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Assurance and Accounting

Accounting Standards for Not-For-Profit Organizations (ASNPO) Update 2023

Introduction

It was another active year for the Accounting Standards Board (AcSB or the Board) and for Part III of the CPA Canada Handbook – Accounting: Accounting Standards for Not-for-Profit Organizations (ASNPO). The Board was hard at work advancing the progress of a number of projects, including issuing an exposure draft on accounting for contributions and embarking on a project to explore adding scalability to the current accounting standards.

Additionally, private sector NPOs following ASNPO apply the relevant standards in Part II of the CPA Canada Handbook – Accounting: Accounting Standards for Private Enterprises (ASPE) to the extent that the standards in ASPE address topics applicable for NPOs that are not addressed in ASNPO. As a result, some recent changes made to ASPE and ASPE projects also affect NPOs, including amendments related to revenue recognition of upfront non-refundable fees or payments and the issuance of a new accounting guideline that provides guidance on accounting for cloud computing arrangements.

While no new standards became effective for NPOs in 2023, this publication will discuss amendments and standards becoming effective in the near future and will provide an overview of the main projects the Board has on the go that will affect private sector NPOs following ASNPO. Use the table below to navigate to the sections of the publication most relevant for you.

NEW STANDARDS / AMENDMENTS EFFECTIVE FOR FISCAL YEARS BEGINNING ON OR AFTER:	
January 1, 2024	AcG-20, Customer's Accounting for Cloud Computing Arrangements
KEY PROJECTS ON THE GO:	
	• Evaluating the Preface • Scaling the Standards • Contributions – Revenue Recognition and Related Matters • Revenue – Upfront Non-Refundable Fees or Payments • Improvements to Reporting Controlled and Related Entities by NPOs • Insurance Contracts with Cash Surrender Value

Standards Effective in 2024

New Accounting Guideline AcG-20 - Customer's Accounting for Cloud Computing Arrangements

As the way software is delivered has changed, more entities have begun using cloud-computing arrangements to access software. In the past, entities would do an outright purchase of software that would then be installed onto their own hardware. In a cloud computing arrangement, customers have the right to use software through remote access whereby the actual software resides on the vendor's cloud environment. These arrangements contain varying contractual terms and the accounting can be complex, which has led to diversity in practice. There have also been concerns that the accounting outcome for implementation expenditures incurred for an arrangement that was a service contract was not reflective of the economic benefits an entity receives over time. The AcSB heard stakeholders' concerns, and in November 2022 issued Accounting Guideline AcG-20, *Customer's Accounting for Cloud Computing Arrangements*, to provide guidance on this topic. The new Guideline provides:

- Clarification that an entity determines a method on a rational and consistent basis to allocate the arrangement consideration to the significant separable elements in a cloud computing arrangement;
- An optional simplification approach to permit an entity to expense as incurred the expenditures related to the elements in a cloud computing arrangement that fall within the scope of the Guideline;
- For those entities that do not apply the simplification approach, the Guideline provides factors to assist the entity in determining whether a software element in the arrangement is a software intangible asset that would be accounted for in accordance with Section 3064, *Goodwill and Intangible Assets*, or a software service;
- For a software service, there is an accounting policy choice to either:
  - Capitalize the expenditures on implementation activities that are directly attributable to preparing the software service for its intended use as an asset; or
  - Expense as incurred such implementation costs;
- Disclosure requirements to help users understand how the cloud computing arrangement is accounted for in the entity's financial statements; and

- Illustrative examples to assist entities in applying the guidance.

AcG-20 is effective for fiscal years beginning on or after January 1, 2024, with earlier application permitted. The Guideline is applied retrospectively, with certain transitional relief. For additional information on this new Guideline refer to our ASPE at a Glance: AcG-20 – Customer's Accounting for Cloud Computing Arrangements publication, which will be available soon on our ASPE Knowledge Centre.

Projects on the Go

The AcSB currently has a number of projects in progress that propose future changes that will impact NPOs. The following provides a brief discussion of the main projects.

Project – Evaluating the Preface

The CPA Canada Handbook – Accounting (Handbook) is made up of four parts (also referred to as frameworks): Part I – International Financial Reporting Standards (IFRS); Part II – Accounting Standards for Private Enterprises (ASPE); Part III – Accounting Standards for Not-for-Profit Organizations (ASNPO); and Part IV – Accounting Standards for Pension Plans (ASPP). The Preface of the Handbook explains which part of the Handbook applies to a reporting entity. Currently the Preface states that publicly accountable enterprises must apply IFRS, private enterprises can choose to apply ASPE or IFRS, private sector not-for-profit organizations can choose to apply ASNPO or IFRS and pension plans must apply ASPP.

As part of its 2022-2027 strategic plan, the AcSB has undertaken a project to evaluate the Preface of the Handbook to determine if it remains appropriate. Through this project the Board will identify the types of entities directed by the Preface to apply a certain accounting framework and explore whether their financial reporting needs are being appropriately met by that framework. If the Board finds needs are not being appropriately met, it will explore other options including whether changes to the Preface are needed.

In conjunction with this project, the AcSB is working on a Scaling the Standards project, discussed below. Together these two projects are focused on ensuring the reporting and non-reporting needs of Canadian entities and the users of their financial statements are met by the Preface and the current standard-setting frameworks.

Consultation Paper – Scaling the Standards

As part of its 2022-2027 strategic plan, the AcSB committed to consider scaling the standards for non-listed entities (private enterprises, private sector not-for-profit organizations and pension plans) to better meet their changing reporting needs and the diversity in the size and complexity of these entities. Scaling the standards, which may also be referred to as tiering, can take different forms and may mean providing additional accounting policy choices within the existing frameworks, adding new frameworks, or changing disclosure requirements.

As part of the first phase of this project, the Board issued a Consultation Paper in March 2023 to obtain feedback from the stakeholders of non-listed entities on current issues with the existing frameworks and potential scalability solutions. The Consultation Paper highlighted the concerns with the frameworks the Board has heard to date and proposed the following as some potential options that could be undertaken to add scalability into the existing Handbook :

1. Incorporate tiering within the existing ASPE and ASNPO frameworks by adding simplified recognition and measurement within selected standards
2. Incorporate tiering within existing ASPE and ASNPO frameworks in the form of reduced disclosure requirements
3. Adding an intermediary accounting framework option between IFRS and ASPE and/or between IFRS and ASNPO
4. Adding a new framework for small entities

The Consultation Paper asked stakeholders to share their feedback on whether any or a combination of these options could be useful and to provide the Board with any other options they believed could be beneficial. The consultation period closed July 31, 2023 and the Board is now analyzing the feedback received before deciding on next steps for this project. We would encourage entities to stay up to date with the latest developments which can be found on the Scaling the Standards project page on the FRAS Canada website.

Exposure Draft - Contributions – Revenue Recognition and Related Matters

Over the past number of years, the AcSB has been working on a project related to contributions as it wants to ensure that the guidance on accounting for contributions in ASNPO continues to be appropriate. The existing contributions guidance in Section 4410, *Contributions – Revenue Recognition,* and Section 4420, *Contributions Receivable,* has remained largely unchanged since it was established over 25 years ago. However, since then the landscape for many NPOs has changed and contribution agreements have become more complex. Additionally, the AcSB has heard from users of NPO financial statements that the current accounting policy choice for recognizing contributions (deferral method or restricted fund method) adds complexity to NPO financial statements and creates a lack of comparability among the financial statements of similar NPOs. On the other hand, preparers of NPO financial statements have informed the AcSB that the accounting policy choice accommodates the diverse needs of NPOs and their users and allows individual NPO's to clearly communicate their operations and results.

The Board has undertaken extensive research over the past few years to gain an understanding of the benefits of, and issues with, the existing contributions guidance. In May of 2020 the Board issued a Consultation Paper seeking input from NPO stakeholders on proposals for updating the contributions guidance. The Board took the feedback it received from the Consultation Paper and from its Not-for-Profit Advisory Committee and developed an Exposure Draft that was issued in March 2023 outlining proposed changes to the existing contributions guidance. The main proposals in the Exposure Draft are as follows:

- A new standard, Section 4411, *Contributions Received by Not-for-Profit Organizations,* would replace existing Sections 4410 and 4420 and would provide guidance on the recognition, measurement, presentation and disclosure of contributions.

- A contribution would continue to be defined as a non-reciprocal transfer to an NPO of cash or other assets or a non-reciprocal reduction, settlement or cancellation of liabilities.
- Unrestricted contributions - would continue to be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured.
- Restricted contributions:
    - The definition of a restricted contributions would be amended to be a contribution subject to an external restriction(s) that meets the following criteria: (a) the restriction has been explicitly communicated between the organization and the contributor; and (b) the restriction requires the resources be used for a designated purpose and/or within a designated period of time.
    - There would be a single approach for recognizing revenue from restricted contributions. Restricted contributions would be recognized in revenue when (or as) the external restriction(s) is met, provided reasonable assurance exists regarding the measurement of the contribution, and collection is reasonably assured.
- Capital asset contributions:
    - A capital asset contribution would be defined as cash or other assets subject to an external restriction(s) requiring that the contribution be used to acquire, develop or construct a capital asset.
    - Capital asset contributions related to assets subject to amortization would be deferred and recognized in revenue on the same basis as the amortization on the related capital asset. Capital asset contributions related to assets not subject to amortization would be recognized as direct increases in net assets.
- Endowment contributions:
    - An endowment contribution would be defined as a type of restricted contribution subject to external restriction(s) specifying that the contribution must be maintained permanently, although the constituent assets may change from time to time.
    - Endowment contributions would be recognized as direct increases in net assets in the period in which the organization is entitles to the contribution provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured.
- Contributed materials and services:
    - Retention of existing accounting policy choice to either: not recognize contributed materials and services in the financial statements, or to recognize them if certain criteria have been met. The criteria for recognition have been revised slightly with the goal of removing previous barriers for organizations that have the information and want to recognize contributed materials and services.
- Pledges and bequests – would be recognized only when the proposed recognition criteria are met for each individual pledge or bequest, including that collection of each individual pledge or bequest is reasonably assured.

- Presentation and Disclosure - Current presentation and disclosure requirement would be carried forward with the addition of some new requirements including:
  - Fund accounting presentation would still be permitted. However, comparative period information for each fund and in total would need to be presented or disclosed in the notes to the financial statements and additional disclosures related to the funds would be required;
  - Presentation of both amortization of deferred capital contributions and revenue from contributed materials and services separately on the statement of operations;
  - Disclosure of the change in the deferred capital contribution balance during the period separately from other deferred contributions;
  - Disclosure of economic dependence on another party when the ongoing operations depend on a significant contribution(s) from that party;
  - Disclosure of information about how an organization manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments. Also disclosing, as applicable, quantitative information about the extent to which the fair value of endowments is less than the amount required by the donor to be maintained permanently;
  - Disclosure of information about requirements related to restricted contributions, including endowment contributions, and the assets available to meet those requirements.
  - Disclosure of qualitative information about the nature of contributed materials and services not recognized in the financial statements, and an organization's dependence on contributed materials and services to achieve its future objectives.

Under the proposals, new Section 4411 and amendments to existing Section 4400, *Financial Statement Presentation by NPOs*, would be effective for fiscal years beginning on or after January 1, 2026, with earlier application permitted. The proposed changes would be applied retrospectively. However, optional transitional relief is proposed for capital asset contributions whereby organizations would not be required to make retrospective adjustments for capital asset contributions that have been recognized in full prior to the beginning of the earliest comparative period presented.

We would encourage NPOS to provide their feedback to the AcSB on these significant proposals by submitting a comment letter, attending a roundtable or completing a short survey prior to the close of the comment period on September 30, 2023. Information on how to respond can be found on the FRAS Canada website or by clicking here. To stay up to date, the latest information on this project can be found on the Contributions project page of the FRAS Canada website.

Exposure Draft - Revenue – Upfront Non-Refundable Fees or Payments

In December 2019, the AcSB issued amendments to Section 3400, *Revenue*, to provide additional application guidance on complex revenue topics, including determining when to recognize revenue from upfront non-refundable fees or payments. The amendments were effective for fiscal years beginning on or after January 1, 2022 and were applicable retroactively. However, as entities started to apply these amendments, the AcSB heard of application challenges, particularly from some member benefit organizations that were concerned about the decision-usefulness of deferring upfront non-refundable fees over long member durations and the associated cost of applying the amendments. Currently some member benefit organizations are not-for-profit organizations that follow ASNPO, while others are for-profit organizations that follow ASPE.

In response to these concerns, the Board initially deferred the effective date of these specific amendments to January 1, 2025 so that it could undertake research on these issues. However, after performing additional research, the Board is planning to issue an Exposure Draft in October 2023 proposing to indefinitely defer the effective date of these specific amendments (with early application still permitted) until its project on Evaluating the Preface of the CPA Canada Handbook is complete, since changes made as a result of that project may impact this issue. The Exposure Draft will also propose a new disclosure requirement for entities recognizing upfront non-refundable fees or payments in revenue entirely up front. We would encourage affected entities to watch for this Exposure Draft, which will be available on the revenue – upfront and non-refundable fees or payments project page of the FRAS Canada website, and provide their feedback on the Board's proposals.

Project – Research Improvements to Section 4450, *Reporting Controlled and Related Entities by NPOs*

The AcSB has undertaken a research project to consider improvements to Section 4450, *Reporting Controlled and Related Entities by Not-for-Profit Organizations*. The purpose of this research is to consider ways to improve transparency for financial statement users when they are reviewing the relationships an organization has with other related and controlled organizations. The research activities are not intended to reconsider the current accounting policy choice NPOs have of consolidating or disclosing controlled entities. To date the research has focused on the determination of control, significant influence and economic interests and ways to improve disclosures. To stay up to date with the latest developments on this project refer to the Research Improvements to Section 4450 project page on the FRAS Canada website.

Project – Insurance Contracts with Cash Surrender Value

During the past year, the AcSB began a project to provide guidance on the recognition and measurement of the cash surrender value of an insurance contract, as currently ASPE does not address accounting for such items. The Board is currently working on an Exposure Draft proposing the development of an accounting guideline that would:

- Require recognition of the cash surrender value of an insurance contract as an asset, which would be measured at the cash surrender amount;
- Require recognition of the annual change in cash surrender amount and policy premiums on a net basis, with a net debit reported as an expense and a net credit reported as income; and
- Establish disclosure requirements to ensure decision-useful information is provided to financial statement users.

The Board plans to issue the Exposure Draft in October 2023. We encourage entities to watch for this Exposure Draft, which will be available on the insurance contracts project page of the FRAS Canada website, and provide their feedback on the Board's proposals.

Conclusion

As we head closer to the end of the year, now is the time to check in with your BDO advisor about how the changes made to the ASNPO Handbook and the projects on the go will affect your organization. Reach out to us today.