

SECTION PS 4220 contributions receivable

| TABLE OF CONTENTS | Paragraph |
|--------------------------|-----------|
| Purpose and scope | .01 |
| Definitions | .02 |
| Recognition | .03-.07 |
| Pledges and bequests | .05-.07 |
| Disclosure | .08-.09 |

PURPOSE AND SCOPE

.01 This Section establishes standards for the recognition and disclosure of contributions receivable by not-for-profit organizations. Requirements dealing with revenue recognition appear in CONTRIBUTIONS — REVENUE RECOGNITION, Section PS 4210.

DEFINITIONS

.02 The following definitions have been adopted for purposes of this Section.

(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) A **contribution** is a non-reciprocal transfer to a not-for-profit organization of cash or other assets or a non-reciprocal settlement or cancellation of its liabilities. Government funding provided to a not-for-profit organization is considered to be a contribution.

RECOGNITION

.03 *A contribution receivable should be recognized as an asset when it meets the following criteria:*

(a) *the amount to be received can be reasonably estimated; and*

(b) *ultimate collection is reasonably assured.* [JAN. 2012]

.04 An organization may have reason to expect that a particular contribution is forthcoming, such as when funding is provided under a contractual arrangement. A contribution receivable would be recognized as an asset only if the amount to be received can be reasonably estimated and ultimate collection is reasonably assured. Because of the non-reciprocal nature of contributions, there may be considerable uncertainty surrounding collectibility. When this uncertainty exists, a contribution would not be recognized until the contributed assets have been received. Generally, the further in the future the contributed assets are expected to be received the greater is the uncertainty associated with collectibility.

Pledges and bequests

.05 A pledge is a promise to contribute cash or other assets to a not-for-profit organization. Similar to any other contribution receivable, an uncollected pledge would only be recognized if it meets the criteria in paragraph PS 4220.03. Whether or not a pledge will be collected depends on factors outside the organization's control, such as current economic conditions and the continued goodwill and ability to pay of the individual or entity making the pledge. In many cases, pledges would not meet the criteria for recognition and therefore would not be recognized until the pledged assets are received.

.06 There are circumstances, however, in which pledges would meet the criteria for recognition. Organizations that have large, annual fundraising campaigns may find that they can estimate the realizable value of pledges quite accurately based on historical results. Such organizations may therefore conclude that reasonable assurance exists that a certain proportion of the total amount pledged will be collected and would recognize that proportion before it is collected. An organization would consider whether or not pledges come from recurring sources and the length of time before pledges fall due in order to assess whether there is reasonable assurance with respect to the proportion of outstanding pledges that will be collected. The uncertainty associated with pledges due more than a year from the reporting date would normally be so great as to preclude their recognition.

.07 Bequests are often subject to considerable uncertainty surrounding both the timing of the receipt and the amount that will actually be received. In many cases, the recognition criteria in paragraph PS 4220.03 will not be satisfied and the bequest will not be recognized until it is received.

DISCLOSURE

- .08 *When a not-for-profit organization has recognized outstanding pledges and bequests in its financial statements, the following should be disclosed:*
- (a) *the amount recognized as assets at the reporting date; and*
 - (b) *the amount recognized as revenue in the period.* [JAN. 2012]
- .09 In many cases, pledges will not be recognized until collected because the organization cannot make a reasonable estimate of the amount that will be collected and collection is not reasonably assured. The recognition of pledges outstanding involves a considerable degree of judgment on the part of the organization. Disclosure of outstanding pledges and bequests recognized in the financial statements will help financial statement users to understand the significance of these uncollected amounts to the organization's financial position.
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