SECTION 1501
first-time adoption by not-for-profit organizations

PURPOSE AND SCOPE

.01 The purpose of this Section is to ensure that an organization's first financial statements prepared using standards in Part III of the Handbook, contain high-quality information that:

(a) is transparent for users and comparable over all periods presented;

(b) provides a suitable starting point for accounting under accounting standards for not-for-profit organizations; and

(c) can be generated at a cost that does not exceed the benefits to users.

.02 An organization applies this Section to its first financial statements prepared in accordance with accounting standards for not-for-profit organizations.

.02A *An organization that applied accounting standards for not-for-profit organizations in a previous reporting period, but whose most recent annual financial statements were not prepared in accordance with accounting standards for not-for-profit organizations, shall apply either:*

(a) this Section; or

(b) accounting standards for not-for-profit organizations retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506*, as if the organization had never stopped applying accounting standards for not-for-profit organizations.*

.02B *When an organization chooses to apply paragraph* 1501.02A*(b), the organization shall nevertheless apply the disclosure requirements in paragraphs* 1501.34A-*.34B, in addition to the disclosure requirements in ACCOUNTING CHANGES, Section* 1506*.*

DEFINITIONS

.03 The following terms are used in this Section with the meanings specified:

(a) The **date of transition to accounting standards for not-for-profit organizations** is the beginning of the earliest period for which an organization presents full comparative information under accounting standards for not-for-profit organizations.

(b) **Deemed cost** is an amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortization assumes that the organization had initially recognized the asset or liability at the given date and that its cost was equal to the deemed cost.

(c) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction, between knowledgeable, willing parties who are under no compulsion to act.

(d) A **first-time adopter** is an organization that presents its financial statements in accordance with accounting standards for not-for-profit organizations for the first time.

(e) An **opening statement of financial position** is an organization's statement of financial position at the date of transition to accounting standards for not-for-profit organizations.

RECOGNITION, MEASUREMENT AND PRESENTATION

Opening statement of financial position

.04 An organization prepares and presents an opening statement of financial position at the date of transition to accounting standards for not-for-profit organizations. This opening statement of financial position is the starting point for the organization's accounting under accounting standards for not-for-profit organizations.

Accounting policies

.05 *An organization shall use the same accounting policies in its opening statement of financial position and throughout all periods presented in its first financial statements prepared using accounting standards for not-for-profit organizations. Those accounting policies shall comply with the accounting policies effective at the end of the year the organization adopts accounting standards for not-for-profit organizations, except as otherwise specified in this Section.*

.06 Except as noted in paragraphs 1501.10 and 1501.23, an organization, in its opening statement of financial position prepared using accounting standards for not-for-profit organizations:

(a) recognizes all assets and liabilities whose recognition is required by the standards;

(b) does not recognize items as assets or liabilities if the standards do not permit such recognition;

(c) reclassifies items that it recognized previously as one type of asset, liability or component of net assets, but are recognized as a different type of asset, liability or component of net assets under the standards; and

(d) applies the standards in measuring all recognized assets and liabilities.

.07 *The accounting policies that an organization uses in its opening statement of financial position prepared in accordance with accounting standards for not-for-profit organizations may differ from those that it used for the same date under its previous accounting policies. Any resulting adjustments arise from events and transactions before the date of transition to accounting standards for not-for-profit organizations. An organization shall recognize such adjustments directly in net assets at the date of transition to accounting standards for not-for-profit organizations.*

.08 *This Section establishes two categories of exceptions to the principle that an organization's opening statement of financial position shall comply with accounting standards for not-for-profit organizations:*

(a) exemptions from some requirements of other standards (see paragraph 1501.10)*;*

(b) prohibited retrospective application of some aspects of other standards (see paragraph 1501.23)*.*

.09 Some of the standards in Part II of the Handbook are of limited or no applicability to not-for-profit organizations either because the topics are specifically addressed in this Part or the standards in Part II relate to transactions or circumstances that do not pertain to not-for-profit organizations. For example, the circumstances contemplated by STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870 in Part II, do not pertain to not-for-profit organizations.

Exemptions from other standards

.10 An organization may elect to use exemptions related to one or more of the following:

(a) business combinations (see paragraph 1501.12);

(b) fair value (see paragraphs 1501.13-.14);

(bb) agricultural inventories or productive biological assets (see paragraph 1501.14A);

(c) employee future benefits (see paragraphs 1501.17-.17A);

(d) cumulative translation differences (see paragraphs 1501.18-.19);

(e) financial instruments (see paragraphs 1501.20-.21);

(f) asset retirement obligations (see paragraph 1501.22);

(g) collections (see paragraph 1501.22A);

(h) revenue (see paragraph 1501.22B); and

(i) customer's accounting for cloud computing arrangements (see paragraph 1501.22C); and

(j) accounting for life insurance contracts with cash surrender value (see paragraph 1501.22D).

An organization shall not apply these exemptions by analogy to other items. [Former paragraph 1501.10, amended by AGRICULTURE, Section 3041, in Part II of the Handbook, retained in Archived Pronouncements.] [Former paragraph 1501.10, amended by REVENUE, Section 3400, in Part II of the Handbook, retained in Archived Pronouncements.] [Former paragraph 1501.10, amended by ACCOUNTING GUIDELINE AcG-20, Customer's Accounting for Cloud Computing Arrangements, in Part II of the Handbook, retained in Archived Pronouncements.] [Former paragraph 1501.10, amended by ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value, in Part II of the Handbook, retained in Archived Pronouncements.]

Business Combinations

(paragraph 1501.11 deleted)

.12 A first-time adopter accounts for a past combination that was accounted for as an acquisition as follows:

(a) The first-time adopter retains the same acquisition classification as in its previous financial statements.

(b) At the date of transition to accounting standards for not-for-profit organizations, a first-time adopter recognizes all its assets and liabilities that were acquired or assumed in a past combination, except for financial assets and liabilities derecognized in prior periods (see paragraph 1501.24). Any resulting change is accounted for by adjusting net assets unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill.

(c) The first-time adopter excludes from its opening statement of financial position any item recognized under previous financial reporting standards that does not qualify for recognition as an asset or liability under accounting standards for not-for-profit organizations. Any resulting change is accounted for by adjusting net assets, unless the change results from an intangible asset that is reclassified as part of goodwill.

(d) If an asset acquired, or liability assumed, in a past combination was not recognized previously, it does not have a deemed cost of zero in the opening statement of financial position. Instead, the acquirer recognizes and measures the item in its consolidated statement of financial position on the basis that the standards would require in the statement of financial position of the acquiree.

(e) The carrying amount of any goodwill in the opening statement of financial position is recognized at its carrying amount in accordance with previous financial reporting standards at the date of transition to accounting standards for not-for-profit organizations, after adjustments from paragraph 1501.12(b)-(d) if the goodwill arose from the acquisition of a for-profit enterprise by a not-for-profit organization. If the goodwill arose from the acquisition of a not-for-profit organization, the goodwill is excluded from the opening statement of financial position and accounted for by adjusting net assets.

   (i) Goodwill arising from a previous acquisition of a for-profit enterprise by a not-for-profit enterprise is increased by the amount of any item recognized as an intangible asset under previous financial reporting standards that does not qualify for recognition as an intangible asset under accounting standards for not-for-profit organizations. Similarly, goodwill is decreased by the amount of any item recognized as an intangible asset under accounting standards for not-for-profit organizations that was not recognized as an intangible asset under previous financial reporting standards but was included in goodwill.

   (ii) Goodwill arising from a previous acquisition of a for-profit enterprise by a not-for-profit enterprise is tested for impairment at the date of transition to accounting standards for not-for-profit organizations in accordance with GOODWILL AND INTANGIBLE ASSETS, Section 3064, if circumstances indicate that the carrying amount of the goodwill may be impaired.

.12A A first-time adopter accounts for a past combination that is accounted for as a merger, by applying the provisions in COMBINATIONS, paragraph 4449.67, at the date of transition to accounting standards for not-for-profit organizations.

Fair value

.13 An organization may elect to measure an item of its tangible capital assets at the date of transition to accounting standards for not-for-profit organizations at its fair value and use that fair value as its deemed cost at that date.

.14 A first-time adopter may have established a deemed cost previously for some or all of its assets and liabilities by measuring them at their fair value at a particular date (for example, a comprehensive revaluation in accordance with COMPREHENSIVE REVALUATION OF ASSETS AND LIABILITIES, Section 1625 in Part II of the Handbook). It may use such fair value measurements as deemed cost for accounting standards for not-for-profit organizations at the date of that measurement.

Agricultural inventories or productive biological assets

.14A A first-time adopter may apply the transitional provisions in AGRICULTURE, Section 3041.

Employee future benefits

(paragraphs 1501.15-.16 deleted)

.17 A first-time adopter may have had an unamortized transitional asset or an unamortized transitional obligation in preparing financial statements using its previous accounting policies. Any such transitional amount is recognized in opening net assets at the date of transition to accounting standards for not-for-profit organizations.

.17A A first-time adopter may apply the transitional provisions in REPORTING EMPLOYEE FUTURE BENEFITS BY NOT-FOR-PROFIT ORGANIZATIONS, Section 3463.

Cumulative translation differences

.18 FOREIGN CURRENCY TRANSLATION, Section 1651 in Part II of the Handbook, requires an organization:

(a) to classify some translation differences as a separate component of net assets; and

(b) on disposal of a foreign operation, to transfer the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) to the statement of operations as part of the gain or loss on disposal.

.19 However, a first-time adopter need not comply with those requirements for cumulative translation differences that existed at the date of transition to accounting standards for not-for-profit organizations. If a first-time adopter uses this exemption:

(a) the cumulative translation differences for all operations are deemed to be zero at the date of transition to accounting standards for not-for-profit organizations; and

(b) the gain or loss on a subsequent disposal of any operation excludes translation differences that arose before the date of transition to accounting standards for not-for-profit organizations and includes subsequent translation differences.

Financial instruments

.20 An organization applies FINANCIAL INSTRUMENTS, Section 3856 in Part II of the Handbook, in its opening statement of financial position for the first year presented in the financial statements for the year of adoption of accounting standards for not-for-profit organizations. Any difference between the recognition and measurement of financial instruments at that date, in accordance with Section 3856, and the prior year's closing statement of financial position is recorded as an adjustment to opening net assets at the date of transition to accounting standards for not-for-profit organizations.

.21 At the date of transition to accounting standards for not-for-profit organizations, an organization is permitted to designate:

(a) any financial asset or financial liability, issued in an arm's length transaction, to be measured at fair value in accordance with FINANCIAL INSTRUMENTS, paragraph 3856.13(a) in Part II of the Handbook;

(b) debt instruments originated or acquired or issued or assumed in a related party transaction to be measured at fair value, in accordance with FINANCIAL INSTRUMENTS, paragraph 3856.13A in Part II of the Handbook, when:

   (i) the instrument is quoted in an active market; or

   (ii) inputs significant to the determination of the fair value of the instrument are observable, either directly or indirectly.

.21A An organization may apply the transitional provisions in FINANCIAL INSTRUMENTS, paragraphs 3856.67-.68 in Part II of the Handbook to financial instruments in related party transactions.

Asset retirement obligations

.22 An organization that has not previously recognized asset retirement obligations on a basis consistent with ASSET RETIREMENT OBLIGATIONS, Section 3110 in Part II of the Handbook, may measure the obligation at the date of transition to accounting standards for not-for-profit organizations and estimate the amount that shall be included in the carrying amount of the related asset based on the original and remaining life of the asset. The difference between the change in the obligation and the change to the carrying amount of the asset is charged to opening net assets at the date of transition to accounting standards for not-for-profit organizations.

Collections

.22A A first-time adopter may apply the transitional provisions in COLLECTIONS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph 4441.24.

Revenue

.22B An organization may apply the transitional provisions in REVENUE, paragraphs 3400.38-.40 in Part II of the Handbook.

Customer's accounting for cloud computing arrangements

.22C A first-time adopter may apply the transition provisions in ACCOUNTING GUIDELINE AcG-20, Customer's Accounting for Cloud Computing Arrangements.

Accounting for life insurance contracts with cash surrender value

.22D A first-time adopter may apply the transition provisions in ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value.

Exceptions to retrospective application of other standards in Part II of the Handbook

.23 This Section prohibits retrospective application of some aspects of other standards in Part II of the Handbook relating to:

(a) derecognition of financial assets and financial liabilities (see paragraphs 1501.24-.25);

(b) hedge accounting (see paragraphs 1501.26-.27);

(c) estimates (see paragraphs 1501.28-.30); and

(d) non-controlling interests (see paragraph 1501.31).

Derecognition of financial assets and financial liabilities

.24 Except as permitted by paragraph 1501.25, a first-time adopter applies the derecognition requirements in FINANCIAL INSTRUMENTS, Section 3856 in Part II of the Handbook, prospectively for transactions occurring on or after the date of transition to accounting standards for not-for-profit organizations. In other words, if a first-time adopter derecognized non-derivative financial assets or non-derivative financial liabilities under its previous reporting, it does not recognize those assets and liabilities under accounting standards for not-for-profit organizations (unless they qualify for recognition as a result of a later transaction or event).

.25 An organization may apply the derecognition requirements in FINANCIAL INSTRUMENTS, Section 3856 in Part II of the Handbook, retrospectively from a date of the organization's choosing, provided that the information needed to apply Section 3856 to financial assets and financial liabilities derecognized as a result of past transactions was obtained at the time of initially accounting for those transactions.

Hedge accounting

.26 As required by FINANCIAL INSTRUMENTS, Section 3856 in Part II of the Handbook, in its opening statement of financial position, an organization:

(a) measures certain derivatives at fair value (see paragraph 3856.12(b)); and

(b) eliminates all deferred losses and gains arising on derivatives that were reported previously as if they were assets or liabilities.

.27 An organization does not reflect in its opening statement of financial position a hedging relationship of a type that does not qualify for hedge accounting under Section 3856 in Part II of the Handbook. If, before the date of transition to accounting standards for not-for-profit organizations, an organization had designated a hedging relationship using criteria that are the same as that in FINANCIAL INSTRUMENTS, paragraph 3856.31, the organization adjusts the carrying amounts of the hedged and hedging items to the amount that would have been recognized had Section 3856 always applied. Transactions entered into before the date of transition to accounting standards for not-for-profit organizations are not retrospectively designated as hedges.

Estimates

.28 *An organization's estimates in its opening statement of financial position prepared using accounting standards for not-for-profit organizations shall be consistent with estimates in its statement of financial position for the same date prepared using its previous accounting policies (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.*

.29 *An organization may receive information after the date of transition to accounting standards for not-for-profit organizations about estimates that it had made previously. An organization shall treat the receipt of that information in the same way as non-adjusting events after the statement of financial position date under SUBSEQUENT EVENTS, Section* 3820 *in Part II of the Handbook.*

.30 *An organization may need to make estimates for purposes of its opening statement of financial position prepared using accounting standards for not-for-profit organizations that were not required for the statement of financial position for that date using its previous accounting policies. Those estimates shall reflect conditions that existed at the date of the opening statement of financial position prepared using accounting standards for not-for-profit organizations.*

Non-controlling interests

.31 A first-time adopter applies the following requirements of NON-CONTROLLING INTERESTS, Section 1602 in Part II of the Handbook, prospectively from the date of transition to accounting standards for not-for-profit organizations:

(a) the requirements in paragraphs 1602.05-.06 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control;

(b) the requirements in paragraphs 1602.09-.12 for accounting for a loss of control over a subsidiary; and

(c) the requirement in paragraph 1602.14 that income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

DISCLOSURE

.32 *In the year of adoption of accounting standards for not-for-profit organizations, an organization shall disclose:*

(a) *the amount of each charge to net assets at the date of transition to accounting standards for not-for-profit organizations resulting from the adoption of these standards and the reason therefor; and*

(b) *a reconciliation of the excess of revenue over expenses reported in the organization's most recent previously issued financial statements to its excess of revenue over expenses under accounting standards for not-for-profit organizations for the same period.*

.33 *The disclosures required by paragraph* 1501.32 *shall give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of operations. If an organization presented a statement of cash flows under its previous accounting policies, it shall explain the material adjustments to the statement of cash flows.*

.34 *When an organization elects to use one or more of the exemptions in paragraph* 1501.10*, it shall disclose the exemptions used.*

.34A *An organization that has applied accounting standards for not-for-profit organizations in a previous period, as described in paragraph* 1501.02A*, shall disclose:*

(a) *the reason it stopped applying accounting standards for not-for-profit organizations; and*

(b) *the reason it is resuming the application of accounting standards for not-for-profit organizations.*

.34B *An organization shall disclose whether it has chosen to apply this Section or ACCOUNTING CHANGES, Section* 1506*, as specified in paragraph* 1501.02A.

EFFECTIVE DATE AND TRANSITION

.35 Except as specified in paragraphs 1501.36-.42, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2012. Earlier application is permitted.

.36 Paragraph 1501.17A, issued in December 2013, applies to annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted.

.37 New paragraph 1501.22A, issued in March 2018, applies to annual financial statements relating to fiscal years beginning on or after January 1, 2019. Earlier application is permitted.

.38 Amendments to paragraph 1501.21 and new paragraph 1501.21A apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

.39 AGRICULTURE, Section 3041, issued in November 2019, added paragraphs 1501.10(bb) and 1501.14A. An enterprise shall apply those paragraphs when it applies Section 3041.

.40 Amendments to paragraph 1501.10 and new paragraph 1501.22B apply to annual financial statements relating to fiscal years beginning on or after January 1, 2022. Earlier application is permitted.

.41 New paragraphs 1501.02A-.02B and 1501.34A-.34B, issued in April 2021, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2022. Earlier application is permitted.

.42 New paragraphs 1501.10(i) and 1501.22C, issued in November 2022, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2024. Earlier application is permitted.

.43 New paragraphs 1501.10(j) and 1501.22D, issued in September 2024, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2026. Earlier application is permitted.

ILLUSTRATIVE EXAMPLE

INITIAL APPLICATION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

This material is illustrative only.

This example illustrates how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of the Section.

Background

Organization A has a calendar year end. Organization A's first reporting period using accounting standards for not-for-profit organizations is December 31, 2012. Therefore, its date of transition to accounting standards for not-for-profit organizations is the beginning of business on January 1, 2011 (or, equivalently, close of business on December 31, 2010). Organization A presented financial statements under its previous GAAP annually to December 31st each year up to, and including, December 31, 2011.

Application of requirements

Organization A is required to apply accounting standards for not-for-profit organizations effective for periods ending on December 31, 2012 in:

(a) preparing and presenting its opening statement of financial position at January 1, 2011; and

(b) preparing and presenting its statement of financial position for December 31, 2012 (including comparative amounts for 2011), statement of operations, statement of changes in net assets, and statement of cash flows for the year to December 31, 2012 (including comparative amounts for 2011) and disclosures (including comparative information for 2011).