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Accounting for joint costs of informational materials and activities of not-for-profit organizations that include a fund-raising appeal; Statement of position 87-2;

American Institute of Certified Public Accountants. Accounting Standards Division

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**Statement of
Position**

87-2

**Accounting for Joint
Costs of Informational
Materials and Activities
of Not-for-Profit
Organizations
That Include a
Fund-Raising Appeal**

August 21, 1987

**Issued by
Accounting Standards Division**

**American Institute of
Certified Public Accountants**

AICPA

NOTE

This statement of position amends chapter 6 of the AICPA Industry Audit Guide, *Audits of Voluntary Health and Welfare Organizations* and paragraph 97 of SOP 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*.

Statements of position of the Accounting Standards Division present the conclusions of at least a majority of the Accounting Standards Executive Committee, which is the senior technical body of the Institute authorized to speak for the Institute in the areas of financial accounting and reporting. Statements of position do not establish standards enforceable under rule 203 of the AICPA Code of Professional Ethics. However, Statement on Auditing Standards (SAS) No. 5, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report*, as amended by SAS No. 43, *Omnibus Statement on Auditing Standards*, identifies AICPA statements of position as another source of established accounting principles the auditor should consider. Accordingly, members should be prepared to justify departures from the recommendations in this statement of position.

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SUMMARY

This statement of position recommends the following: If it can be demonstrated that a bona fide program or management and general function has been conducted in conjunction with an appeal for funds, joint costs of informational materials or activities that include a fund-raising appeal should be allocated between fund-raising and the appropriate program or management and general function. All joint costs of informational materials or activities that include a fund-raising appeal should be reported as fund-raising expense if it cannot be demonstrated that a program or management and general function has been conducted in conjunction with the appeal for funds.

Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal

Introduction

1. Many not-for-profit organizations solicit financial support from the public through a variety of fund-raising activities, including direct mail, door-to-door canvassing, telephone solicitation, telethons, and special events. Some of the costs incurred by such organizations are clearly identifiable with fund-raising, such as the cost of fund-raising consulting services. However, organizations often incur joint costs, such as postage and other communication costs, in distributing materials or performing activities that relate to several functions, including program activities, fund-raising, or other supporting services. It is often difficult to distinguish the amounts of joint costs that relate to each function.

2. This statement of position applies only to joint costs of informational materials and activities that include a fund-raising appeal. Allocations of other joint costs are permitted under existing authoritative literature. Also, this statement of position does not address the issue of how to allocate joint costs. A number of cost accounting techniques are available for that purpose.

3. The American Institute of Certified Public Accountants' Industry Audit Guide, *Audits of Voluntary Health and Welfare Organizations* (Audit Guide) and Statement of Position 78-10, *Accounting Principles and Reporting Practices for Certain Non-profit Organizations* (SOP 78-10), now included in the AICPA Audit and Accounting Guide, *Audits of Certain Nonprofit Organizations*, and in *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations* (industry's Standards)¹ provide some guidance on accounting for joint costs of informational

¹National Health Council, Inc., National Assembly of National Voluntary Health and Social Welfare Organizations, Inc., and United Way of America, *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations*, rev. ed. 1974.

materials and activities that include fund-raising appeals. Numerous requests have been received for further guidance.

Background

4. External users of financial statements, including contributors, creditors, accreditation agencies, and regulators, are concerned with the amounts not-for-profit organizations spend to solicit contributions, as well as with the amounts spent for their program purposes and management and general activities.

5. Not-for-profit organizations subject to the Audit Guide and organizations that follow the recommendations in SOP 78-10 and receive significant amounts of contributions from the public are required, in preparing their financial statements, to report separately the costs of program services, management and general activities, and fund-raising efforts.

6. Though some costs are wholly identifiable with one of those basic functions, others are allocated because they are incurred for more than one function. The allocation usually involves no special accounting problems because cost accounting techniques are available. However, special problems are encountered in allocating joint costs of informational materials and activities that include fund-raising appeals.

7. The industry's Standards provides guidance for voluntary health and welfare organizations. As part of its discussion of joint mailings and other "multiple part" information efforts, the industry's Standards requires a concept called *primary purpose*, in which all joint costs involving fund-raising are charged to fund-raising expense except for those incremental costs directly attributable to a separate educational or other informational material or activity. For example, only the incremental costs of joint mailings, such as the direct costs of an educational pamphlet, are charged to functions other than fund-raising; all other costs, such as postage, are charged to fund-raising expense.

8. The primary-purpose concept was originally adopted in 1964 by the voluntary health and welfare industry in the industry's Standards as a practical solution to a credibility problem that existed then. The industry responded to public criticism by not permitting the

reported costs of fund-raising to be less than they would otherwise be solely because public education efforts were structured in a way that would absorb fund-raising costs. Many believe, however, that the primary-purpose concept may cause fund-raising expense to be misstated.

9. Although less specific than the industry's Standards, page 25 of the Audit Guide indicates that costs of public education should not include costs "that may have some relationship to the function but are primarily directed toward other purposes." Specifically mentioned as a cost normally not charged to public education expense is postage for mass mailing in connection with fund-raising solicitations.

10. Some have interpreted the Audit Guide and SOP 78-10 to be less restrictive than the industry's Standards in the method of allocation of the costs of joint fund-raising and educational programs. The Audit Guide indicates, as part of a discussion of fund-raising costs on page 27, that—

The cost of printed material used should be charged to program service, management and general, or fund-raising on the basis of the use made of the material, determined from the content, the reasons for distribution, and the audience to whom it is addressed.

Paragraph 97 of SOP 78-10 states—

If an organization combines the fund-raising function with a program function (for example, a piece of educational literature with a request for funds), the costs should be allocated to the program and fund-raising categories on the basis of the use made of the literature, as determined from its content, the reasons for its distribution, and the audience to whom it is addressed.

Present Practice

11. Present practice is diverse because of the diverse guidance. Some not-for-profit organizations (for example, organizations that follow the industry's Standards) do not allocate joint costs of informational materials and activities that include fund-raising appeals. They charge only the incremental cost of educational activities and publications to program expenses or management and general expenses and charge joint costs to fund-raising expense.

12. The activities of some not-for-profit organizations raise consciousness and stimulate action or are primarily educational. Many of them allocate joint costs primarily to expenses for educational programs based on intent as determined from the content of the materials distributed or the activities conducted. They argue that primary programs of the organizations are to educate the public and that the actions by the recipients of such materials or activities are essential elements of the organization's program goals.

13. Other organizations allocate joint costs to program expenses, fund-raising expenses, or management and general expenses based on the intended purpose of the material or activity, determined from its content, the reason for its distribution, and the audience to whom it is addressed.

Division's Conclusions

14. The following paragraphs present the Accounting Standards Division's conclusions, which amend chapter 6 of the Audit Guide and paragraph 97 of SOP 78-10.

15. All joint costs of informational materials or activities that include a fund-raising appeal should be reported as fund-raising expense if it cannot be demonstrated that a program or management and general function has been conducted in conjunction with the appeal for funds. However, if it can be demonstrated that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds, joint costs should be allocated between fund-raising and the appropriate program or management and general function.

16. Demonstrating that a bona fide program or management and general function has been conducted in conjunction with an appeal for funds requires verifiable indications of the reasons for conducting the activity. Such indications include the content of the non-fund-raising portion of the activity; the audience targeted; the action, if any, requested of the recipients; and other corroborating evidence, such as written instructions to parties outside the organization who produce the activity, or documentation in minutes of the organization's board of the organization's reasons for the activity.

17. Most fund-raising appeals include descriptions of the causes for which the entities exist and the planned uses of the funds, to

inform prospective donors why funds are needed and how they will be used. Unless an appeal is designed to motivate its audience to action other than providing financial support to the organization, all costs of the appeal should be charged to fund-raising.

18. In order to accomplish their basic missions, some organizations educate the public and seek the involvement of the public in the attainment of their missions by telling people what they can or should do about particular issues. Those organizations should allocate joint costs to program activities if the informational materials or activities further those program goals.

19. Two examples of situations in which it may be appropriate to allocate such joint costs to program activities follow:

- a. A voluntary health and welfare organization describes the symptoms of a disease and the action an individual should take if those symptoms occur.
- b. An organization whose purpose is to raise public awareness alerts individuals to a social or community problem and urges their action in seeking changes.

20. The content of the message is an important factor, but content alone may not be a conclusive indication of the reason for the activity. For example, if an audience is selected principally because of the organization's perception of its need for or interest in the educational information and not for its capacity to support the organization financially, any accompanying fund-raising appeal would appear to be incidental and the joint costs of the educational activity would not be required to be allocated. Conversely, if the audience is selected based on its presumed ability to provide financial support without consideration of its need for the educational information, the purpose would appear to be entirely fund-raising, and all joint costs should be considered fund-raising costs regardless of any accompanying educational message.

21. All circumstances surrounding informational materials and activities that include a fund-raising appeal should be examined, and the criteria in paragraphs 15 through 20 of this statement of position should be applied together rather than separately.

22. Not-for-profit organizations incurring joint costs of informational materials and activities that include fund-raising appeals

should disclose in their financial statements that such costs have been allocated, the total amount allocated during the period, and the portion allocated to each functional expense category. The following illustrates such disclosure.

Note X. Allocation of Joint Costs

In 19XX, the organization incurred joint costs of _____ for informational materials and activities that included fund-raising appeals. Of those costs, _____ was allocated to fund-raising expense, _____ was allocated to Program A expense, _____ was allocated to Program B expense, and _____ was allocated to management and general expense.

Effective Date and Transition

23. The conclusions in this statement of position should be applied to financial statements for fiscal years beginning after December 31, 1987, with earlier application encouraged. The adoption of this statement of position is considered to be a change in the application of generally accepted accounting principles. In the year that this statement of position is first applied, the financial statements should disclose the fact of the change and the effect of the change on the financial statements. Financial statements of prior periods may be, but need not be, restated.

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