

# 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

<b>Project objectives</b>	<p>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.</p> <p>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.</p> <p>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.</p>
<b>Current stage</b>	<p>We are currently seeking your feedback on our Exposure Draft, “<a href="#">Contributions – Revenue Recognition and Related Matters</a>.” We highlighted specific questions, but we welcome any additional information you would like to provide.</p>
<b>Next steps</b>	<p>We plan to gather your input in a variety of ways, and we will consider all information received.</p>
<b>Comment deadline</b>	<p>Send us your comments by September 30, 2023.</p>
<b>How to provide feedback</b>	<p>Keep an eye on our <a href="#">Contributions</a> project page for updates, key dates, and registration information. We want to hear from you!</p> <ol style="list-style-type: none"> <li>1. Submit a response letter via our <a href="#">online form</a>.</li> <li>2. Attend a roundtable. Registration details coming soon via our <a href="#">Contributions</a> project page</li> <li>3. Take our <a href="#">Connect.FRASCanada.ca</a> surveys, which will go live later in our consultation period.</li> </ol>

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## Why did we undertake this project?

Through research and consultation on this topic with the public and our Not-for-Profit Advisory Committee, we became aware of issues and challenges with the existing accounting policy choice for recognizing revenue from restricted contributions.

Major considerations when developing our project plan and Exposure Draft were **complexity** and **comparability**.



### Complexity

The current accounting policy choice for recognizing revenue from restricted contributions 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.



### Comparability

The existing accounting policy choice results in a lack of comparability between NFPO financial statements. Identical transactions can be recognized and presented differently depending on the accounting policy choice applied.

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## What are the key proposals in the Exposure Draft?

The AcSB developed proposals that:

- replace the current guidance with a single approach for recognizing revenue from **restricted contributions**;
- provide specific guidance on special types of contributions, including **endowments, capital asset contributions, and contributed materials and services**; and
- include amendments to the current guidance on **financial statement presentation** by NFPOs.

### Restricted Contribution

<b>Definition</b>	A contribution subject to an external restriction(s) that meets the following criteria: <ul style="list-style-type: none"><li>• the restriction has been explicitly communicated between the organization and the contributor; and</li><li>• the restriction requires that resources be used for a designated purpose and/or within a designated period of time.</li></ul>
<b>Recognition</b>	Recognize in revenue when (or as) the external restriction(s) associated with the contribution is(are) met, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured.

### Endowment Contribution

<b>Definition</b>	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.
<b>Recognition</b>	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.
<b>Disclosure requirements</b>	Disclose information about how an NFPO manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments.  Disclose, as applicable, quantitative information about the extent to which the fair value of endowments is less than the amount the contributor requires the NFPO to maintain permanently.

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### Capital Asset Contribution

<b>Definition</b>	Contributions of cash or other assets subject to an external restriction(s) requiring that the contributions be used to acquire, develop, or construct a capital asset. These contributions also include contributions of capital assets directly.
<b>Recognition</b>	For contributions related to amortizable assets: <ul style="list-style-type: none"><li>• Defer and recognize in revenue on the same basis as the amortization on the related capital asset.</li></ul> For contributions related to assets not subject to amortization: <ul style="list-style-type: none"><li>• Recognize as direct increases in net assets.</li></ul>
<b>Presentation and disclosure requirements</b>	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.

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### Contributed Materials and Services

#### Recognition

- There is an accounting policy choice for contributed materials and services to either:
  - not recognize them in the financial statements; or
  - recognize them 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.

The choice must be applied consistently to all contributed materials and services.

If an organization's accounting policy choice is to recognize them, the recognition criteria are applied individually to each contributed material and service, which could result in certain contributed materials and services not being recognized if the recognition criteria are not met.

#### Presentation and disclosure requirements

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.

Disclose any dependence by the organization on contributed materials and services to achieve future objectives.

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## Pledges and Bequests

### **Recognition**

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.

## Other Presentation and Disclosure Requirements

### **Proposed Section 4411**

Proposed Section 4411 carries forward presentation and disclosure requirements from existing Section 4410 but also includes the following additional disclosure requirement not discussed above:

- Disclose the economic dependence on another party when the ongoing operations depend on a significant contribution(s) from that party.

### **Section 4400**

The following additional presentation and disclosure requirements have been added to Section 4400:

- Disclose information about requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those requirements.
- Organizations that use fund accounting presentation would be required to disclose comparative period information and information about the factors used to determine the funds presented.

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## Will the proposals result in a change in accounting?

Eliminating the existing accounting policy choice for recognition of revenue from restricted contributions will result in a change in practice for many NFPOs.

- NFPOs will be required to defer the recognition of revenue for restricted contributions until the external restriction(s) associated with the contribution are met, provided the contribution is measurable and collection is reasonably assured.
  - For NFPOs currently using the restricted fund method of accounting for restricted contributions, this will mean a change to timing of revenue recognition for certain contributions.
  - For NFPOs currently using the deferral method of accounting for restricted contributions, this could result in a change in timing of revenue recognition for certain contributions as a result of applying the amended definitions and new revenue recognition guidance proposed in the Exposure Draft.
- Our proposals also require that NFPOs defer and amortize capital asset contributions over the useful life of the related asset and recognize endowment contributions as direct increases in net assets, which will be a change for NFPOs currently using the restricted fund method. Recognizing that the capital asset contribution proposals will bring a significant change for some organizations, we outlined proposed transition relief [below](#).
- Under the proposals, in many cases pledges will no longer be recognized until the cash is received. This is because the proposed recognition criteria, which include the requirement that collection be reasonably assured, must be applied to each individual pledge.
- The proposals also include additional presentation and disclosure requirements which are meant to improve the understandability of restricted contributions received, the entities ongoing obligations related to those contributions, and the assets available to meet those obligations.

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### **Can an NFPO still use fund accounting?**

Absolutely! In our Exposure Draft, we propose to continue to allow fund accounting presentation as an optional presentation choice in Section 4400. With certain proposed amendments to Section 4400, we aimed to improve the usefulness of information provided to users when fund accounting presentation is applied. This includes a proposal that states when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule.

### **Is there guidance that illustrates the application of the proposals?**

Yes! The Exposure Draft includes numerous examples to illustrate how the proposed accounting guidance might be applied in particular situations.

### **When will the proposals be effective?**

Subject to comments received on the Exposure Draft, we plan to issue proposed Section 4411 and proposed amendments to Section 4400 in July 2024. The proposed effective date would then be for fiscal years beginning on or after January 1, 2026. Earlier application would be permitted as long as proposed Section 4411 and the proposed amendments to Section 4400 are applied at the same time.

### **What are the transition requirements and what transitional relief is provided?**

Proposed Section 4411 and the proposed amendments to Section 4400 would be applied retrospectively in accordance with Section 1506, *Accounting Changes*.

There is transitional relief for capital asset contributions. Organizations would not be required to make retrospective adjustments in the case of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest comparative period presented. For example, consider an NFPO with a March 31 year-end that presents one year of comparative information. When this organization first applies the new Section 4411 in the fiscal year ended March 31, 2027, it would not have to adjust its financial statements for capital asset contributions that were recognized fully prior to April 1, 2025.



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## We want your feedback!

Get involved and share your views by our comment deadline, **September 30, 2023**.

### How can I comment on the proposals?

1. Submit a response letter via our [online form](#).
2. Attend a roundtable. Registration details coming soon via our [Contributions](#) project page.
3. Take our [Connect.FRASCanada.ca](#) surveys, which will go live later in our consultation period.

### Stay informed

Watch our educational [webinar](#), and stay up to date on this project by visiting the [Contributions](#) project page.

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