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Audit Alert: Proposal to address grant and contribution accounting by NFPs

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The FASB has issued a proposed ASU, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of ASC 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance, such as ASC 606, *Revenue from Contracts with Customers*. The proposal would also address how an entity would distinguish between conditional contributions and unconditional contributions when a transaction is accounted for as a contribution.

The proposed amendments would apply to both contributions received by a recipient and to contributions made by a resource provider, such as a government agency, a private foundation, or a corporation. While the accounting for contributions is an issue primarily affecting not-for-profit (NFP) entities, the proposed amendments would apply to all entities that receive or make contributions of cash or other assets.

In the past, stakeholders have reported difficulties in characterizing grants and similar contracts with government agencies and others as either exchanges or contributions, and in determining whether grants and similar contracts that are characterized as contributions are either conditional or unconditional, which has resulted in diversity in practice among NFPs.

As a result, the amendments in the proposal would provide a more robust framework for entities to apply in determining whether a particular transaction is an exchange transaction

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or a contribution transaction, by clarifying how to evaluate whether a resource provider is receiving commensurate value in an exchange transaction.

The amendments in the proposal would also assist entities in determining whether a transaction that should be accounted for as a contribution is either a conditional contribution or an unconditional contribution, by providing a basis under which an entity would determine whether an agreement includes a barrier. If an agreement includes both a barrier and a right of return (or a right of release), the contribution would be deemed conditional, and contribution revenue would not be recognized by the recipient until the condition is met. The proposal also includes indicators that an entity would consider when it determines whether an agreement includes a barrier. When an entity concludes that a contribution is unconditional, it would then consider whether the contribution is restricted by applying the existing related guidance.

The effective dates would be the same as those for the new revenue guidance in ASC 606, as follows:

- *for public entities (public business entities and certain NFPs):* Annual periods, including interim periods therein, beginning after December 15, 2017
- *for all other entities:* Annual periods beginning after December 15, 2018 and interim periods in annual periods beginning after December 15, 2019

Early adoption would be permitted irrespective of whether ASC 606 is early adopted. An entity would be permitted to apply the forthcoming guidance using a retrospective approach or a modified prospective approach. Under the modified prospective approach, revenue or expense not yet recognized prior to the year of adoption (because the agreement either was not completed as of the effective date or was entered into after the effective date) would be recognized in the year of adoption in accordance with the forthcoming guidance. Under this approach, no prior-period results would be restated, and an entity would not make a cumulative-effect adjustment to opening net assets or retained earnings. If an entity chooses this approach, it would also be required to make certain disclosures related to the reasons for, and the quantitative impact of, this change in accounting principle.

The Board has also released a *FASB In Focus*, which discusses the proposal in greater detail.

The comment period on the proposed ASU ends on November 1.

Source: Grant Thornton, *On the Horizon*, August 10, 2017.

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