Accounting for Collections: Works of Art, Historical Treasures, or Similar Assets

March 26, 2019

Last week, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2019-03, Updating the Definition of Collections. The main provisions of the ASU include:

1. A modified definition of the term collections to expand the policy for use of proceeds from deaccessioned (i.e. sold) collection items to include direct care of existing collections.
2. Required disclosure of an organization’s policy for use of proceeds from deaccessioned collection items including the organization’s definition of direct care if the policy allows such use.
3. Clarification that accounting and disclosure for collections applies to business entities as well as not-for-profit entities.

The ASU should be applied on a prospective basis. It is effective for fiscal years beginning after December 15, 2019 but may be applied earlier.

A Little Background

In June of 1993, FASB issued Statement of Financial Accounting Standards (SFAS) 116, Accounting for Contributions Received and Contributions Made, which, along with SFAS 117, Financial Statements of Not-For-Profit Organizations, made landmark changes to financial reporting of not-for-profit entities. Under SFAS 116, entities holding collections were allowed three options for reporting: capitalize all collection items; capitalize all collection items on a prospective basis as of a specified date; or don’t capitalize any collection items.

FASB defined collections as works of art, historical treasures, or similar assets that met all of the following criteria:

1. They are held for public exhibition, education, or research in furtherance of public service rather than financial gain.
2. They are protected, kept unencumbered, cared for, and preserved.
3. They are subject to an organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections.

At the time, FASB’s definition of collections was consistent with the American Alliance of Museums’ (AAM) Code of Ethics for Museums. However, shortly after issuance of SFAS 116, the AAM amended their definition to allow proceeds to be used for acquisition OR direct care:

Proceeds from the sale of nonliving collections are to be used consistent with the established standards of the museum’s discipline, but in no event shall they be used for anything other than acquisition or direct care of collections.

For over 25 years FASB and AAM have operated under different definitions. This ASU realigns the definitions and prevents collections which are meeting the AAM’s standards from failing to meet FASB’s criteria for prospective capitalization or no capitalization.

FASB declined to prescribe a definition of direct care in the ASU, concluding that the industry should determine what it considers direct care. AAM has a whitepaper on direct care of collections which was updated to reflect FASB’s changes.
Related Resources

Accounting Standards Update No. 2019-03:  

American Alliance of Museums: Code of Ethics for Museums:  

American Alliance of Museums: Direct Care of Collections – Ethics, Guidelines and Recommendations  

We welcome your comments and questions. Please contact your engagement team or mimi.holt@bvcpa.com.

Blazek & Vetterling  |  SERVING THOSE WHO SERVE

2900 Weslayan, Suite 200  
Houston, TX 77027  
713-439-5700