Not-for-profit entities must allocate joint costs from combined educational campaigns and fundraising solicitations between program costs and fundraising costs, according to the Financial Accounting Standards Board.

This allocation requirement is stipulated in FASB Accounting Standards Codification Topic 958, Not-for-Profit Entities, and more specifically in FASB ASC 958-720-45.

In addition, the IRS requires that not-for-profit organizations disclose the allocation on Form 990.

These entities may find helpful an overview and refresher of joint costs and what is allowable under U.S. generally accepted accounting principles (U.S. GAAP).

**Joint Activities and Joint Costs**

Membership development activities of not-for-profit entities often may be conducted in conjunction with other activities. In circumstances in which membership development is in part soliciting membership dues and in part soliciting contributions, the activity is a joint activity.

The FASB ASC Master Glossary defines a joint activity as “an activity that is part of the fundraising function and has elements of one or more other functions, such as program, management and general, membership development, or any other functional category used by the entity.”

Joint costs are the costs of conducting joint activities that are not identifiable with a particular component of the activity. Joint costs may include, but are not limited to, the following:

- Salaries
- Contract labor
- Consultants
- Professional fees
- Paper
- Printing
- Postage
- Event advertising
- Telephones
- Airtime
- Facility rentals

For not-for-profit entities that do not have significant joint activities, the additional costs of tracking and measuring joint activities may not be worth the level of effort. These entities should weigh the cost-benefit
to allocating joint costs, especially in primarily fundraising cases in which it might be very difficult to
determine the appropriate allocation of these costs.

Cost Classification Criteria

Classification of costs incurred by not-for-profit entities for joint activities is based on the following
criteria:

- The purpose criterion
- The audience criterion
- The content criterion

These criteria are explained in FASB ASC 958-720-45-31 through 53.

If the joint cost criteria of purpose, audience and content are met, the costs of a joint activity should be
classified as follows:

- The costs that are identifiable with a particular function should be charged to that function.
- Joint costs should be allocated between fundraising and the appropriate program or management and
genral function.

If the joint cost criteria are not met, all costs of the joint activity should be reported as fundraising costs,
including costs that otherwise might be considered program or management and general costs if they had
been incurred in a different activity.

There is an exception to the criteria above. Costs of goods or services provided in exchange transactions
that are part of joint activities, such as costs of direct donor benefits of a special event – a meal, for
example – should not be reported as fundraising.

FASB ASC 958-720-55-2 includes a flowchart that depicts a decision tree for helping to determine whether
not-for-profit entities have joint activities and, if so, how joint costs should be allocated.

Allocation Methods

The cost allocation methodology used should be rational and systematic, it should result in an allocation of
joint costs that is reasonable, and it should be applied consistently given similar facts and circumstances.
However, the FASB does not prescribe specific allocation methods but does provide some examples and
illustrations in paragraphs 25 through 31 of FASB ASC 958-720-55.

There are several methods of joint cost allocation that are commonly used in practice, including:

- Physical units method
- Relative direct cost method
- Standalone joint cost allocation method