



ASNPO Accounting Notice

Proposed changes to the accounting for contributions by not-for-profit organizations

The existing contributions standards were established in 1996. While the standards have remained largely unchanged since that time, research suggests the landscape for many not-for-profit organizations (“NFPOs”) has evolved and that contribution agreements are becoming more complex. The Accounting Standards Board (the “AcSB” or the “Board”) has undertaken extensive research over the past years to gain an understanding of the benefits of, and issues with, the existing contributions guidance. In May of 2020, the Board issued a Consultation Paper seeking input from NFPO stakeholders, including financial statement users, preparers, and practitioners. The Board reviewed the feedback received on this Consultation Paper and in March 2023, issued an Exposure Draft titled *Contributions – Revenue Recognition and Related Matters* to solicit public comment on a proposed new accounting standard that will replace existing guidance.

What are the proposed changes?

The proposals would:

- Introduce a new standard, Section 4411 Contributions received by not-for-profit organizations, which would replace Section 4410 *Contributions — revenue recognition* and Section 4420 *Contributions receivable*
- Replace the current accounting policy choice between the deferral method and restricted fund method of recognizing restricted contributions with a single approach for all NFPOs

What are the proposed changes? (continued)

- Change certain definitions and the guidance for pledges and bequests.
- Provide specific guidance on special types of contributions, including contributed materials and services, capital asset contributions, and endowments.
- Amend current guidance on Section 4400 *Financial statement presentation for not-for-profit organizations* and add disclosure requirements in areas such as endowments and restrictions.

What is the impact of the proposed changes?

The impact of the proposals will differ for each organization and depend on the organization's current accounting policies for recognizing revenue from contributions. Some of the more pronounced impacts are highlighted below:

- The revised definition for a "restricted contribution" would require the restriction to be explicitly communicated between the organization and the contributor. Restricted contributions would be deferred and only recognized as revenue when (or as) external restrictions are met. As a result, the timing of revenue recognition for some contributions may change.
- NFPO's 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.

NFPOs currently using the restricted fund method of accounting (high impact)

- For NFPOs currently using the restricted fund method of accounting for restricted contributions, the recognition of revenue for restricted contributions will be required to be deferred until the restrictions are met, thereby significantly impacting the timing of revenue recognition for certain contributions.

NFPOs currently using the deferral method of accounting (some impact)

- 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 (i.e. definition of restricted contribution) and new revenue recognition guidance proposed.
- In many cases, pledges and bequests would not 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.
- Specific recognition and disclosure guidance on special types of contributions including endowments, capital asset contributions, and contributed materials and services.
- An organization with endowment contributions would have to disclose information about how it manages its endowments, including:
 - How it monitors their fair value and compliance with endowment agreements; as well as
 - Quantitative information about the extent to which the fair value of endowments is less than the amount the contributor requires to be maintained permanently.
- NFPO's will be required to include additional enhanced disclosures in their financial statements. Amongst the proposed disclosures, an organization would have to disclose information about the assets it determines are available to meet the requirements of its restricted contributions, the entities ongoing obligations related to those contributions, and the assets available to meet those obligations.

Proposed effective date and transition relief

- The proposals would be effective for fiscal periods 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.
- Proposed Section 4411 and the proposed amendments to Section 4400 would be applied retrospectively.
- The proposals also provide transition relief for capital asset contributions that had been recognized in full prior to the beginning of the earliest period presented in the financial statements first prepared in accordance with the proposed standard.

Where can I learn more?

To learn more about the proposals and assess the potential impact to your organization, there are a number of resources available published by the AcSB:

Resource	Link
Issued the full Exposure Draft, including the proposed handbook section and amendments	Contributions – Revenue Recognition and Related Matters (frscanada.ca)
An overview of the Exposure Draft in an In Brief publication	In Brief – AcSB Exposure Draft – Contributions – Revenue Recognition and Related Matters (frscanada.ca)
On demand recording of an AcSB webinar summarizing the proposals	On-demand Webinar – AcSB Exposure Draft – Contributions – Revenue Recognition and Related Matters (frscanada.ca)

How can I join the discussion?

Get involved and share your views directly to the AcSB by:

- Answering any or all of the questions included within the Exposure Draft by submitting a response letter by the response deadline of September 30, 2023 ([Log in \(frscanada.ca\)](#));
- Complete an AcSB survey (<https://connect.frscanada.ca/contributions-revenue>), which will go live later in the consultation period; or
- Attend an AcSB hosted roundtable. Registration details available via Contributions — Revenue Recognition and Related Matters project page ([Connect.FRASCanada.ca](#)).

Concluding Observations

The proposals will change current accounting practices and disclosure regimes for NFPOs and is expected to impact NFPOs of all sizes, with more pronounced impacts exposed for organizations reporting under the restricted fund method. Organizations should review existing accounting policies against the proposals to identify areas of adoption impact, including impact on financial statements, financial metrics, as well as perform analysis to quantify adoption impacts, including developing applicable judgment, estimates and policy choices. The analysis and determination of the appropriate application of the proposals is expected to require judgement and an understanding of technical aspects of the standard.

Key contacts

Authors



Patrick Ho
Partner, Audit & Assurance
Vancouver
+1-604-640-4907
ptho@deloitte.ca



Marianna Marano
Senior Manager, Audit & Assurance
Ottawa
+1-613-786-7775
marimarano@deloitte.ca

Regional ASNPO specialists



Melanie Leduc
Partner, Audit & Assurance East PPD
Quebec City
+1-418-634-2548
meleduc@deloitte.ca



Matthew Colley
Partner, Audit & Assurance
Toronto
+1-416-643-8428
mcolley@deloitte.ca



Doreen Hume
Partner, Audit & Assurance
Ottawa
+1-613-751-5401
dhume@deloitte.ca



About Deloitte

Deloitte provides audit & assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights and service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 264,000 professionals—9,400 of whom are based in Canada—make an impact that matters, please connect with us on [LinkedIn](#), [Twitter](#) or [Facebook](#).

Deloitte LLP, an Ontario limited liability partnership, is the Canadian member firm of Deloitte Touche Tohmatsu Limited. Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private companies limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

© Deloitte LLP and affiliated entities.

© Deloitte LLP and affiliated entities.