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Non-Profit Notes Newsletter

Proposed FASB Clarification for Contributions Received and Contributions Made

By Mark Piszko, CPA, CGMA, Partner

The Financial Standards Accounting Board (FASB) recently issued a proposed Accounting Standards Update (ASU or Update) (Topic 958) intended to clarify and improve the scope and accounting guidance for contributions received and made. The amendments in the proposed ASU attempt to eliminate the difficulty and diversity in practice in recognizing grants received as either exchange transactions or contributions and in distinguishing between conditional and unconditional contributions.

Although the ASU is primarily intended for not-for-profit entities where contributions are a significant source of revenue, the amendments would also apply to all organizations that receive or make contributions of cash and other assets, including business enterprises; however, the amendment would not apply to transfers of assets from the government to businesses.

The guidance would apply to both the recipient of contributions received and the resource provider of contributions made.

Reasons for Proposed Changes

Entities and stakeholders have historically expressed some confusion in distinguishing between exchange transactions and contributions. Of particular note is the diversity of practice that exists in the accounting for grants and contracts from government sources. The distinction is important because grants reported as contributions must follow guidance contained in Subtopic 958-605. Grants determined to be exchange transactions should follow other guidance, including requirements under ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).*

Further, once grants are determined to be contributions, entities often have difficulty distinguishing between conditional and unconditional contributions, particularly when assets are received with stipulations attached, but are not necessarily refundable if those stipulations are not met. This issue is further exacerbated by the entities' interpretation of what *conditional* means. FASB guidance in Subtopic 958-605 indicates that if a condition is not considered remote, a contribution can be recognized as revenue when received. The challenge entities encounter is determining if stipulations accompanying contributions are, in fact, remote. If not, that can potentially result in the refunding of assets to the resource provider. This important distinction can mean the difference between recognizing revenue in the current period and deferring it to a future period.

Framework

The proposed Update provides a more robust framework to determine:

- When a transaction should be accounted for as a contribution or as an exchange transaction, and
- Whether a contribution is conditional or unconditional.

The amendments in the proposed ASU would clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The ASU would also provide indicators that could be used to guide the assessment of whether an agreement contains a barrier or condition that could affect the current recognition of contribution income.

Potential Significance of New Guidance

It is believed that the new guidance will help reduce diversity in practice and ease the application of judgment because the current guidance is open to differences in interpretation and can be difficult to apply. The amendments in the proposed Update could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current generally accepted accounting principles (GAAP). Clarifying the guidance about whether a contribution is conditional or unconditional is important because such classification affects the timing of contribution revenue recognition.

Effective Dates

The proposed ASU would be effective as follows:

- Public companies and not-for-profit organizations that have issued [or are a conduit bond obligor for] securities that are traded, listed, or quoted on an exchange or an over-the-counter market: for annual reporting periods **beginning after December 15, 2017**, including interim periods within that annual period.

- All other organizations: annual reporting periods **beginning after December 15, 2018**, and interim periods within annual periods **beginning after December 15, 2019.**

In both cases, early adoption of the amendments is permissible.

Full Text

If you would like to review the full text of the proposed ASU and provide comments [due by November 1, 2017], it can be accessed at this link: Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. We will alert you in a future e-newsletter when the final ASU is issued and highlight some of the changes in its guidance.

Contact Us

If you have any questions about grant and contribution accounting — 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.