

Non-Profit Notes Newsletter

FASB Issues Proposed Update for Definition of the Term *Collections*

By Mark J. Piszko, CPA, CGMA, Partner-in-Charge, Not-for-Profit Services

The Financial Standards Accounting Board (FASB) recently issued a proposed Accounting Standards Update (ASU or Update) (Topic 958) intended to modify the definition of the term *collections*. The amendment in the proposed ASU is intended to align the definition of the term *collections* as it appears in the Master Glossary of the *FASB Accounting Standards Codification* with the definition used in the American Alliance of Museums' (AAM) *Code of Ethics for Museums* (the Code).

Applicability of the Proposed ASU

Although the ASU primarily targets not-for-profit entities since most collections are held by museums, libraries, art galleries, botanical gardens, etc., the amendment in the proposed ASU would apply to all entities, including business entities that maintain collections.

Proposed Change

The proposed ASU would modify the definition of the term *collections*. Current generally accepted accounting principles (GAAP) state that an organization need not recognize contributions of art, historical treasures, and similar assets if the donated items are added to collections and meet three conditions or criteria. The three conditions concerning collections are:

1. They are held for public exhibition, education, or research in furtherance of public service rather than financial gain;
2. They are protected, kept unencumbered, cared for, preserved, and
3. They are subject to an organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections.

The third condition is subject to change under the proposed amendment. The proposed amendment would modify that condition to allow the proceeds to be used to support the direct care of existing collections in addition to the current requirement that proceeds from the sale of collection items be used to acquire other items for collections.

Potential Significance of the New Guidance

It is believed that the new guidance would be an improvement because it would eliminate the diversity in practice that now exists between the application of the definition of collections in GAAP compared with the definition that many entities use for operability and accreditation purposes. In addition:

- Using proceeds from deaccessioned collection items toward direct care of existing collection items directly aligns with the mission of many entities to specifically maintain their collections;
- Aligning the definition and permitting proceeds to be utilized for the care of existing collections is consistent with the basis for conclusions in FASB Statement 116 about the care and preservation of collections.

Effective Date

The proposed ASU would apply to all entities and be effective upon issuance of the final Update. The proposed amendment in the final Update would be applied on a prospective basis. Retrospective application would be permitted.

Full Text

If you would like to review the full text of the proposed ASU it can be accessed at this link: [Not-for-Profit Entities \(Topic 958\): Updating the Definition of Collections](#). We will alert you in a future e-newsletter when the final ASU is issued and highlight any further changes in its guidance

Contact Us

If you have any questions about accounting for collections — or not-for-profit accounting and auditing matters in general — please contact Mark Piszko, CPA, CGMA, Partner-in-Charge, Not-for Profit Services, at mpiszko@pkfod.com or 646.449.6316 or the partner in charge of your account.

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