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## Accounting for joint costs of multipurpose informational materials and activities of nonprofit organizations; Issues paper (1981 July 16)

American Institute of Certified Public Accountants. Committee on Nonprofit Organizations

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July 16, 1981  
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ISSUES PAPER

ACCOUNTING FOR JOINT COSTS OF  
MULTIPURPOSE INFORMATIONAL MATERIALS AND ACTIVITIES  
OF NONPROFIT ORGANIZATIONS

Prepared by  
The Committee on Nonprofit Organizations  
Accounting Standards Division  
American Institute of Certified Public Accountants

830319

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## INTRODUCTION

1. Many nonprofit organizations solicit financial support from the public through a variety of fund raising activities. Some costs incurred by such organizations, such as for the purchase of mailing lists for fund raising purposes and for fund raising consulting services, are clearly identifiable with fund raising programs. Organizations often incur costs, however, in distributing materials or performing activities that relate to several functions, including program, fund raising, or other supporting services (joint costs). It is often difficult to distinguish the amounts of joint costs that relate to each function. The American Institute of Certified Public Accountants' Audit Guide, "Audits of Voluntary Health and Welfare Organizations" (Audit Guide) and Statement of Position 78-10, "Accounting Principles and Reporting Practices of Certain Nonprofit Organizations" (SOP 78-10) and the industry prepared "Standards of Accounting and Reporting for Voluntary Health and Welfare Organizations" (Standards) provide some guidance on accounting for joint costs of multipurpose informational materials and activities. There have been numerous requests for further guidance.

## BACKGROUND

2. Users of financial statements, including management, governing boards, contributors, creditors, accreditation agencies, and regulators, are concerned with the amounts nonprofit organizations spend to solicit contributions. Nonprofit organizations covered by the Audit Guide and SOP 78-10 must be able to identify fund raising costs properly and account for them separately from program service costs and other supporting service costs.

3. Nonprofit organizations that are subject to the Audit Guide and organizations that are subject to SOP 78-10 and receive significant support in the form of contributions from the general public are required to allocate costs between program services and supporting services activities (management and general activities and fund raising efforts) in the preparation of their financial statements. Though some costs are wholly identifiable with one of those basic functions, others must be allocated to reflect the purposes for which the costs are incurred. The allocation usually does not involve special accounting problems, since cost accounting techniques are available. However, special problems are encountered in the allocation of joint costs associated with the multipurpose informational materials and activities discussed below.

4. Standards, prepared by a broadly representative industry group, provides guidance for voluntary health and welfare organizations. As part of its discussion of joint mailings and other multiple part information efforts on pages 65 and 66, Standards requires application of a "primary purpose" concept, whereby all joint costs involving fund raising are charged to fund raising expense except for incremental costs directly attributable to the separate educational or other informational material or activity. For example, only the incremental costs of joint mailings, such as the costs of an educational pamphlet, are charged to functions other than fund raising. All other costs for example, postage, are charged to fund raising expense.

5. Though the Audit Guide is less specific than Standards, page 25 of the 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 that normally is not charged to public education expense is postage for mass mailing in connection with fund raising solicitations.

6. Some have interpreted the Audit Guide to be less restrictive than Standards in the application of the primary purpose concept to joint fund raising and educational programs. The Audit Guide indicates, as part of a discussion of fund raising costs on page 25, 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 addressed.

7. Paragraph 97 of SOP 78-10 states that

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 distribution, and the audience to whom it is addressed.

8. The application of the primary purpose concept was adopted by the voluntary health and welfare industry as a practical solution to a credibility problem. By not permitting differences in the reported costs of fund raising due solely to structuring public education efforts in such a way as to absorb fund raising costs, the industry countered public criticism. It has been said, however, that that approach may result in a misstatement of fund raising expense.

PRESENT PRACTICE

9. Present practice is diverse because of the diverse guidance. Some nonprofit organizations, for example, organizations that follow Standards, do not allocate joint costs of multipurpose informational materials and activities that include an appeal for funds. They charge only the incremental cost of educational activities and publications to program expenses or other supporting service expenses and charge all other joint costs to fund raising expense.

10. The activities of some nonprofit organizations are primarily educational or consciousness raising and action stimulating. Many of those organizations allocate joint costs primarily to educational program expenses based on intent as determined from the content of the materials distributed or the activity conducted. They argue that a primary program of the organization is to educate the public and that the actions by the recipients of such material or activity are essential elements of the organization's program goals.

11. Other organizations allocate joint costs to program expenses, fund raising expense, or other supporting service 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. For example, if an organization distributes a five page pamphlet with an educational message on four pages and an appeal for funds on the fifth page, that organization might allocate four fifths of the joint costs to public education program expenses and one fifth to fund raising expense, or it might allocate the joint costs based on an estimate of time spent to develop the educational message compared with time to prepare the entire pamphlet.

ADVISORY CONCLUSIONS

12. The following paragraphs present the conclusions of the Committee on Nonprofit Organizations and are intended as a clarification of Chapter 6 of the Audit Guide.

13. Joint costs of multipurpose informational materials and activities should be allocated to the appropriate program or supporting service functions, as well as fund raising expense, if a bonafide program or supporting service function has been conducted in conjunction with an appeal for funds. Though the the allocation sometimes may be based on criteria that are not entirely objective, allocation is required if not allocating would result in a material misstatement of fund raising expenses.

- Joint costs should be allocated to program activities expenses only if the multipurpose informational materials or activities include public educational messages that are problem and not agency oriented, that is, if they are efforts to tell people what they can or should do about a problem, not what the organization does or can do through its services. For example, public education activities might describe symptoms of ill health or physical or social disorders and progress made in alleviating such problems. The activities might also urge action to be taken by individuals or groups to prevent or alleviate problems. They are therefore directed either to the general public or to special groups that may have a special need or special interest in a problem.



- Joint costs related to materials that are primarily agency oriented messages, for example, describing its activities and enhancing its image, should be allocated to general and administrative expense or some other descriptive expense category under supporting services such as management and general expenses, as for example in an annual report.
- All costs associated with multipurpose materials or activities should be reported as fund raising expense, if it cannot be demonstrated that a program or other supporting service function has been conducted in conjunction with an appeal for funds.
- Nonprofit organizations incurring joint costs of multipurpose informational materials and activities should disclose in its financial statements the policy it follows to account for such costs.

#### Considerations in Allocating Joint Costs

14. The criteria in paragraphs 6, 7, and 13 should be applied together rather than separately, by examining all circumstances surrounding multipurpose materials and activities.

15. Content is an important criterion, but alone may not be conclusive. If a multipurpose informational material or activity contains an educational message directly related to an educational program of the organization, the content may support an education purpose of the joint activity. The reasons for distributing the

material or conducting the activity and the audience to whom it is addressed also should be considered. For example, if the recipients are selected principally on the basis of their perceived need for, or interest in, the educational information, and not for their capacity to support the organization financially, the appeal for funds would appear to be incidental to the distribution of educational information. Conversely if the recipients were selected based on their presumed ability to provide financial support, regardless of their need for the educational information, the nature of the audience may indicate that the reason for distribution was a fund raising appeal.

16. If the recipients were chosen randomly, both an educational and a fund raising purpose of the material or activity may have been served. Recipients may be chosen without regard to either a presumed fund raising potential or need for educational materials, for example, mailings to "occupant" or telephone lists covering a wide area.