FASB Issues Exposure Draft on Accounting Contributions Received and Contributions Made

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This article originally appeared in BDO USA, LLP's "Nonprofit Standard" newsletter (Fall 2017). Copyright © 2017 BDO USA, LLP. All rights reserved. www.bdo.com

The Financial Accounting Standards Board (FASB) has issued a proposed Accounting Standards Update (ASU), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* intended to clarify and improve the scope and the accounting guidance for contributions received and made, primarily by not-for-profits.

Accounting for contributions is an issue primarily for not-for-profit organizations because contributions are a significant source of revenue. However, there are some situations where for-profit entities apply this guidance and the proposed ASU would apply to them as well.

According to the press releases issued by the FASB, Chairman Russell G. Golden stated that "Stakeholders indicated that there is difficulty and diversity in practice among not-for-profits with characterizing grants as exchanges or contributions, and in distinguishing between conditional and unconditional contributions." Additionally Chairman Golden stated that, "The proposed ASU provides not-for-profits with a more robust framework to evaluate and determine if a transaction should be accounted for as a contribution or an exchange."

The diversity in practice that Mr. Golden referred to has been an issue going back to the issuance of the original guidance issued for accounting contributions. The issue is around how we treat a grant or contract from the federal or state government versus how we treat the same types of agreements from a not-for-profit funding organization or a private donor. Overall, it is believed that once the new guidance is finally issued, not-for-profit organizations will be able to more consistently apply the accounting guidance, and make the accounting for contributions more operable.

The proposed ASU also helps not-for-profit organizations decide if transactions should be accounted for as a contribution or an exchange transaction. Not-for-profit organizations would accomplish this by using clarifying guidance to evaluate whether a resource provider is receiving commensurate value in return for the resources provided. If the answer to this question is yes, then the asset transfer is an exchange transaction. The proposed ASU provides clarification that social benefit, even if it furthers the resource provider's charitable mission, is not deemed to be commensurate reciprocal value.

Additionally, the proposed ASU would also help not-for-profit organizations evaluate such arrangements by using an improved framework to determine whether a contribution is conditional or unconditional, and better distinguish a donor-imposed condition from a donor-imposed restriction. The ASU states that if the answer to both of the following questions is yes, a contribution would be considered conditional:

- Does the donor/grantor retain a right of return to the resources provided?
- Is there a barrier the not-for-profit organization must overcome to gain rights to the resources provided?

The proposed standards are intended to clarify and improve the scope and the accounting practice.

The second question is more difficult to assess. To assist with this, the proposed ASU provides the following indicators that a barrier may exist:

- The not-for-profit is required to achieve a measurable outcome (e.g., incur certain qualified expenses, help a specific number of beneficiaries or produce a certain number of units).
- The not-for-profit is required to overcome a barrier related to the primary purpose of the asset transfer agreement (this excludes trivial administrative requirements).
- The not-for-profit has limited discretion over how the resources are spent.
- The not-for-profit is required to take significant additional actions that it otherwise would not have taken.

If a contribution is deemed to meet these criteria, it would be considered a conditional contribution. Conditional contributions are recognized as liabilities or not recognized at all until the barrier(s) are overcome. Once this occurs, the revenue would be recognized as net assets with or without restrictions based on whether the donor imposed any restrictions.

This topic was added to the agenda by the FASB to help address issues that were raised by stakeholders in trying to apply ASU 2015-09, *Revenue from Contracts with Customers,* (Topic 606) to revenue transactions in the not-for-profit environment. Specifically, do not-for-profit grants and contracts fit the definition of a contract with a customer and, thus, does the new revenue standard apply? Or are these transactions more appropriately classified as contributions, which would exclude them from the scope of the new revenue standard?

This proposed standard follows the same effective dates as ASU 2015-09 as follows:

- A public company or a not-for-profit organization that has issued, or is a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market would apply the new standard to annual reporting periods beginning after December 15, 2017, including interim periods within that annual period.
- Other organizations would apply the standard to annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

The proposed amendments would not apply to transfers of assets from the government to businesses. The guidance would apply to both a recipient of contributions received and a resource provider of contributions made.

Early adoption of the amendments in this proposed ASU would be permitted irrespective of the early adoption of the amendments in the revenue recognition standard.
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