

## CONTRIBUTIONS — REVENUE RECOGNITION: ASNPO 4410

### Definition

- **Fund accounting**
  - Fund accounting is when a NPO establishes a fund, whereby each fund has a collection of assets, liabilities, net assets, revenues, and expenses that self-balance
  - For example, a separate funds may be set up for different activities (i.e. fundraising, food bank, homeless shelter, etc...)
  - Fund accounting is optional
- **Endowment contribution** = a contribution where the principal is to be invested and only the income it generates can be spent
- **Restricted contributions** = is a contribution subject to **externally imposed** stipulations (not by management) that specify the purpose for which the contributed asset is to be used
  - The restrictions can be implicit and explicit

### Deferral fund method vs. Restricted Fund Method

- A NPO makes a **policy choice** of (1) Restricted Fund Method or (2) Deferral Method to account for contributions
- Once a method is chosen, you need to use it for all contributions

### Restricted Fund Method

- The **restricted fund method of accounting for contributions**
  - is a specialized **type of fund accounting** which involves the reporting of
    - total **general funds**,
    - one or more **restricted funds**, and
    - an **endowment fund**, if applicable
  - **Endowment contribution** - recognize as revenue in the endowment fund
  - **Restricted contribution**
    - **If restricted fund set up** - recognize revenue in the restricted fund
    - **If no restricted fund set up** - use deferral method and put it through the general fund
  - **Unrestricted contribution** - recognize as revenue in the general fund
  - Reporting of financial statement elements segregated on a **basis other than that of use restrictions** (i.e. by program or geographic location) does not constitute the restricted fund method
  - Therefore, you can only use the restricted fund method if the funds are restricted for the use of a certain activity

### Deferral Method

- Under the **deferral method of accounting for contributions**
  - **Endowment contribution** - increase net assets
  - **Restricted contribution**
    - **For current period expenses** - recognize as revenue
    - **For future period expense** - defer and recognize revenue on same basis as expenses
    - **For purchase of PPE** - defer and amortize over useful life of PPE
    - **For repayment of debt** - defer and recognize on same basis as purpose for debt
      - Debt for future expense/PPE - defer
      - Debt for Land - increase NA
      - Debt for current expense - recognize revenue

- Who uses the deferral method?
  - NPO's that do not use fund accounting
  - NPO's that use fund accounting in their financial statements without following the restricted fund method would account for contributions under the deferral method

### Contributed materials and services

- A NPO may choose to recognize contributions of materials and services
  - This is done, because it record-keeping may become impossible
  - Imagine a food bank tracking all the non-perishable food it receives
- If an NPO chooses to recognize contributed materials and services, the following must be met:
  - a) **fair value** can be reasonably estimated; and
  - b) when the materials and services are used in the normal course of the organization's operations and **would otherwise have been purchased**
- contributions should be measured at the **fair value**