the joint AcSB and Public Sector Accounting Board (PSAB) Statement of Principles, "Improvements to Not-for-Profit Standards." The Board conducted further research to understand current Canadian and international practices for recognizing revenue from contributions.
3. The current guidance provides NFPOs with an accounting policy choice for recognition of revenue from restricted contributions. Many respondents to the Statement of Principles indicated that the current accounting policy choice for recognizing revenue from restricted contributions works well and accommodates the diverse needs of NFPOs and their users. These respondents were concerned with changing the timing of revenue recognition for restricted contributions. However, the current accounting policy choice adds complexity to NFPO financial statements in an environment where financial statements are already becoming more complex due to the nature of transactions being undertaken. In addition to the complexity, the current accounting policy choice results in a lack of comparability of NFPO financial statements as identical transactions can be recognized and presented differently depending on the accounting policy choice applied.
4. While researching this project, the AcSB did not identify any other jurisdictions that provide NFPOs with a choice of accounting policies for the timing of recognition of revenue from restricted contributions. This makes the contribution guidance in Part III of the CPA Canada Handbook – Accounting unique among international practices. It also creates a lack of comparability for Canadian NFPOs with their international peers. This is an issue for Canadian NFPOs that compete for funding internationally.
5. Based on the feedback received on this project so far, including from its Not-for-Profit Advisory Committee (Advisory Committee), the AcSB understands that it is imperative that the accounting guidance for contributions results in financial statements that allow NFPOs to "tell their story" (i.e., clearly communicate the operations and financial results of the organization through the recognition, presentation and disclosure of transactions and events). The Board also recognizes that the objective of financial statements is to communicate decision-useful information. Accounting standards need to consider the appropriate balance between allowing an organization to communicate its own message and providing information that is useful to users. The Board thinks that a different accounting approach for recognizing revenue from restricted contributions could produce financial statements that are less complex, more comparable and will communicate information more clearly to users.

Scope of the project

6. The AcSB decided that the scope of the project was to consider the accounting for revenues from all the types of transactions included in CONTRIBUTIONS – REVENUE RECOGNITION, Section 4410 and CONTRIBUTIONS RECEIVABLE, Section 4420 in Part III of the CPA Canada Handbook – Accounting, and related presentation and disclosure issues. The Board also decided that the project would address whether to retain the exemption from recognizing tangible and intangible capital assets when an NFPO's average consolidated revenues for the current and preceding fiscal years are less than $500,000 (capital asset recognition exemption).

Purpose of this Consultation Paper

7. This Consultation Paper aims to obtain broad input and data from NFPO stakeholders, including users, preparers and practitioners on the accounting for revenue from contributions and on related matters. This feedback will help the Board decide on the project's direction related to accounting for contributions.

Development of this Consultation Paper

8. The AcSB conducted extensive research on:
   (a) the current accounting treatment for contributions by NFPOs, including the recognition of revenue from restricted contributions;
   (b) the issues that exist with current practice;
   (c) stakeholder perspectives on the issues, including users of NFPO financial statements; and
   (d) the guidance on accounting for contributions in other jurisdictions and current practices internationally.

9. The AcSB consulted with its Advisory Committee, held discussions with users and other stakeholders, reviewed NFPO financial statements and collaborated with a global working group on NFPO accounting.

Next steps in this project

10. The AcSB will consider the input received in response to this Consultation Paper and use it to determine the next steps for this project. Those steps could include issuing an exposure draft on the topics discussed in this paper.

Financial Statement Concepts project

11. The AcSB is also currently undertaking a project on financial statement concepts. The project's objective is to perform a targeted review of the financial statement concepts in Parts II and III of the Handbook and consider whether they meet stakeholders' needs. The current scope of the Financial Statement Concepts project includes:
    (a) the elements of financial statements;
    (b) recognition;
    (c) measurement;
    (d) disclosure; and
    (e) unit of account.

    The Board decided that the first phase of the financial statement concepts project would focus on considering the financial statement concepts in conjunction with its existing domestic standards projects, including the Contributions Project. Accordingly, this Consultation Paper seeks stakeholders' views on the interaction between the accounting for contributions and the concepts in FINANCIAL STATEMENT CONCEPTS FOR NOT-FOR-PROFIT ORGANIZATIONS, Section 1001 in Part III of the Handbook. While feedback from this Consultation Paper will help to inform the Board's views on financial statement concepts, no changes will be made to Section 1001 without further consultation with stakeholders.

Public Sector Accounting Standards Board projects

12. The AcSB is responsible for establishing and maintaining the standards in Part III of the Handbook, which apply to NFPOs outside the public sector. Accounting standards for government NFPOs are included in the CPA Canada Handbook – Public Sector Accounting (PSA) Handbook, which PSAB establishes and maintains. The role the Boards have in setting standards for NFPOs requires them to clearly understand the needs of NFPO stakeholders, including financial statement users.

13. The AcSB works collaboratively with the PSAB in considering users' needs. In May 2019, PSAB issued its Government Not-for-Profit Consultation Paper, which sought stakeholders' input on key issues that will guide PSAB in determining its next steps for its government NFPO strategy. Accordingly, in undertaking its Contributions project, the AcSB will consider stakeholders' feedback on PSAB's Consultation Paper when relevant to private sector NFPOs, to ensure stakeholders' needs are met.

WHAT IS A CONTRIBUTION?

14. Paragraph 4410.02(b) defines a contribution as a "non-reciprocal transfer to a not-for-profit organization of cash or other assets or a non-reciprocal settlement or cancellation of its liabilities." This definition notes that government funding provided to a NFPO is considered a contribution for applying this standard.

Question 1: Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?

Types of contributions

15. Section 4410 identifies three types of contributions:
    (a) A restricted contribution is defined in paragraph 4410.02(b)(i) as "a contribution subject to externally imposed stipulations that specify the purpose for which the contributed asset is to be used. A contribution restricted for the purchase of a capital asset or a contribution of the capital asset itself is a type of restricted contribution."
    (b) An endowment contribution is a subset of a restricted contribution and is discussed separately later in this Consultation Paper.
    (c) An unrestricted contribution is defined in paragraph 4410.02(b)(iii) as "a contribution that is neither a restricted contribution nor an endowment contribution."

16. Stakeholders have informed the AcSB that there is diversity in practice regarding what is considered a restricted versus an unrestricted contribution. The Board is aware that in some cases it is easy to identify when a contribution is restricted or unrestricted. For example, a contribution which has restrictions that are only imposed by the organization's board of directors would not have external restrictions. Therefore, the contribution would be unrestricted for accounting purposes. Restrictions imposed through a policy posted by management or the board of directors on an organization's website would also not be considered externally imposed. Conversely, a contribution would be considered externally restricted if a contributor were to click a button when making an online donation to specify how the funds must be spent. While these examples demonstrate cases when it is clear whether a contribution is externally or internally restricted, other facts and circumstances may require the application of judgment.

17. The AcSB notes that currently all unrestricted contributions are recognized as revenue when received, regardless of which accounting policy for restricted contributions an organization has chosen. The Board's research to date has not identified any issues with the accounting for unrestricted contributions. Accordingly, no change is being considered to the timing of recognizing unrestricted contributions as part of this project.

Question 2: Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? If so, what are the issues and how might they be addressed?

Question 3: Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?

Financial statement concepts

Revenue recognition

18. Section 1001 describes the concepts underlying the development and use of accounting principles in financial statements. One aspect of the concepts set out in paragraphs 1001.22-.35 is the elements of financial statements. These are the basic categories of items portrayed to meet the objectives of financial statements. Revenue is one of these elements and contributions are included as a component of revenue.

19. In addition to listing and defining the elements of financial statements, Section 1001 also provides general recognition criteria for all financial statement items, as well as specific guidance on the recognition of certain items. Specifically, paragraph 1001.42 states, "Revenues are generally recognized when performance is achieved and reasonable assurance regarding measurement and collectability of the consideration exists." Paragraph 1001.43 also provides additional guidance specifically for contributions, stating "Unrestricted contributions to not-for-profit organizations do not normally arise from the sale of goods or the rendering of services and, consequently, performance achievement is generally not relevant to the recognition of unrestricted contributions; such revenues are generally recognized when received or receivable. Other contributions are recognized based on the nature of the related restriction." This Section also explicitly states that it does not override any of the specific standards elsewhere in the Handbook.

Question 4: Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?

Question 5: Do you think applying the recognition concepts for revenue to restricted contributions (i.e., a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?

Definitions of assets and liabilities

20. Assets and liabilities are also elements of financial statements included in Section 1001. Paragraph 1001.24 defines assets as "economic resources controlled by an entity as a result of past transactions or events and from which future economic benefits may be obtained." Paragraph 1001.28 defines liabilities as "obligations of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future." Paragraphs 1001.36-.48 also provides guidance regarding the recognition of assets and liabilities.

21. The concepts of assets and liabilities, including the definitions and recognition principles, are closely related to the accounting for contributions. However, the AcSB is aware that the existing Section 1001 concepts may be inconsistently applied or may conflict with other guidance on the accounting for contributions in Part III of the Handbook. For example, the definition of an asset is a relevant consideration in determining when to recognize pledges as a receivable. However, the existing guidance in Section 4420 on recognition of pledges is inconsistent with the definition of an asset. Furthermore, respondents to the Statement of Principles indicated that solely considering the definition of an asset when considering when to recognize pledges may not be appropriate. The definition of an asset would imply pledges should only be recognized when an organization has control of the pledge. This would preclude recognition of pledges until they are received. (See Pledges on page 18 for a further discussion of this topic.)

22. Similarly, the definition of a liability may be a relevant consideration when determining whether a restricted contribution should be recognized immediately or deferred. However, respondents to the Statement of Principles and other stakeholders, including Advisory Committee members, indicated that there are alternate views on how this definition is currently applied to restricted contributions. Some stakeholders think that the definition of a liability supports recognition of restricted contributions as revenue immediately because restricted contributions are typically not legally refundable or refunded. Other stakeholders look to the guidance in paragraph 1001.23 that states "liabilities do not have to be legally enforceable provided that they otherwise meet the definition of liabilities; they can be based on equitable or constructive obligations. An equitable obligation is a duty based on ethical or moral considerations." Considering this guidance, these stakeholders think that even if a contribution is not refundable, a liability exists, and revenue should not be recognized until the contribution is used for the intended purpose and the ethical or moral obligation is released.

Question 6: Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liabilities are relevant considerations? If so, what are they?

REVENUE RECOGNITION

Recognition of contributions

23. Section 4410 currently provides a free choice to apply one of two methods for recognizing restricted contributions as revenue. As noted in the Reason for the project section, this choice results in financial statements that may not provide decision-useful information. Based on outreach with stakeholders and discussion with the Advisory Committee, the AcSB thinks one alternative approach would be to recognize revenue from contributions based on the type of contribution and its characteristics. To explore this possible approach, the Board first requires a thorough understanding of the key characteristics of the contributions Canadian NFPOs most commonly receive. From that list, the Board would then identify those characteristics that are relevant for accounting purposes and how those characteristics should be assessed to determine when to recognize a contribution as revenue.

24. Through discussions with the Advisory Committee, the Board has identified the following preliminary characteristics that could be relevant when considering when to recognize a contribution as revenue:

    (a) **Type and nature of the contribution –** A contribution may take many forms, such as a donation, grant or bequest. A contribution may be restricted, unrestricted or an endowment.

    (b) **The frequency of the contribution –** A contribution may be a one-time payment or may be pledged to an NFPO over a series of payments.

    (c) **Time or purpose requirements imposed by the contributor –** A key characteristic of restricted contributions are time or purpose requirements because they set out the details of the restriction. Such requirements come in many forms. For example, a time requirement may stipulate that the contribution must be spent in a specific period or by a certain date. Purpose requirements may stipulate that the contribution be spent on specific tasks, or more generally used toward a project or initiative.

    (d) **Refundability of the contribution –** A contribution may be explicitly refundable (e.g., the contribution agreement stipulates that the NFPO must repay an amount if certain conditions are or are not met). There may be scenarios that would require more judgment to determine whether a contribution is refundable.

Question 7: Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?

25. The following examples demonstrate when a contribution could be recognized in an NFPO's financial statements applying an approach that considers the characteristics of the contribution. Specifically, using some of the characteristics that the AcSB has preliminarily determined to be relevant for accounting purposes, the following examples show the potential effect that the characteristics may have on when contribution revenue is recognized.

26. The purpose of the examples is to facilitate feedback from stakeholders on this possible approach. There may be alternative views on how characteristics of a contribution would affect the recognition of contribution revenue, and different outcomes may be more appropriate for alternative fact patterns or assumptions. The examples below are not meant to be exhaustive or represent all possible scenarios or arrangements. The AcSB understands that many contribution arrangements may have more complex fact patterns than the examples below.

Example 1: Accounting for contributions based on their characteristics

ABC Organization is an NFPO with a June 30 fiscal year-end. ABC Organization's mandate is to undertake research and other initiatives in support of low-income families in the local community. The organization receives several contributions and grants from both private contributors and government entities to support its initiatives. Using one possible approach that the AcSB is considering for the accounting for contributions, ABC Organization would consider the characteristics of each specific contribution or grant to determine the appropriate accounting treatment.

Contribution A

A private contributor gives ABC Organization $100,000 to undertake a specific research project. The contribution is received in a lump-sum payment on January 1, 2028. The contribution must be spent on specific activities related to the research project, as set out in the contribution agreement. Any amount not spent on these specific activities by completion of the research project on June 30, 2031, is refundable to the contributor.

The research project is completed in April 2031. ABC Organization incurred annual expenses related to the specific research activities as follows:

Table 1

Fiscal year ended June 30:	
2028	$ 15,000
2029	30,000
2030	20,000
2031	35,000
Total	100,000

Considering the characteristics of the contribution, ABC Organization determines that the contribution amount would initially be deferred when received on January 1, 2028, because the amount is refundable if not spent on the stipulated activities. This accounting treatment assumes the important characteristics are both the nature of the restriction on the contribution (which requires the amount to be spent on specific research activities) and the refundable nature of the contribution.

Accordingly, the following journal entry would be recorded on January 1, 2028, when the contribution is received:

Dr. Cash	100,000	
Cr. Deferred contribution		100,000

Each year, ABC Organization determines that a portion of the contribution would be recognized as revenue as the related qualifying expenditures are made, because at that time the restrictions are fulfilled and that amount is no longer refundable.

Table 2 summarizes ABC Organization's accounting throughout the course of the research project, applying the AcSB's proposed accounting:

Table 2

	Fiscal year ended June 30			
	2028	**2029**	**2030**	**2031**
Deferred contribution balance, beginning of year	$ –	$85,000	$55,000	$35,000
Deferred contribution recognized	100,000	–	–	–
Revenue recognized during the year	15,000	30,000	20,000	35,000
Deferred contribution balance, end of year	85,000	55,000	35,000	–
Expenses recognized during the year	15,000	30,000	20,000	35,000
Excess of revenue over expenses for the research project	–	–	–	–

Contribution B

ABC Organization receives an annual grant from a government entity. The amount of the annual grant, which commenced in 2027, varies slightly year to year based on the government entity's operating results compared to its budget. Table 3 shows ABC Organization's total funds received:

Table 3

April 15, 2027	$51,000
April 28, 2028	53,000
April 20, 2029	49,000
April 3, 2030	58,000

The grant stipulates that the funds must be used to provide employment counselling to people within the local community in ABC Organization's next fiscal operating budget (i.e., the funds received in April cannot be spent before July 1 each year). The grant agreement stipulates that any funds not used for the intended purpose must be refunded at the end of the fiscal year in which they were to be spent. Without the grant, ABC Organization would not undertake this initiative.

In each year, the full amount of the grant was spent, except for fiscal 2029, when ABC Organization spent only $44,000, due to staffing shortages. The remaining $9,000 was repaid to the government organization at the end of fiscal 2029. The government entity discontinued the initiative in December 2030.

Considering the characteristics of the contribution, ABC Organization determines that the grants would initially be deferred when received and the revenue would be recognized in the year the funds are spent for the restricted purpose. This accounting treatment assumes the important characteristics are both the nature of the restriction on the funds (which requires the amount to be spent on specific activities in a specific fiscal year) and the refundability of the grant.

Table 4 summarizes ABC Organization's accounting for the government grant as follows:

Table 4

	Fiscal year ended June 30:				
	2027	**2028**	**2029**	**2030**	**2031**
Receipt of cash	$51,000	$53,000	$49,000	$58,000	$ –
Deferred grant balance, beginning of year	–	51,000	53,000	49,000	58,000
Deferred grant recognized	51,000	53,000	49,000	58,000	–
Revenue recognized during the year	–	(51,000)	(44,000)	(49,000)	(58,000)
Grant repayments recognized during the year	–	–	(9,000)	–	–
Deferred grant balance, end of year	51,000	53,000	49,000	58,000	–
Expenses recognized during the year related to the grant	–	51,000	44,000	49,000	58,000
Excess of revenue over expenses for the grant	–	–	–	–	–

Contribution C

ABC Organization receives a contribution of $25,000 to purchase supplies, such as diapers, baby formula and clothing, to support young families in the local community. The contribution agreement was signed in July 2029 and payment of the contribution will be received in a lump-sum amount on September 30, 2029. The amount is non-refundable and the contribution stipulates that if not needed for the intended purpose, ABC Organization may re-allocate the funds to another purpose at its discretion.

ABC Organization spends amounts on the specified supplies as follows:

Table 5

Fiscal year ended June 30:	
2030	$ 11,000
2031	8,000
2032	6,000

Considering the characteristics of the contribution, ABC Organization determines that the contribution would be recognized as revenue when received. This accounting treatment assumes the important characteristics are both the nature of the restriction on the funds (which allows the funds to be reallocated should they not be used for the intended purpose) and the fact that the amount is non-refundable.

ABC Organization therefore records the following journal entry on September 30, 2029 when the cash is received, to recognize this contribution revenue:

Dr. Cash	25,000	
Cr. Contribution revenue		25,000

Cumulative impact of accounting approach on ABC Organization's statement of operations

The following presents an example of ABC Organization's statement of operations for its fiscal year ended June 30, 2030. ABC Organization prepares its financial statements using fund accounting presentation. It has a separate fund for its research initiatives, which would include Contribution A. All of ABC Organization's other activities are recognized in the operating fund.

Table 6

ABC Organization

Statement of operations

For the year ended June 30, 2030, with comparative information for 2029

			2030	**2029**
	Operating Fund	**Research Fund**	**Total**	**Total**
Revenue:				
Government grants	$49,000	$ –	$49,000	$44,000
Contributions	25,000	20,000	45,000	30,000
	74,000	20,000	94,000	74,000
Expenses:				
Research initiatives	–	20,000	20,000	30,000
Operating supplies	11,000	–	11,000	–
Employment counselling services	49,000	–	49,000	44,000
	60,000	20,000	80,000	74,000
Excess of revenue over expenses	**14,000**	**–**	**14,000**	**–**

If ABC Organization did not use fund accounting presentation, its statement of operations would show the result included in the total columns only. Under both presentations, the total columns would be the same.

In addition to the effect on the statement of operations, ABC Organization would show the following deferred contributions balance on its statement of financial position:

Table 7

	As at June 30	
	2030	**2029**
Deferred contributions:	$93,000	$104,000

Example 1 above demonstrates an approach that considers the type of contribution and its characteristics to determine when a contribution could be recognized. Considering this one possible approach as demonstrated in this Example:

Question 8: Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?

Question 9: What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?

Question 10: In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by that method be useful to financial statement users?

Example 2: Accounting for different types of restrictions

XYZ Charity, which has a December 31 fiscal year-end, undertakes an annual fundraising campaign that runs from September 1 to March 31. In June 2028, XYZ Charity enters into a contribution agreement with a private contributor. Under the terms of the agreement, the contributor will match dollar for dollar all funds raised as part of XYZ Charity's 2028-2029 annual fundraising campaign up to a maximum of $25,000. Furthermore, if XYZ Charity receives at least 500 separate donations from discrete individuals or entities during the campaign, the private contributor will pay an additional $10,000. All amounts will not be due from the private contributor until the results of the fundraising campaign are audited. The audit report must cover both the amount of funds raised, and the number of individual donations.

During the 2028-2029 campaign, XYZ Charity raises a total of $32,605 from 733 separate donors, with the 500th separate donation received in December 2028. An audit report is provided to the private contributor on May 31, 2029. The contributor pays a contribution of $35,000 on July 27, 2029.

XYZ Charity would consider the characteristics of the contribution to determine when to recognize the $35,000 of contribution revenue.

XYZ Charity notes that important facts to consider will be the number of individual donations received, and the total funds raised. The need for an audit of the fundraising campaign results may also be considered an important characteristic. Considering the characteristics, XYZ Charity determines there could be multiple options for the timing of revenue recognition. Two of these approaches are set out as follows:

Approach A – Defer the recognition of revenue until all contributor requirements are met

Under this approach, no revenue would be recognized until the fundraising campaign and the audit of the results are complete. Once these requirements are met, the entire $35,000 contribution would be recognized as revenue in XYZ Charity's fiscal 2029 financial statements. This approach takes the view that revenue should not be recognized until the point in time when all obligations in the contribution agreement are met. This approach considers completion of the audit to be an important characteristic.

Approach B – Recognize revenue as progress toward the milestone is made

Under this approach, XYZ Charity would recognize a proportion of the matching contribution revenue over time as progress is made toward the requirements set out in the contribution agreement. Specifically, for every dollar received through the annual fundraising campaign, XYZ Charity would recognize one dollar of contribution revenue from the private contributor as there is no minimum requirement for the matching contribution. This approach would be similar to the percentage of completion method included in REVENUE, Section 3400, under which performance is achieved over time.

Unlike in Approach A, the completion of the audit is not considered an important characteristic. As a result, the $10,000 additional contribution would be recognized once the 500th separate donation target is reached in December 2028.

Under this approach, a portion of the contribution revenue (the portion of the matching contribution earned to December 31 as well as the $10,000 additional contribution) would be recognized in XYZ Charity's fiscal 2028 financial statements.

Question 11: Which approach for the recognition of revenue in Example 2 do you think provides financial statements users with the most decision-useful information and why?

Question 12: Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all of the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?

Special types of contributions

27. Based on discussions with stakeholders, the AcSB is aware that there are certain types of contributions that have distinct characteristics. These characteristics present specific challenges regarding the accounting treatment of the contribution. The following discussion outlines these different types of contributions and discusses the specific accounting issues of each.

Contributed materials and services

28. Currently, paragraph 4410.16 provides an option to recognize contributed materials and services, but only when:
    (a) a fair value can be reasonably estimated;
    (b) they are used in the NFPOs normal operations; and
    (c) they would have otherwise been purchased.

29. Stakeholders' feedback has largely supported retaining the option to not recognize contributed materials and services. It would be too costly and impracticable for many NFPOs to determine the value of these items (e.g., volunteer hours).

30. Some stakeholders noted that contributed materials and services are often essential to the NFPO's operations and/or represent a significant portion of the NFPO's resources, such as a thrift shop or a food bank. In such situations, the option to recognize contributed materials and services is important to users' understanding of the NFPO's financial position and results. However, in some cases, such contributed materials and services may not otherwise be purchased and it can be difficult to determine the fair value of the contributed materials and services. Therefore, they would not meet the existing recognition criteria. For example, it may be challenging to determine the fair value of general volunteers, such as those who assist with fundraising campaigns or volunteer at charity events. Some stakeholders have suggested that additional guidance is necessary for NFPOs that choose to recognize contributed materials and services, such as how to measure these items. Advisory Committee members also observed there is diversity in practice regarding the extent of disclosures for contributed materials and services.

31. As discussed in the Development of this Consultation Paper section, the AcSB conducted research on accounting standards in other jurisdictions. Through this research, the Board observed that typically contributed materials and services can only be recognized if they otherwise would have been purchased and/or the fair value can be measured reliably. The result is that in many cases the contributed materials and services are not recognized because the fair value cannot be measured reliably.

Question 13: Do you recognize contributed materials and/or services? If so, how do you measure them? If not, why not?

Question 14: For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?

Question 15: For users of NFPO financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?

Capital asset contributions

32. Section 4410 describes a capital contribution as a type of restricted contribution that is restricted for the purchase or construction of capital assets (e.g., buildings or equipment) or is a contribution of capital assets directly. Under the existing Section 4410 guidance, the NFPOs' accounting for capital contributions differs depending on the organization's accounting policy for contributions. Under one existing approach, capital contributions are deferred and amortized over the useful life of the corresponding depreciable asset or are recognized as direct increases in net assets if they are not depreciable. Under the other existing approach, capital contributions are recognized as revenue when received if a fund has been created for that purpose.

33. The AcSB has noted through its research in other jurisdictions that when a contributed capital asset is received, typically an NFPO must first consider whether the asset meets certain criteria to be eligible for recognition. For example, certain tiers of reporting in New Zealand require contributed capital assets to be recognized when they meet the definition of an asset and the related asset recognition criteria. If the contributed capital asset is recognized, a corresponding amount is then recognized as revenue unless the item represents a contribution by an owner or there are any conditions requiring the service potential or future economic benefits of the asset to be returned to the contributor. Australian accounting standards also require the asset recognition criteria to be met in order to recognize a contributed capital asset. The timing of revenue recognition is then separately considered applying a control-based revenue recognition model that considers any associated performance obligations.

34. Based on the input received from past consultations and from the Advisory Committee, the AcSB decided to explore the circumstances in which one accounting approach for recognizing capital asset contributions may be more appropriate than another. Some feedback suggests that one approach is more appropriate when there is no alternative but to use the asset for its entire useful life. Alternatively, another approach may provide better information when there are large capital asset contributions.

35. Therefore, the AcSB is seeking input on the accounting treatment for recognizing capital contributions that provides more decision-useful information to financial statement users. This includes considering the existing approaches for recognizing contributed capital assets as well as possible alternatives that would provide more useful information to financial statement users.

Question 16: What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Question 17: What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increases in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Question 18: What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Question 19: Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?

Endowment contributions

36. Paragraph 4410.02(b)(ii) defines an endowment contribution as "a type of restricted contribution subject to externally imposed stipulations specifying that the resources contributed be maintained permanently, although the constituent assets may change from time to time." Endowment contributions are invested by the recipient NFPO in perpetuity in accordance with the stipulations imposed by the contributor.

37. Endowments can, however, vary in their nature. Some require only the initial amount of the endowment be maintained while others require the initial amount plus some of the earnings generated from the endowment be maintained. Other endowments may allow limited portions of the initial amount of the endowment to be used in certain circumstances (e.g., if earnings from the endowment are not sufficient for the NFPO to fund the endowment's objective). The AcSB understands that the legal definition of an endowment is often different than the accounting definition. This can result in challenges for preparers and users of NFPO financial statements, as it can be difficult to distinguish what is considered an endowment for accounting purposes versus legal purposes. It can then become difficult to communicate to users why there are differences. Through its research, the AcSB is also aware that some contributions are currently accounted for as endowments when they do not meet the Section 4410 definition of an endowment because they are internally restricted or generated through internal transfers.

Question 20: Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?

38. Currently, endowments are treated differently depending on which accounting policy for restricted contributions an organization chooses. Endowments are either accounted for as direct increases in net assets or they are recognized immediately in revenue in a separate fund.

39. NFPOs that account for endowments as direct increases in net assets generally think that endowments are different from other types of contributions because the principal amount is not

available to fund regular operations. Instead, they think that this type of contribution is more similar to a capital contribution received by a for-profit entity, which is not reported as revenue. CAPITAL TRANSACTIONS, Section 3610 in Part II of the Handbook requires that capital transactions be excluded from net income. Conversely, NFPOs that recognize endowment contributions as revenue think that these contributions are similar to any other restricted contribution that is recognized in revenue and, therefore, should be accounted for in the same way.

40. The AcSB has noted that the other jurisdictions considered as part of its research do not provide specific accounting guidance for endowments, except for the United States. In the United States, endowment contributions are recognized as restricted revenue when received.

Question 21: When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

Question 22: When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

Question 23: Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?

41. The AcSB also recognizes that the accounting for endowments can be complex. For example, in some cases it is difficult to identify the original principal amount of the endowment that is to be permanently maintained, particularly for those endowments that have existed for many years. The Board also understands that, in some cases, it may be difficult or costly to allocate the earnings on endowments between what is income versus what is realized and unrealized gains and losses.

Question 24: Are there scenarios when it is difficult or costly to determine how to allocate the income, expenses, gains and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are the scenarios or factors that makes this assessment difficult?

Question 25: Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?

Bequests

42. Bequests are not currently defined in Sections 4410 or 4420. However, paragraphs 4420.05-.07 provide guidance on the accounting for bequests. Specifically, it states that, in many cases, since the amount to be received and the timing of receipt is often uncertain (e.g., a bequest in a will that is being disputed or a bequest for the residual of an estate), bequests do not meet the criteria to be recognized as a receivable. As a result, bequests are not recognized as a receivable or as revenue until received (e.g., when cash is received or when legal title to an asset passes to the NFPO).

43. Through discussions with stakeholders, the AcSB recognizes that there are two types of bequests: those that exist when the person is still alive and those that exist when the person is dead. Bequests may also specify an amount to be contributed to an NFPO or provide an NFPO with a residual amount after making other payments or deductions. Feedback suggests that the bequests that create the most uncertainty for accounting purposes are those that start when a person is still alive since, for example, they can change their will. The Board is also aware that there are other types of planned-giving instruments (e.g., life insurance gifts) that present accounting issues similar to those of bequests.

44. Under the possible approach discussed above to recognize revenue from contributions based on their characteristics, the AcSB notes that bequests that achieve recognition as a receivable would be recognized consistently with contributions that have similar characteristics.

For example, unrestricted contributions that NFPOs receive in the form of a bequest that do not meet the criteria for recognition as a receivable would not be recognized as revenue until the cash or asset is received. Based on its research, the Board notes that this approach is largely consistent with the guidance in other jurisdictions. For example, Australia requires recognition only when the organization has legal right to receive the asset (e.g., on death of the person) or when the organization is entitled to it.

Question 26: Do you recognize bequests? If so, under what circumstances are they recognized? If not, why not?

Question 27: As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?

Question 28: For financial statements users, what additional disclosures relating to bequests would be useful? Why?

Question 29: In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?

ASSET RECOGNITION

Pledges

45. Paragraph 4420.05 defines a pledge as "a promise to contribute cash or other assets to a not-for-profit organization." Both unrestricted and restricted contributions can be given to NFPOs as a pledge. The AcSB understands that the issue with pledges is twofold: whether they meet the criteria to be accrued as a receivable and, if they do, when to recognize the revenue. Regarding recognition as an asset, paragraph 4420.05 states: "In many cases, pledges would not meet the criteria for recognition and therefore would not be recognized until the pledged assets are received." Stakeholders informed the Board during its research that there is diversity in practice since some NFPOs recognize pledges receivable and others do not. The Board is aware that many NFPOs with large annual fundraising campaigns can estimate with reasonable assurance based on past experience the amount of pledges that will be collected and will recognize pledges receivable with a provision for uncollectible amounts.

46. Under the approach discussed above to recognize restricted contributions based on their characteristics, the AcSB notes that pledges that achieve recognition as a receivable would be recognized in revenue consistently with similar types of contributions with similar characteristics. For example, unrestricted contributions that NFPOs receive in the form of a pledge that meet the criteria for recognition as a receivable would be recognized as revenue immediately.

47. The AcSB notes that other jurisdictions typically apply a control-based model to determine whether pledges can be accrued as a receivable. Under this model, if a pledge is not enforceable against the donor, the organization does not control the contribution and, therefore, it is not recognized. Respondents to the Statement of Principles noted that in most cases in Canada there is not a legal right to collect pledges should the donor not honour them. Therefore, a control-based model in Canada would typically result in pledges being recognized only when the cash is received.

Question 30: Do you track pledges? If so, how? If not, why not?

Question 31: Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?

Question 32: If you previously recognized pledges but no longer do so, why did you stop?

Question 33: Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time period or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how and what warrants different accounting treatment?

Question 34: For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?

Question 35: For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?

Capital asset recognition exemption

48. TANGIBLE CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4433, INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4434, and CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, PS 4230 in the PSA Handbook all include the option for NFPOs to limit the application of these Sections to specific disclosures. This option is permitted when the average of annual revenues recognized in the statement of operations for the current and preceding period of the organization and any entities it controls is less than $500,000.

49. When an organization uses this recognition exemption, the disclosures required are:
    (a) the policy followed in accounting for capital assets;
    (b) information about major categories of capital assets not recorded in the statement of financial position, including a description of the assets; and
    (c) the amount expensed in the current period if capital assets are expensed when acquired.

50. The original capital asset standard for NFPOs was effective from April 1997. At that time, the recognition exemption was included as an accommodation for small organizations to facilitate adoption of a standard that would also apply to large NFPOs. However, the $500,000 revenue limit is an arbitrary amount.

51. The Statement of Principles proposed removing the capital asset recognition exemption. Respondents largely supported eliminating this exemption. Many did not think that recognizing capital assets in smaller NFPOs would be overly onerous because they have a limited number of assets and, in some cases, assets are already being tracked to disclose what has been expensed. They indicated that most minor purchases of items, such as office furniture and computers, could presumably continue to be expensed on grounds of administrative ease, as they would not be material.

52. Various respondents noted that removing this exemption would, among other benefits:
    (a) enhance the comparability of NFPO financial statements;
    (b) better allow an NFPO to monitor and manage its capital assets; and
    (c) better allow financial statement users to understand the capital assets needed to undertake the NFPO's operations.

    Respondents agreed that the additional work and cost associated with maintaining records of capital assets in many cases would not be excessive. Other than NFPOs, entities following Part II of the Handbook or the PSA Handbook are required to capitalize their assets, regardless of size. Many respondents suggested that the proposal should be applied prospectively with adequate transitional guidance provided because retrospective application would be too complex or costly.

53. Stakeholders, including Advisory Committee members and respondents to the Statement of Principles, who disagree with removing the capital asset recognition exemption think that eliminating it would significantly affect many smaller NFPOs that lack administrative capacity to perform such financial reporting for their few assets. They think that the additional costs to these smaller NFPOs of capitalizing their assets would outweigh any benefits provided to financial statement users.

54. In its review of the accounting guidance for NFPOs globally, the AcSB did not identify any other jurisdictions with similar exemptions for recognizing capital assets. However, New Zealand has a tiered structure in its accounting standards that allows entities that are not publicly accountable and have expenses no more than $125,000 to use cash accounting for all financial statement items.

Question 36: In addition to circumstances where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply the capital asset recognition exemption? If so, what are those reasons?

Question 37: For financial statements users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?

Question 38: If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?

Question 39: If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?

Question 40: Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues in excess of $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively or is another transition approach used?

PRESENTATION AND DISCLOSURE ISSUES

Fund accounting

55. FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph 4400.02(c), defines fund accounting as "the collective accounting procedures resulting in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions of an organization. Elements of a fund can include assets, liabilities, net assets, revenues and expenses (and gains and losses, where appropriate). Fund accounting involves an accounting segregation, although not necessarily a physical segregation, of resources."

56. Respondents to the Statement of Principles identified fund accounting as an area of financial statement presentation where additional guidance should be provided. Furthermore, the AcSB has heard that some stakeholders are unclear about the difference between the option to use the restricted fund method to account for contributions and using fund accounting for presenting financial statements as a whole. These two concepts are separate. NFPOs that currently use fund accounting presentation may continue to use that presentation method regardless of the organization's accounting policy for contributions.

Question 41: What are the benefits to fund accounting presentation, and what are the limitations?

Question 42: Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

Question 43: What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?

Presentation of net assets

57. Paragraph 4400.41 requires a breakdown of resources that are externally or internally restricted, restricted permanently as endowments, or unrestricted in the statement of changes in net assets.

58. When the Advisory Committee discussed the presentation of net assets, some Committee members indicated that there are issues in practice with the current presentation requirements. They specifically noted that the link between restricted net assets and the corresponding assets on the balance sheet is not clear, and that transfers between categories of net assets are not accounted for consistently. Furthermore, through considering updates in other jurisdictions, the AcSB noted that in 2016, the U.S. Financial Accounting Standards Board made amendments to the net asset presentation requirements for NFPOs. The amendments made to U.S. generally accepted accounting principles (GAAP) changed the classes of net assets from unrestricted, temporarily restricted, and permanently restricted to those with donor restrictions and those without donor restrictions. This reaffirmed the FASB's intention for the net asset presentation to highlight only external restrictions, and not internal restrictions made by the NFPO. In light of feedback from the Advisory Committee and recent U.S. GAAP changes, the Board is considering whether the net asset presentation requirements in Section 4400 remain fit-for-purpose for both preparers and users of NFPO financial statements.

Question 44: Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted and unrestricted? If so, what?

Question 45: For financial statements users, what information about classes of net assets is useful?

Question 46: Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?

Disclosure of restricted cash

59. CASH FLOW STATEMENT, Section 1540 in Part II of the Handbook requires enterprises to disclose the amount of cash and cash equivalents for which use is restricted. Through discussion with the Advisory Committee and feedback on the AcSB's 2017 Exposure Draft "Accounting Standards Improvements for Not-for-Profit Organizations," the Board is aware that there is significant diversity in practice regarding the way that NFPOs identify and disclose restricted cash. In some instances, cash is only being disclosed as restricted when it is held in a separate bank account and/or legal entity. In many cases, it is often unclear whether cash is restricted because the NFPO does not keep detailed records. This diversity in practice results in a lack of comparability across NFPO financial statements.

60. The disclosure requirements noted above in Section 1540 only apply to cash and cash equivalents. However, an NFPO may have investments that are also subject to restrictions but would not be subject to similar disclosure requirements.

Question 47: Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?

Question 48: For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What type of restrictions on cash and cash equivalents do users of financial statements want to be aware of?

Question 49: For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?