Final ASU 2018-08 Issued on Guidance for Contributions

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The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* in June 2018 to clarify the accounting guidance related to contributions made or received. This ASU applies to all entities (including business entities) that make or receive contributions of cash and other assets, including promises to give and grants. The final ASU can be accessed here.

Background

The purpose of the ASU is to address long-standing diversity in practice and the difficulties in determining whether grants and similar contracts are exchange transactions or contributions. In addition, the ASU addresses the evaluation of whether a contribution is conditional or unconditional, which affects the timing of the revenue recognition. And finally, the ASU addresses the issue of when a contribution is restricted.

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As we discussed in the article entitled, Updates to FASB Proposed Guidance for Contributions**,** the introduction of the new revenue recognition standard also made it imperative for the diversity in practice to be addressed. The distinction between contributions and exchange transactions is important because it determines whether an entity should follow the guidance in Accounting Standards Codification (ASC) 988-605, *Not-for-Profit Entities - Revenue Recognition,* if the transaction is deemed to be a contribution, or the guidance in ASC Topic 606, *Revenue from Contracts with Customers,* if deemed to be an exchange transaction. Contributions are scoped out of Topic 606.

Main Provisions

Characterizing Grants and Similar Contracts in Reciprocal Exchanges or Contributions

The ASU clarifies and improves the scope and accounting guidance for both contributions received and made to assist all entities in evaluating whether a transaction should be accounted for as a contribution or an exchange transaction. The ASU provides sample indicators of a contribution and exchange transaction to assist entities in making this determination.

The amendments in the ASU clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred or on the basis of the following:

- The resource provider is not one and the same with the general public. Benefits received by the public as a result of the assets transferred is not equivalent to comparable value received by the resource provider.
- Exercise of the resource provider's mission or the positive sentiment from acting as a donor doesn't constitute comparable value received by the resource provider for purposes of determining whether the transfer of assets is a contribution or an exchange.

If the resource provider itself is not receiving comparable value for the resources provided, an entity must determine whether a transfer of assets represents a payment from a third-party payer on behalf of an existing

exchange transaction between the recipient and an identified customer. If this is the case, this should be accounted for under Topic 606 or other guidance that applies.

In completing this analysis, the type of resource provider should not factor into the determination.

See ASC 958-605-15-6 for specific transactions that should be excluded from this analysis of contribution versus exchange.

Determining Whether a Contribution is Conditional

The ASU amendments require an entity to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If the agreement includes both of these, it is deemed to be conditional, and the recipient is not entitled to the transferred assets until it has overcome the barriers in the agreement.

The amendments include the following indicators to determine whether an agreement contains a barrier:

- The inclusion of a measurable performance-related barrier or other measurable barrier.
- The extent to which a stipulation limits discretion by the recipient on the conduct of an activity.
- Whether a stipulation is related to the purpose of the agreement.

A probability assessment about the likelihood of the recipient meeting the stipulation is not a factor in determining if there is a barrier.

Examples of barriers are provided in the amendments. Depending on the facts and circumstances some indicators may be more significant than others, but no single indicator is determinative.

The right of return or right of release must be determinable from the agreement or another document referenced in the agreement. The agreement does not have to specifically include the phrases "right of return" or "release from obligations"; however, the agreements should be sufficiently clear to be able to support a reasonable conclusion about whether the recipient would be entitled to the transfer of assets or release of obligation. In the absence of any apparent indication that a recipient is only entitled to the transferred assets if it has overcome a barrier, the transaction should be deemed a contribution without donor-imposed conditions.

In the case of ambiguous donor stipulations, a contribution containing stipulations that are not clearly unconditional should be presumed to be a conditional contribution.

If a contribution has been deemed to be unconditional, the entity should then consider whether the contribution is restricted on the basis of the existing definition of the term "donor-imposed restriction." The definition of a donor-imposed restriction includes a consideration of how broad or how narrow the purpose of the agreement is, and whether the resources are available for use only after a specified date.

Simultaneous Release Option

The ASU provides a nonprofit entity with the ability to elect a policy to report donor-restricted contributions whose restrictions are met in the same reporting period as the revenue is recognized as support within net assets without donor restrictions. To do this the entity must have a similar policy for reporting investment gains and income, report consistently from period to period and disclose its accounting policy. If this policy is elected for donor-restricted contributions that were initially conditional contributions, they may do so without electing this for other donor-restricted contributions. The election of this policy has to be used consistently from year to year and be disclosed.

Transition

The amendments in the ASU should be applied on a modified prospective basis; however, retrospective application is permitted as well.

In the financial statements in the year of adopting the ASU under the modified prospective basis the amendments should be applied to all agreements that are either not completed as of the effective date or entered into after the effective date. A completed agreement is an agreement for which all revenue (of a recipient) or expense (of a resource provider) has been recognized before the effective date under the current guidance. The amendments in the ASU should be applied only to the portion of revenue or expense that has not yet been recognized under current guidance before the effective

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date of the ASU. No prior period statements should be restated and there should be no cumulative effect to opening net assets or retained earnings balances at the beginning of the year of adoption. Standard disclosures for the accounting change should be included in the footnotes in the year of adoption. The ASU contains additional clarifying transition guidance to assist entities if they choose this adoption basis.

Effective Date

The effective dates vary depending on whether you are a resource recipient or resource provider and the nature of the entity as outlined below. The effective dates for resource recipients were established so that the effective date of the ASU would align with the effective date of ASC Topic 606. The effective dates for resource providers was delayed by one year. Early adoption of the ASU is permitted.

Resource Recipient

Public business entities and nonprofits that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or over-the-counter market should apply the amendments in the ASU on contributions received to annual periods beginning after June 15, 2018.

All others should apply the amendments for transactions in which the entity serves as a resource recipient to annual periods after Dec. 15, 2018.

Resource Provider

Public business entities and nonprofits that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or over-the-counter market should apply the amendments in the ASU for transactions in which the entity serves as a resource provider to annual periods beginning after Dec. 15, 2018.

All other entities should apply the ASU for transactions in which the entity serves as the resource provider to annual periods beginning after Dec. 15, 2019.

Conclusion

The ASU contains implementation guidance and practical illustrations to assist with the implementation.

The ASU will likely result in more grants and contracts being accounted for as unconditional or conditional contributions rather than exchange transactions compared to current guidance.

For a more in-depth discussion of the ASU, you can access the BDO archived webinar entitled, *New Accounting Guidance for Accounting for Contributions Received or Made,* here.

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