SmithSchafer

CASE STUDY

NOT FOR PROFIT ASSOCIATION

SCENARIO:
Trade Association charges $1,000 for an annual membership. Member's dues renew on the anniversary date of each member's original date of joining the Association. Membership includes the quarterly publication, monthly emails related to the industry, access to exclusive content on their website, and a 10% discount to the Association's annual conference.

The Association's quarterly publication discusses and highlights research, issues, and trends of interest to its members and others in the industry. The Association also sells the quarterly publications to non-members for $150 per issue.

The standard cost of the conference is $250 and, based on historical trends, the Association expects 40% of the members to take advantage of the 10% discount and attend the conference. The conference is in October every year.

A new member has joined the Association and paid their $1,000 in dues on June 1, 2019.

STEP ONE - IDENTIFY THE CONTRACT WITH A CUSTOMER

Trade Association is providing members with membership benefits and publication subscription.

STEP TWO - IDENTIFY PERFORMANCE OBLIGATIONS IN THE CONTRACT

What is the total number of Performance Obligations?

Six, because the member benefits from quarterly publications, membership benefits and receives discounts to the conference.

The Association does not regularly sell monthly emails or website access on a standalone basis therefore the member benefits from monthly emails and website access are not distinct and the benefit should be combined into one performance obligation (membership benefits).

Multiple deliveries ≠ multiple performance obligations.

STEP THREE - DETERMINE THE TRANSACTION PRICE

The transaction price is the contract price of $1,000 for a one-year membership, which includes the quarterly publication.

STEP FOUR - ALLOCATION OF TRANSACTION PRICE

The transaction price should be allocated to the performance obligations based on standalone price of each performance obligation.

STEP FOUR – ALLOCATION OF TRANSACTION PRICE

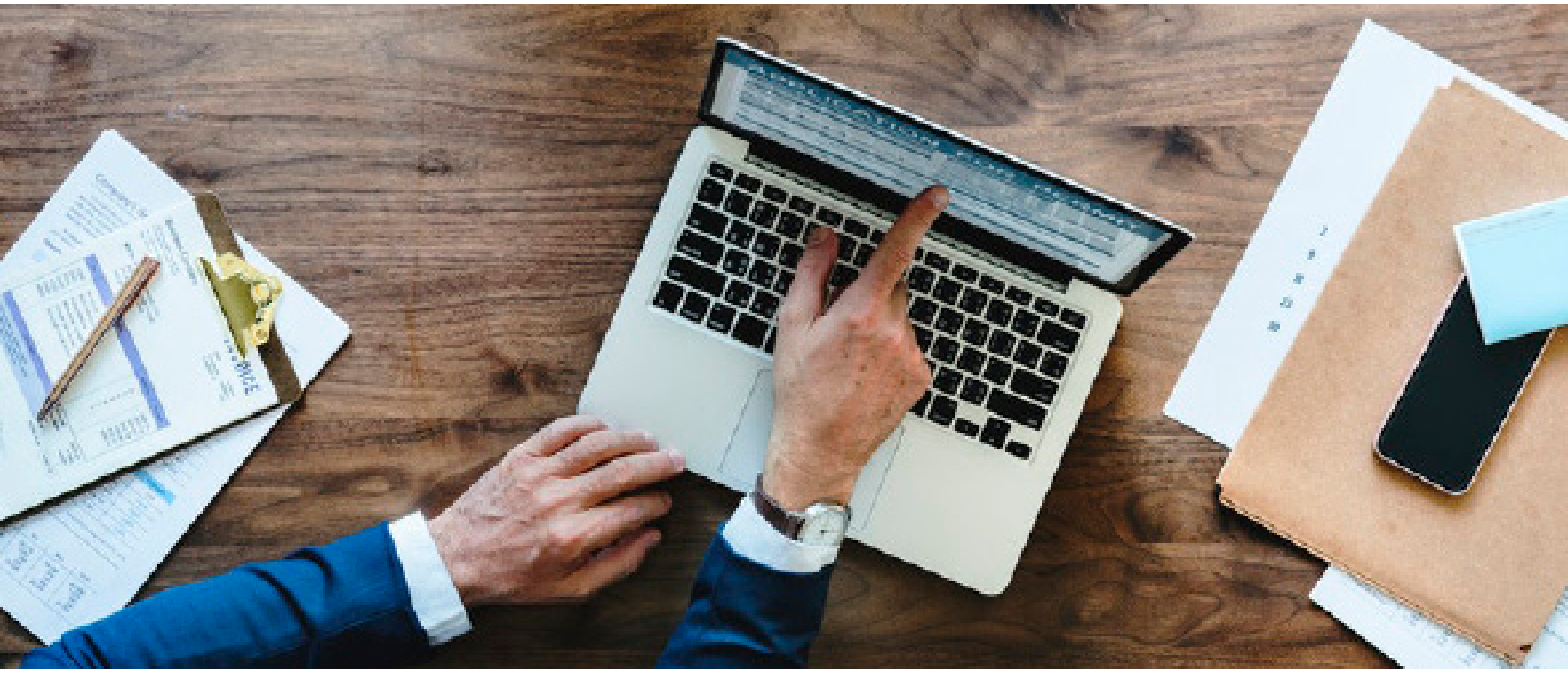
When determining the transaction price we must consider the standalone price of each performance obligation.

	MEMBER FEE	STANDALONE	ALLOCATION
1 Quarterly Publication		$150	$135
2 Quarterly Publication		$150	$135
3 Quarterly Publication		$150	$135
4 Quarterly Publication		$150	$135
5 Membership benefits*		$500	$450
6 Discount to conferences		$10	$10
	$1,000	$1,110	$1,000

*The Association will need to estimate the standalone selling price because there is no directly observable selling price.

Conference registration is $250 per member and the Association expects 40% of members to take advantage of the 10% discount.

Conference registration	$250	
Discount	10%	
Anticipated sale		$25
Likelihood of use		40%
Standalone price of discount		$10



STEP FIVE - RECOGNIZE REVENUE

Below are the required journal entries to recognize the above transactions:

NEW MEMBER JOINS 6/1/2019		
	Debit	**Credit**
Cash	$1,000	
Contract liability		$1,000
Quarterly publication delivered to above customer		
	Debit	**Credit**
Contract liablity	$135	
Membership revenue		$135
The perfomance obligation is satisfied when the publication is shipped to the customer. Will recognize $135 when each quarterly publication is shipped.		
Monthly membership benefit		
	Debit	**Credit**
Contract liability	$37.50	
Membership revenue		$37.50
The member simultaneously receives and consumes the benefits of membership and therefore performance obligation is satisfied over the course of the membership year. Thus, $450 is recognized ratably over the one-year membership period. Above entry recognizes revenue for June but would need to be made each month ($450/12 = $37.50 per month). In practice this entry could be made at the start of each member's year (record 7 months of benefit in June for all new members).		
Member signs up for conference and pays $225 ($250 less 10% discount)		
	Debit	**Credit**
Cash	$225	
Contract liability	$10	
Membership revenue		$10
Conference revenue		$225
Member does not sign up for conference		
	Debit	**Credit**
Contract liability	$10	
Membership revenue		$10
The revenue allocated to the discount on conferences will be recognized with the completion of the conference. **NOTE** - if your membership year ties to your fiscal year, this is all eliminated.		

DO YOU UNDERSTAND THE IMPACT OF THE NEW ACCOUNTING STANDARDS ON YOUR NOT FOR PROFIT ASSOCIATION?