

STAFF PAPER

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Project	FASB/IASB Joint Transition Resource Group for Revenue Recognition		
Paper topic	Whether Contributions are Included or Excluded from the Scope		
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Purpose

1. Some stakeholders informed the staff that there is a question about whether contributions are in the scope of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, and IFRS 15 *Revenue from Contracts with Customers* (collectively referred to as the “new revenue standard”). Some stakeholders have requested the FASB add guidance to the scope of the new revenue standard to explicitly exclude contributions from the scope. This paper includes a summary of the implementation question that those stakeholders have reported to the staff. The staff plan to ask the members of the FASB-IASB Joint Transition Resource Group for Revenue Recognition (TRG) for their input about the implementation question.
2. The topic discussed in this paper is applicable only under GAAP because IFRS does not provide industry-specific guidance for not-for-profit entities.

Background

3. The new revenue standard provides the following guidance on scope:

606-10-15-2 An entity shall apply the guidance in this Topic to all contracts with customers, except the following:

- a. Lease contracts within the scope of Topic 840, Leases.

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b. Insurance contracts within the scope of Topic 944, Financial Services—Insurance.

c. Financial instruments and other contractual rights or obligations within the scope of the following Topics:

1. Topic 310, Receivables
2. Topic 320, Investments—Debt and Equity Securities
3. Topic 323, Investments—Equity Method and Joint Ventures
4. Topic 325, Investments—Other
5. Topic 405, Liabilities
6. Topic 470, Debt
7. Topic 815, Derivatives and Hedging
8. Topic 825, Financial Instruments
9. Topic 860, Transfers and Servicing.

d. Guarantees (other than product or service warranties) within the scope of Topic 460, Guarantees.

e. Nonmonetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Topic would not apply to a contract between two oil companies that agree to an exchange of oil to fulfill demand from their customers in different specified locations on a timely basis. Topic 845 on nonmonetary transactions may apply to nonmonetary exchanges that are not within the scope of this Topic.

4. Some entities have questioned whether contributions are in the scope of the standard because they are not specifically listed in paragraph 606-10-15-2 as exempt from the new revenue standard. The definition of the term *contribution* in the Accounting Standards Codification Master Glossary is:

An unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner. Those characteristics distinguish contributions from exchange transactions, which are

reciprocal transfers in which each party receives and sacrifices approximately equal value; from investments by owners and distributions to owners, which are nonreciprocal transfers between an entity and its owners; and from other nonreciprocal transfers, such as impositions of taxes or legal judgments, fines, and thefts, which are not voluntary transfers. In a contribution transaction, the value, if any, returned to the resource provider is incidental to potential public benefits. In an exchange transaction, the potential public benefits are secondary to the potential proprietary benefits to the resource provider. The term contribution revenue is used to apply to transactions that are part of the entity's ongoing major or central activities (revenues), or are peripheral or incidental to the entity (gains). See also Inherent Contribution.

Question: Are contributions included in the scope of the new revenue standard?

5. The new revenue standard applies to contracts with customers. The term *customer* is defined as a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. A contribution is, by definition, a nonreciprocal transfer. A contribution is not given in exchange for goods or services that are an output of the entity's ordinary activities. Therefore, the FASB staff interpretation is that a contribution is not in the scope of the new revenue standard.
6. Further, paragraph BC28 explains that revenue from transactions or events that do not arise from a contract with a customer is not within the scope of Topic 606, and, therefore, those transactions or events will continue to be recognized in accordance with other Topics. The paragraph lists donations and contributions as examples of nonexchange transactions not in the scope of Topic 606.
7. In conjunction with the issuance of the revenue new standard, a number of conforming amendments were made to the Codification, including amendments to

Subtopic 958-605, Not-for-Profit-Entities-Revenue Recognition (renamed Not-for-Profit-Entities- Revenue Recognition-Contributions). Paragraph 497 of the conforming amendments (which describes amendments to Subtopic 958-605) states:

The following amendments reflect the removal of industry-specific guidance on revenue recognition. However, a portion of Subtopic 958-605 has been retained to provide guidance for revenue not within the scope of Topic 606, that is, guidance on contributions.

8. It is important to note that a not-for-profit entity might enter into transactions other than contributions, such as exchange transactions. A not-for-profit entity should evaluate whether or not transactions that are not contributions are in the scope of the new revenue standard.
9. In determining whether a transaction is in the scope of the revenue model, the FASB staff thinks it might be helpful for entities to evaluate whether the 5 step model practically could be applied to the transaction. For example, if an entity cannot identify promised goods or services to the customer in step 2 of the model or cannot determine if (or when) control of those promised goods or services transfers in step 5 of the model, then those facts might be indications that the transaction is not an exchange transaction with a customer.

Question for the TRG Members

1. Do TRG members agree with the FASB's staff's analysis that contributions are not in the scope of the new revenue standard and that the standard includes adequate guidance to come to this conclusion?