Accounting principle changes proposed by the Accounting Standards Board

Summary by Bill Kennedy

Summary	Type of charity affected	Major change?	Commentary
1. An NFPO should recognize a contribution as an asset (or a receivable) when it has control of the contribution, when it would exercise that control if necessary, and when it can reasonably estimate the amount to be received.	All charities accepting pledges.	No	This principle prevents a charity from counting pledges in donation revenue unless there is a contract.
2. An NFPO should recognize a contribution as revenue when the contribution is received or receivable in accordance with Principle 1, except when, and to the extent, the contribution gives rise to an obligation that meets the definition of a liability.	All charities that fundraise for future programs / projects	Yes; most charities currently defer contributions designated for future work until the associated expenses are incurred. It would be very rare that a donation directly creates a contractual liability.	Example: If a charity raises money this year for children to go to camp next year, this principle will force it to recognize the money this year. Note 1.
3. When a contribution's stipulations have given rise to an obligation that meets the definition of a liability, an equivalent amount of revenue should be recognized as the liability is settled.	All charities that fundraise for future programs / projects	This follows logically from Principle 2.	Because a donation is by definition voluntary, it is difficult to imagine a situation where a donation could directly create a liability.
4. An NFPO may choose to recognize contributions of materials and services at fair value when a fair value can be reasonably estimated.	Charities that accept gifts in kind.	No. The change is recognizing services at fair value, which will be optional.	Note the word "may". The principle allows for the difficulties of valuing services like volunteer hours, so charities have a choice in this area. Also, the CRA's position on the recognition of services is unchanged. Note 2.

5. Tangible capital assets need to be set up and amortized / written down in a similar way to for-profit companies.	Charities that use the cash method.	No, not for charities that use accrual accounting and set up fixed assets on the balance sheet. For those still expensing all purchases, this change will be significant.	This principle encourages the good business practice of periodically examining assets. When equipment is written off as it is purchased instead of being tracked in the system, there is a higher chance of it being lost or neglected.
6. This principle recommends keeping existing practices for Intangible assets with allowance for partial write-downs.	Charities with patents, licences or other rights.	No.	This principle just carries on an existing practice.
7. Regardless of its size, an NFPO should recognize its capital assets in accordance with Principles 5 and 6. There should be no arbitrarily imposed criteria or limit that permits non-recognition of capital assets.	Small charities	This change will force even small charities to maintain a full general ledger.	With accounting packages becoming cheaper and easier for non-technical staff and volunteers to use, this principle does not impose the hardship that it once would have.
8. Recognize art collections at either cost or nominal value.	Museums, universities and larger charities which have an art collection (as opposed to acquiring art for the purpose of a fundraiser.	No.	This is a practical recognition that some assets do not depreciate, so there is no point in amortizing them. At the same time, if there is no intention ever to sell them, then recording their market value is also irrelevant.
9. Works of art not in a collection will continue to be accounted for consistent with the other assets held or used.	Charities holding art for resale / fundraising. Charities owning art hanging in their offices.	No; this is consistent with Principle 8.	
10. NFPOs will (a) consolidate controlled NFPOs, subject to an exclusion from consolidation of a large number of individually immaterial organizations; and (b) account for controlled profit-oriented enterprises in accordance with the equity method.	Charities operating as a group, or with a large number of autonomous locations, such as churches and national charities.	Yes. This requirement to consolidate is new and has many practical implications for charities.	The definition of control is complex, involving whether one charity can appoint most of the Board of the other, or take all of its funds raised. If a charity is required to consolidate its financial statements, there are practical considerations: • Different year ends • Different systems • Meeting reporting deadlines • Additional accounting and audit

			costs • Explaining the additional complexity to stakeholders
11. NFPOs should continue to disclose an economic interest in another NFPO over which they do not have control in accordance with *Reporting Controlled and Related Entities by NFPOs, Section 4450.*	Charities operating as a group, or with a large number of autonomous locations, such as churches and national charities.	No, this is the continuation of an existing requirement.	
12. NFPOs should continue to apply *Disclosure of Related Party Transactions by NFPOs Section 4460.*	Charities operating as a group, or with a large number of autonomous locations, such as churches and national charities.	No, this is the continuation of an existing requirement.	
13. NFPOs should include *Income Statement, Balance Sheet, Cash Flow Statement* and other appropriate sections in their financial statements. [It is] proposed to retain certain of the guidance material in the existing not-for-profit standards that address unique financial statement presentation issues faced by NFPOs.	All charities with audited financial statements.	No, this is a continuation of an existing requirement.	This principle recognizes the need for unique approaches to charity financial statement presentation.
14. NFPOs with more than one function should present their expenses by function in their financial statements and disclose their expenses by object (nature) in the notes to the financial statements. NFPOs should present total fundraising expenses and general support expenses as separate functions in the statement of operations or disclose them in the notes to the financial statements.	All charities that have more than one program (function).	Yes. This principle attempts to make financial statements more comparable between charities, but stipulating how administration and fundraising expenses are to be disclosed.	See the definition for General Support Expenses (Administration) in Note 2 below.
15. NFPOs should continue to apply *Disclosure of Allocated Expenses by NFPOs, Section 4470*.	All charities that allocate General Support (Administration) expenses to programs.	No, this is a continuation of an existing practice.	There is guidance around typical ways of allocating administration charges (e.g. by head count or square footage occupied).

Notes

1. A simple example: in 2013, a charity solicits a donation to fund a disadvantaged child going to camp the following summer. The common practice is for the charity to defer recognizing the donation as income until 2014 so that it is recognized in the same period as the expense.

   The new principle would disallow that practice on the basis that there is no contractual liability requiring the charity to spend the money the next year, hence no reason to defer recognizing the donation as income.

   Yes, there is no contract with the donor, but the charity still has a duty to use the funds for the purpose for which they were raised. The **Canada Revenue Agency**'s position is that the assets of a charity are held in trust for the public. The charity has a trustee's duty to fulfill the purpose for which the money was entrusted to it by the donor. If it cannot, it must work with the donor to alter the terms or refund the money.

2. The CRA's position about services is unchanged: "A charity cannot issue a receipt for a gift of service. At law, a gift is a voluntary transfer of property without consideration. Contributions of services (for example, time, skills, effort) are not property. Therefore, they do not qualify as gifts for the purpose of issuing official donation receipts." Even if a charity recognizes contributions of services as income, it still cannot issue a charitable receipt for them.

3. General Support Expenses include expenses of the administration or general office activities (for example, corporate governance, general management, payroll administration, budgeting and accounting, information technology, human resources, and financing). General support expenses are either considered a function in their own right or are allocated on a reasonable and consistent basis to the relevant functions that they support. (*CICA Handbook*, Part III, Paragraphs 4470.06 and .07)