

SECTION 4441

collections held by not-for-profit organizations

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PURPOSE AND SCOPE

- .01 This Section deals with accounting for collections held by not-for-profit organizations.
- .02 Works of art, historical treasures and similar items that are not part of a collection are dealt with in INVENTORIES HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 3032, INVESTMENTS, Section 3051 in Part II of the Handbook, TANGIBLE CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4433, or INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4434, based on their intended use.

DEFINITIONS

- .03 The following terms are used in this Section with the meanings specified:
- (a) **Not-for-profit organizations** are entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. A not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.
 - (b) **Collections** are works of art, historical treasures or similar assets that are:
 - (i) held for public exhibition, education or research;
 - (ii) protected, cared for and preserved; and
 - (iii) subject to an organizational policy that requires any proceeds from their sale to be used to acquire other items to be added to the collection or for the direct care of the existing collection.
 - (c) **Cost** is the amount of consideration given up to acquire items making up collections and includes all costs directly attributable to the acquisition of the collection items. For contributed items, cost is deemed to be fair value at the date of contribution plus all costs directly attributable to the acquisition of the collection items.
 - (d) **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.

NATURE OF COLLECTIONS

- .04 Although items meeting the definition of collections exhibit the characteristics of assets set out in FINANCIAL STATEMENT CONCEPTS FOR NOT-FOR-PROFIT ORGANIZATIONS, Section 1001, they are excluded from the definition of capital assets. Collections are made up of items that are often rare and unique. They have cultural and historical significance. Although collections are usually held by museums or galleries, other organizations may also have items that meet the definition of collections. For example, collections for purposes of this Section may include rare books in an organization's library. The regular library materials, however, would not usually meet the definition of collections.
- .05 Organizations holding collections act as custodians for the public interest. They undertake to protect and preserve the collections for public exhibition, education or research. The existence of a policy requiring that any proceeds on the

sale of collection items be used to acquire additional items or for the direct care of the collection provides evidence of the organization's commitment to act as custodian of the collections.

RECOGNITION AND MEASUREMENT

Cost or nominal value

- .06 *Collections shall be recorded on the statement of financial position at either cost or nominal value. Except as specified in paragraph 4441.07, a not-for-profit organization shall account for all collections using the same method. For items contributed to collections, cost is deemed to be fair value at the date of contribution plus all costs directly attributable to the acquisition of the collection items. Fair value may be estimated using market or appraisal values.*
- .07 *When a not-for-profit organization accounts for its collections at cost and cost cannot be reasonably determined for one or more contributed items or collections, the items shall be recorded at nominal value. This does not preclude the remaining items in the organization's collections from being recorded at cost.*
- .08 The cost of collections are made up of:
- (a) the purchase price of acquired items;
 - (b) the fair value of contributed items; plus
 - (c) all other costs directly attributable to the acquisition of the items making up the collections such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation costs and duties.

The cost incurred in protecting and preserving collection items is a repair or maintenance and should be expensed.

- .09 A collection item purchased by a not-for-profit organization at substantially below fair value would be recognized at its fair value with the difference between the consideration paid for the item and fair value reported as a contribution (see CONTRIBUTIONS — REVENUE RECOGNITION, Section 4410).
- .10 For a purchased collection item recorded at nominal value, the difference between the purchase price for the item and nominal value is recognized in the statement of operations. In addition, all other costs attributable to purchase of the collection item are recognized in the statement of operations.

Amortization

- .11 Collections are not subject to amortization due to the nature of collections, which requires an organization to preserve these assets in perpetuity.

Write-downs

- .12 *The value of a collection or collection item that is recorded on the statement of financial position at cost shall be written down whenever events or changes in circumstances indicate that its net carrying amount may exceed its fair value. The net carrying amount of the collection or collection item shall be written down to its fair value or replacement cost. The write-down shall be recognized as an expense in the statement of operations. A write-down shall not be reversed.*
- .13 A not-for-profit organization may choose fair value or replacement cost on an item-by-item basis to measure the write-down of a collection or collection item. Any write-down of a collection is allocated to the items in the collection recorded at cost on a pro rata basis using the relative carrying amounts of those items.
- .14 Examples of events or changes in circumstances that may indicate that the net carrying amount of a collection may exceed its fair value and a write-down is appropriate include, but are not restricted to:
- (a) a significant adverse change in the extent or manner in which it is being used or in its physical condition;
 - (b) a significant adverse change in legal factors or in the operating environment that could affect its value;
 - (c) an accumulation of costs significantly in excess of the amount originally expected for its acquisition or construction; or
 - (d) a significant decrease in its market price when readily determinable.

There may also be other indications that the net carrying amount of a collection may exceed its fair value.

DISPOSAL

- .15 On disposal of items contributed to a collection that are subject to external restrictions, when the net proceeds on disposal exceed the net carrying amount, the difference is recognized in accordance with CONTRIBUTIONS — REVENUE RECOGNITION, Section 4410. On disposal of items in a collection that are not subject to external restrictions, or when the net carrying amount exceeds the net proceeds on disposal, the difference between the net proceeds on disposal and the net carrying amount is recognized in the statement of operations. The net proceeds are the proceeds from disposal less any costs directly attributable to the disposal.

PRESENTATION AND DISCLOSURE

- .16 *The amount recognized as collections shall be presented on a separate line in the statement of financial position.*
- .17 *A not-for-profit organization shall disclose the following:*
- (a) *a description of its collections;*
 - (b) *the accounting policies followed with respect to the measurement of its collections;*

- (c) *details of any significant changes to its collections in the period;*
 - (d) *the amount of expenditures on collection items in the period;*
 - (e) *for an organization that accounts for its collections at cost, a description of any items or collections that are recorded at nominal value in accordance with paragraphs 4441.07 and 4441.24;*
 - (f) *for disposals of collection items:*
 - (i) *the proceeds from any disposals in the period and how the proceeds were used;*
 - (ii) *the amount of any proceeds from prior periods spent during the current period, and how the proceeds were used; and*
 - (iii) *the total amount of proceeds not yet spent at the end of the reporting period, and if not separately presented on the face of the statement of financial position, the caption in the statement of financial position that includes the proceeds not yet spent; and*
 - (g) *in the period in which a write-down is recognized:*
 - (i) *a description of the facts and circumstances leading to the write-down;*
 - (ii) *the amount of the write-down measured using each fair value and replacement cost; and*
 - (iii) *if not separately presented in the statement of operations, the amount of the impairment loss from the write-down and the caption in the statement of operations that includes that loss.*
- .18 A description of the organization's collections may include the number and nature of items held or on display, including their relative significance. For large, diverse collections, such disclosure may take the form of a description by major categories, rather than by individual items.
- .19 Accounting policies related to the measurement of collections may vary from organization to organization. Disclosure of the organization's accounting policies with respect to collections would include whether the collections are recognized in the statement of financial position at cost or at nominal value. This disclosure would also state how contributed and purchased collection items are accounted for.
- .20 Changes in collections resulting from acquisitions and disposals would also be disclosed. The disclosure would include a description of significant items acquired during the period and, where known, the fair values of contributed items. For significant items purchased during the period and recorded at nominal value, if not separately presented on the face of the statement of operations, the disclosure would include the difference between the purchase price and nominal value and the caption in the statement of operations that includes that difference. Also, the disclosure would include a description of significant items sold, given away, damaged, destroyed, lost or otherwise disposed of during the period. For larger collections with many changes to report, the disclosure may be provided by major category, rather than by individual item.
- .21 According to the definition of collections, proceeds from the sale of collection items would be used either to acquire new items for the collection or for the direct care of the collection. In accordance with paragraph 4441.17(f), the organization would disclose how any proceeds on the sale of collection items were used. If not all of the proceeds on sales have been used either to acquire new items for the collection or for the direct care of the collection by the reporting date, the organization would disclose the amount of any proceeds not yet spent and how it plans to use the proceeds. The disclosures regarding the use of proceeds during the period and any proceeds not yet spent may be provided in the form of a reconciliation of the balance of proceeds not yet spent at the beginning and end of the period.
- EFFECTIVE DATE AND TRANSITION**
- .22 This Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2019. A not-for-profit organization applies this Section retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506 in Part II of the Handbook, except as specified in paragraphs 4441.24-.25. Earlier application is permitted.
- .23 A not-for-profit organization can only apply paragraphs 4441.24-.25 when preparing its annual financial statements relating to the first fiscal year in which this Section is effective.
- .24 When a not-for-profit organization applies the accounting policy choice to account for its collections at cost as set out in paragraph 4441.06 and applies this Section for the first time, a not-for-profit organization is permitted to capitalize retrospectively the items in a collection acquired in previous periods and held at the date this Section is applied at their:
- (a) cost or fair value at the date of acquisition; or
 - (b) fair value or replacement cost at the date this Section is first applied.
- A not-for-profit organization uses whichever value is most readily determined.
- When the cost of one or more items in a collection or an entire collection cannot be reasonably determined, the item(s) are recorded at nominal value, which does not preclude the remaining items in the organization's collections from being recorded at cost.
- .25 In accordance with paragraph 4441.12, a not-for-profit organization that applies this Section for the first time is permitted to recognize an adjustment to opening net assets at the date this Section is first applied to reflect partial impairments of collections existing at that date.

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