

July 31, 2024

www.bdo.ca

Accounting Standards for Non-For- Profit Organizations (ASNPO) Update 2024



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 continued to advance a number of projects, including refining the direction of a project on recognizing revenue from contributions.

Additionally, private sector not-for-profit organizations (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 a new accounting guideline that provides guidance on accounting for cloud computing arrangements and issuing amendments related to revenue recognition of upfront non-refundable fees.

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.

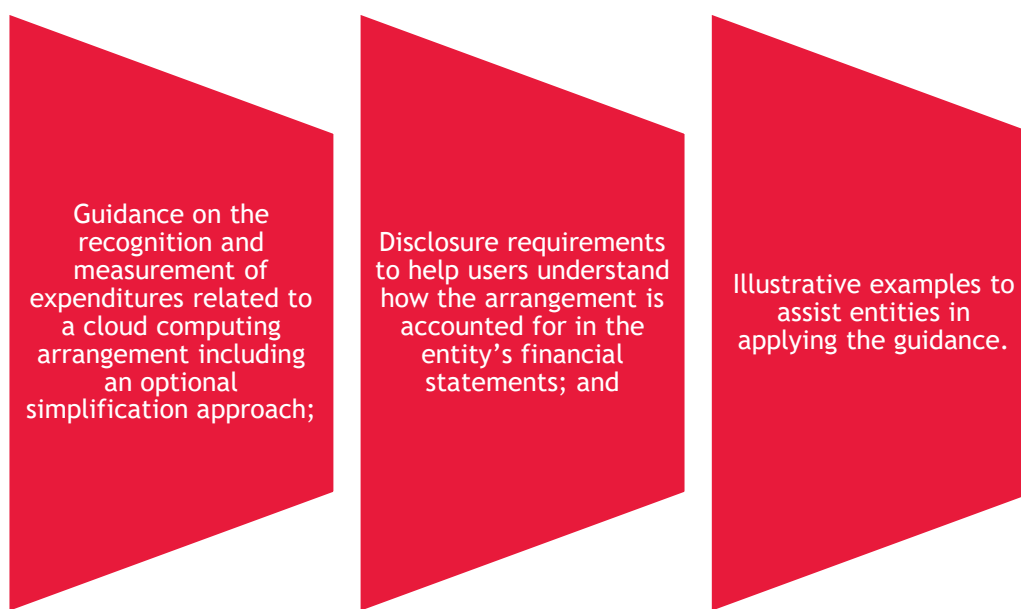
NEW STANDARDS / AMENDMENTS EFFECTIVE FOR FISCAL YEARS BEGINNING ON OR AFTER:	
<u>January 1, 2024</u>	<ul style="list-style-type: none">New Accounting Guideline (AcG)20, Customer’s Accounting for Cloud Computing Arrangements
January 1, 2025	<ul style="list-style-type: none">Amendments to Section 3400, Revenue and Upfront Non-Refundable Fees or Payments
KEY PROJECTS ON THE GO	
	<ul style="list-style-type: none">Project for Revised Exposure Draft - Contributions (Revenue Recognition and Related MattersImprovements to Section 4450, Reporting Controlled and Related Entities by NPOsInsurance Contracts with Cash Surrender ValueSubsequent Measurement of Goodwill and Acquired Intangible AssetsEvaluating the Preface & Detailed Review of ASPE

Standards Effective in 2024

New Accounting Guideline (AcG)20, Customer’s Accounting for Cloud Computing Arrangements

Overview

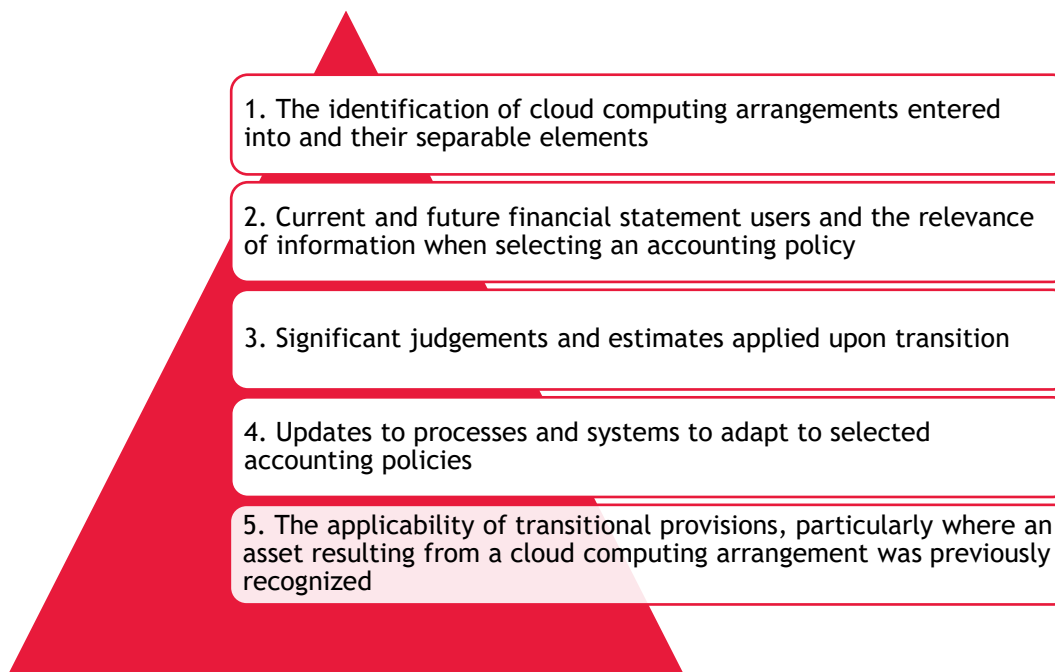
More entities have begun using cloud computing arrangements to access software. These arrangements contain varying contractual terms and the accounting can be complex which has led to diversity in practice and concerns that the accounting outcome for implementation expenditures incurred for an arrangement are not reflective of the economic benefits an entity receives over time. The AcSB heard stakeholders’ concerns and issued Accounting Guideline (AcG) 20, *Customer’s Accounting for Cloud Computing Arrangements*. The new Guideline provides:



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.

Impact to your organization

To implement this change, entities will need to consider:



Resources

For additional information on this new Guideline refer to our [ASPE at a Glance: AcG-20 - Customer's Accounting for Cloud Computing Arrangements](#) publication.

Standards Effective in 2025

Amendments to Section 3400, Revenue and Upfront Non-Refundable Fees or Payments

Overview

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 originally effective for fiscal years beginning on or after January 1, 2022 and were applicable retroactively. However, as entities began preparing 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.

In response to these concerns, the Board initially deferred the effective date of these specific amendments to January 1, 2025. Then in May 2024, after conducting further research and receiving feedback on another Exposure Draft, an amendment was issued to indefinitely defer the effective date of the amendments until the Board's project on Evaluating the Preface ([see below](#)) is complete.

Even though the Board indefinitely deferred the effective date of this additional application guidance, it decided to leave the guidance in Section 3400 in case some entities find it useful and choose to early adopt it.

Additionally, the most recent amendments require an enterprise to disclose the nature and amount of upfront non-refundable fees or payments that are recognized in revenue upon entering into the arrangement. This disclosure requirement is effective for fiscal years beginning on or after January 1, 2025 with early application permitted.

Impact to your organization

Entities should assess whether they are recognizing upfront non-refundable fees or payments in revenue upon entering into the arrangement and if so, start gathering the information that will be required for disclosure under the recent amendments.

Resources

Reach out to your BDO advisor if you have questions on how these amendments may apply to your organization.

Assurance Impact

Applying new and amended standards can be complex and could impact the amount and nature of assurance work required for audited or reviewed financial statements. Your assurance team will be required to gain an understanding of how these changes were applied in your financial reporting including any significant accounting positions and judgments. Reach out to your engagement team as soon as possible to understand the impacts and to prepare for your upcoming year-end.

Projects on the Go

The AcSB also has a number of projects on the go which seek to improve private sector not-for-profit standards to better meet stakeholder needs both now and in the future. The following provides a brief overview of some of these projects.

Project for Revised Exposure Draft - Contributions – Revenue Recognition and Related Matters

Over the past number of years, the AcSB has been working on a project related to recognizing revenue from contributions. The existing contributions guidance in Section 4410, *Contributions - Revenue Recognition*, and Section 4420, *Contributions Receivable*, has remained largely unchanged since it was

established more than 25 years ago. However, since then the landscape for many NPOs has changed and contribution agreements have become more complex. 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 March of 2023, the Board issued an Exposure Draft proposing significant changes to the existing contributions guidance. The Exposure Draft included a proposal to replace the current accounting policy choice to apply the deferral or restricted fund method with a single approach for recognizing revenue from restricted contributions. For a summary of what was included in this Exposure Draft please refer to the “contributions” section of our [Accounting Standards for Not-For-Profit Organizations \(ASNPO\) Update 2023](#) publication.

The AcSB received a significant amount of feedback on the proposals and while a large number of respondents agreed with the proposed single approach for recognizing revenue from restricted contributions, respondents who disagreed raised some compelling arguments. The Board then engaged in additional outreach to further understand these views.

After considering all the feedback received, the Board issued a [Feedback Statement](#) in May 2024 outlining what they had heard and their conclusion that a single approach for recognizing revenue from restricted contributions may not actually meet the diverse needs of the Canadian NPO sector and that the benefits to financial statement users may not exceed the costs to preparers. As a result, the Board plans to continue to allow the accounting policy choice to use either the deferral method or the restricted fund method to recognize revenue from contributions. However, the Board plans to issue a new Exposure Draft that will propose amendments to these two existing methods including:

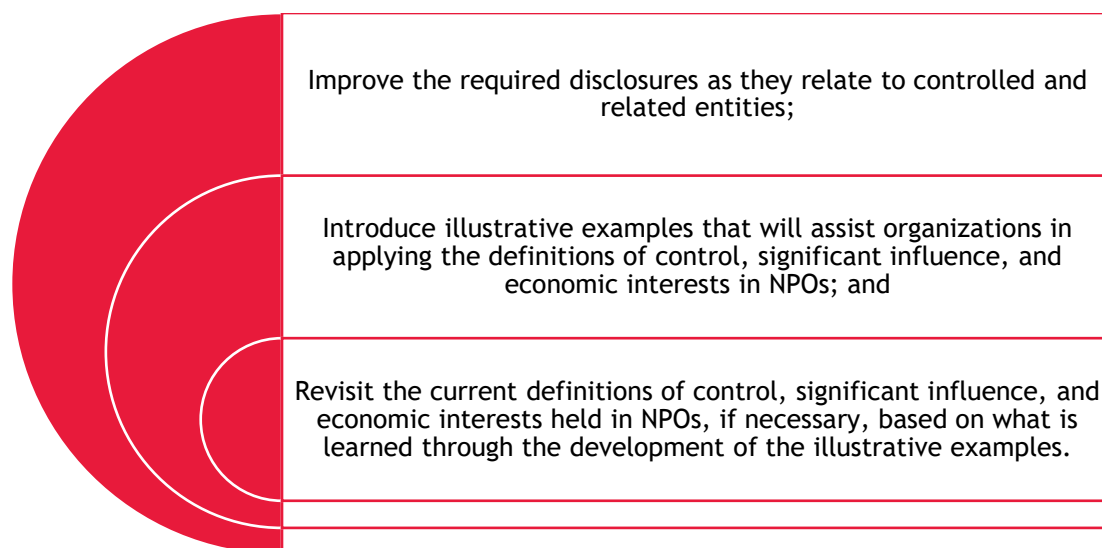


The goal of these amendments will be to improve the quality and understandability of the financial statements through enhanced consistency in the application of the standards.

We would encourage readers to stay up to date on this project and to respond to the Exposure Draft when it is issued in the future. The latest information on this project can be found on the [Contributions project page](#) of the FRAS Canada website.

Project - Improvements to Section 4450, Reporting Controlled and Related Entities by NPOs

Over the past few years, the AcSB has been researching ways to improve transparency for financial statement users when they are reviewing the relationships an NPO has with other related and controlled organizations. In March 2024, the AcSB approved a project to amend Section 4450, *Reporting Controlled and Related Entities*, to:

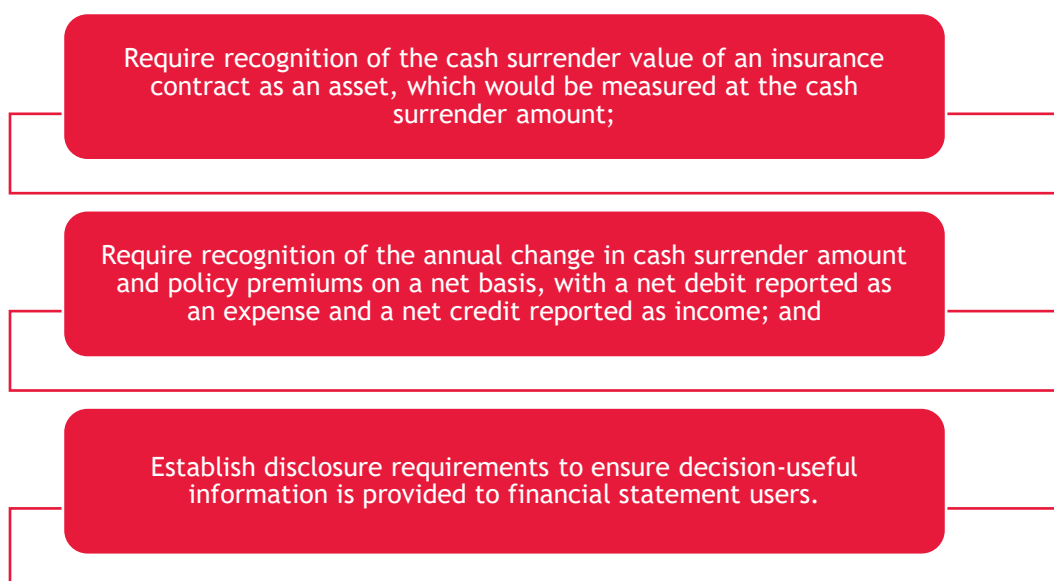


However, this project will not change the current accounting policy choice NPOs have under Section 4450 to either consolidate or disclose controlled NPOs.

The Board is hard at work developing the proposed amendments to Section 4450 discussed above and will seek feedback from interested and affected parties at a future date. To stay up to date with the latest developments on this project refer to the [Improvements to Section 4450 project page](#) on the FRAS Canada website.

Exposure Draft - Insurance Contracts with Cash Surrender Value

In 2022, the AcSB began a project to provide guidance on the recognition and measurement of the cash surrender value of an insurance contract. In November 2023, the Board issued an Exposure Draft to propose the issuance of a new Accounting Guideline (AcG) 21, *Accounting for Life Insurance Contracts with Cash Surrender Value*. The main proposals of AcG-21:



The Board reviewed the feedback received on the Exposure Draft and recently approved AcG-21. It is expected to be issued in the Handbook in Fall 2024 with an effective date of fiscal years beginning on or after January 1, 2026.

Project – Subsequent Measurement of Goodwill and Acquired Intangible Assets

The Board has been made aware of challenges faced by entities related to the recognition of intangible assets acquired in an acquisition and subsequent measurement of goodwill. Challenges include:

- Separating out and estimating the fair value of certain intangible assets acquired in an acquisition; and
- Carrying out goodwill impairment tests.

The Board has also received feedback that financial statement users may not find quantitative information on goodwill and some intangible assets useful.

In response to these concerns, the Board has undertaken a project to better understand the current challenges and information needs of financial statement users. As a part of this project, the Board will consider whether to propose relief from the recognition of intangible assets acquired in an acquisition and/or whether to propose a change to allow for the amortization of goodwill.

The Board conducted public outreach sessions in May and June of 2024 and is currently analyzing the feedback received before deciding next steps. We would encourage entities to stay up to date with the latest developments on this project which can be found on the [Subsequent Measurement of Goodwill and Acquired Intangible Assets project page](#) on the FRAS Canada website.

Projects – Evaluating the Preface & Detailed Review of ASPE

As a part of its 2022-2027 Strategic Plan, the AcSB has undertaken two projects to enhance the relevance of accounting standards:

1. **Evaluating the Preface:** The CPA Canada Handbook - Accounting (Handbook) is made up of four parts (also known 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 CPA Canada 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. 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 and if not whether changes to the Preface are needed.
2. **Detailed Review of ASPE:** Based on feedback received from respondents to its recent Consultation Paper I - Exploring Scalability in Canada, the Board heard that several standards in ASPE are either complex to apply or result in information that is not actually useful to users of financial statements. As a result, the Board has decided to conduct a detailed review of ASPE to identify these reporting requirements and consider practical solutions that increase the understandability and accessibility of the standards for all entities while still meeting user needs. A Consultation Paper is expected to be issued in early 2025. We would encourage entities to stay up to date with the latest developments on this exciting project which can be found on the [Detailed Review of ASPE project page](#) on the FRAS Canada website.

Together these two projects are focused on ensuring the reporting needs of Canadian entities and the users of their financial statements are met by the Preface and the current standard-setting frameworks.

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 Handbook and the projects on the go will affect your organization. Reach out to us today.

About BDO

BDO Canada LLP is a leading provider of professional services to clients across a variety of sectors and segments. For over 100 years, our team has served communities across Canada through a comprehensive range of assurance, tax, and consulting services, complemented by deep industry knowledge. With over 5000 people across 100 offices in Canada, and more than 1,800 offices in 164 countries, BDO is well-positioned to assist clients with both domestic and global needs.

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO member Firms.

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO Canada LLP to discuss these matters in the context of your particular circumstances.

BDO Canada LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it. BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.

