



NO. 07-1

DATE: May 2007

**PURPOSE.** To amend sections of the "*Accounting Manual for Federal Credit Unions*" ("AM-FCU") that address the regulatory accounting practice ("RAP") of recording Donated Equity upon the receipt of tangible fixed asset donations of material value. The AM-FCU provides RAP for credit unions with less than \$10 million in total assets. This bulletin will make the RAP obsolete. This includes Section 500, *Members' Shares and Equity, Donated Equity*, page 27 of the AM-FCU; as well as Section 200, *Accounting Basics for Recording Transactions, Donations*, page 15.

**BACKGROUND.** The Donated Equity account described in the above referenced sections of the AM-FCU has been used by credit unions under \$10 million in assets that wish to account for the receipt of donated fixed assets of material value under RAP. Under this RAP, when a credit union received a tangible fixed asset of material value as a gift or donation, the estimated fair value of such asset at the date of acquisition was recorded by a credit to Donated Equity, a separate classification of the credit union's equity. The offsetting debit was to the appropriate asset account(s) for tangible fixed assets; e.g., furniture and equipment, building, etc. Depreciation of donated fixed assets was charged to expense in each accounting period over the useful lives of the assets in the same manner as for other fixed assets. Donated Equity was then debited and Miscellaneous Income credited by the amount of depreciation expense for the period. Through the period-ending closing process, the result was a transfer from Donated Equity to Undivided Earnings. This approach matched the recognition of contribution income and depreciation expense but at the cost of deferring net worth recognition.

**POLICY.** Credit unions should record the receipt of a gift or donation of a tangible fixed asset of material value as income at the estimated fair value of the assets received. Credit unions should no longer use the Donated Equity account to account for these assets when a credit union receives such donations. The existing AM-FCU practice of recording cash and other immaterial fixed assets as income upon receipt will continue without change.

In recording the fixed asset donation, the credit to income will become part of net income which, when closed into Undivided Earnings, will be included in the calculation of net worth.

## **ILLUSTRATION OF POLICY.**

### *Illustrative Entries*

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a) When a donated, depreciable fixed asset of material value (\$15,000) is received by the credit union:

Dr.-Furniture and Equipment	\$15,000	
Cr.-Income from Contributions		\$15,000

b) When monthly depreciation is recorded (e.g., 60 month estimated useful life):

Dr.-Depreciation of Furniture and Equipment	\$ 250	
Cr.-Allowance for Depreciation of Furniture and Equipment		\$ 250

c) When donated equipment is disposed of by sale: assume a donated asset originally valued at \$15,000 with an accumulated allowance for depreciation of \$2,500 is sold for cash of \$13,000. The entry is:

Dr.-Cash	\$13,000	
Dr.-Allowance for Depreciation of Furniture and Equipment	2,500	
Cr.-Furniture and Equipment		\$15,000
Cr.-Gain (Loss) on disposition of Assets		500

**EFFECTIVE DATE.** This Bulletin is effective upon issuance. Financial statements for the quarters ending after its issuance should be adjusted prior to closing to eliminate all Donated Equity amounts (Miscellaneous Equity on the Call Report). Credit unions should eliminate Donated Equity by closing the balance to Undivided Earnings, i.e., debit Donated Equity with a corresponding credit to Undivided Earnings.

**EXPIRATION DATE.** This Bulletin will expire when superseded or incorporated into the *Accounting Manual for Federal Credit Unions*, whichever occurs first.

David M. Marquis  
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