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Accounting for Gifts-In-Kind

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Accounting for Gifts-in-Kind is a complex area. Tax (typically form 990), GAAP (Generally Accepted Accounting Principles), and “bragging rights” have three separate perspectives. (“Gifts-in-Kind” means donations of something other than cash.)

Another problem is that in most cases, in-kind accounting will throw off your budget comparisons during the year (unless the non-cash transaction is material; and you were counting on it in your budget or it substituted in for cash). Therefore, I recommend keeping a manual list of in-kind donations during the year and then evaluating them at year-end according to the following list, and then figuring out how to manage the GAAP v. Tax differences. This is also easier to delegate – the keeping of the list, because whoever is charged with maintaining the list can just be told, “when in doubt, list it.”

Donated property – recorded for both Tax AND GAAP purposes:

Donated property could include depreciable assets such as a laser printer, or intellectual property (difficult to value) such as a trademark, or consumable supplies such as cases of copy paper. One way to decide if it falls under this heading is to ask yourself if you could potentially turn around and sell whatever was donated. If yes, book it for both GAAP and Tax purposes.

Accounting

If it's a depreciable item, say a \$600 network printer with an estimated life of 3 years:

Donated property (income)		credit 600
Furniture & equipment (asset)	debit 600	
Depreciation (expense)	debit 200	
Accumulated depreciation (contra-asset)		credit 200

If it's a consumable supply, say \$1,000 worth of copy paper (or food for an event, for example):

Donated supplies (income)		credit 1,000
Supplies (expense)	debit 1,000	

You can create the donations as sub-accounts to your main donations line, but you have to keep the non-cash items separate in order to properly respond to Form 990.

Donated professional services – recorded only for GAAP

Tax does not want to hear about donated services because they are so often subject to interpretation and manipulation, and service donors often believe there is a tax deduction coming to them, which is almost never true.

GAAP, on the other hand, wants to draw a clear picture for a reader of the financial statements. GAAP's concern is that someone, such as a banker from whom you want a loan, should be able to read the financials and get a clear idea of how the given enterprise supports itself – if donated services are part of how it gets by, GAAP wants to see that. However, GAAP also recognizes that its inherent in the mission of most nonprofits that there is a substantial amount of voluntary effort by board members and day-to-day volunteers. GAAP wants, therefore, only to see an accounting for services that are generally provided by a

licensed professional, or would have had to have been paid for if not donated (cut-rate audit, pro bono legal services, and the like). So if the services rise to this level, GAAP requires they be booked.

Accounting

Donated professional services (income)	credit 1,000
Professional services (expense)	debit 1,000

Donated gifts other than services – recorded only for GAAP

This would include only things you would have had to pay for but that are not as slippery as professional services. Examples would include donated hotel nights for a visiting speaker or expert, donated conference room and meeting facilities that would otherwise be rented out, possibly donated services in the sense of event catering or decorations.

Accounting

Donated facilities (income)	credit ordinary cash price
Event facilities (expense)	debit ordinary cash price

Donated community effort – only for bragging rights

The energy of people turning out at an action or public event for example, and the substantial contribution of Board member time can often be used in secondary ways, such as on Program Service Accomplishments on the Form 990 (“x-y-z organization rallied 500 people to come to the capital and explain to legislators why a-b-c social problem urgently needed to be solved”). Or perhaps the effort can be counted up and totaled in a grant proposal or annual report. But neither GAAP nor Tax wants to see this type of effort as having monetary value.