
Q&A Section 6400

Health Care Entities

.71 Accounting by a Recipient Entity for Vaccines or Other Pharmaceuticals, Medical Supplies, or Equipment Received for Distribution to Specified Patients²⁶

Background

Circumstances occasionally arise in which health care entities²⁷ receive pharmaceuticals or other items from resource providers²⁸ to distribute to patients participating in right-to-try programs, clinical trials, prescription assistance programs, or other programs designed to distribute pharmaceuticals to patients free of charge. Generally, those items are required to be dispensed by a licensed health care entity only to the specified patient or patients and free of charge to the specified patients. Typically, the arrangements between the provider of the items and the dispensing health care entity do not allow the health care entity to dispense the items to other than the specified patients and also require that if the items cannot be dispensed to the specified patients, they must be either returned to the resource provider or destroyed.

This TQA pertains to the accounting used by health care entities for the receipt of vaccines or other pharmaceuticals, medical supplies, or equipment in such circumstances. This TQA does not address the accounting related to conditional contributions or to the dispensing of the vaccines or other pharmaceuticals, medical supplies, or equipment.

Inquiry — Should a health care entity that receives items free of charge to dispense to specified patients recognize the fair value of the items within their financial statements?

Reply — These transactions generally involve three distinct parties:

- a. a resource provider,
- b. the health care entity receiving custody of the items until they are dispensed, and
- c. the specified patients.

²⁶ Specified patients can include individual patients or categories of patients, for example, when a donor has specified dispensing based on risk categories, age, or geographic locality. This Technical Question and Answer (TQA) does not address assessing whether the specified patients are specified beneficiaries as further discussed in FASB *Accounting Standards Codification* (ASC) 958-605-25.

²⁷ For purposes of this TQA, references to *health care entities* include for-profit health care business entities and nongovernmental not-for-profit health care entities.

²⁸ For purposes of this TQA, the term *resource providers* is intended to be interpreted broadly and includes pharmaceutical companies, federal, state and local governments, as well as government agencies and others.



The health care entity should first consider whether the transaction is an exchange transaction or part of an exchange transaction. If the transaction is an exchange transaction or part of an exchange transaction, the guidance in FASB *Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers*, should be applied.

If, after reviewing the facts and circumstances of the arrangement between the resource provider of the items and the dispensing health care entity, it is determined that the arrangement is a non-exchange transaction, the not-for-profit health care entities receiving transfers from governmental or nongovernmental entities and for-profit health care business entities with transfers from nongovernmental entities should apply the guidance within FASB ASC 958-605, *Not-for-Profit Entities — Revenue Recognition*.

Although there is no specific guidance in U.S. GAAP applicable to for-profit health care business entities for transfers from governmental entities, FASB ASC 105, *Generally Accepted Accounting Principles*, describes the decision-making framework for determining the guidance to apply when guidance for a transaction or event is not specified within U.S. GAAP.²⁹ The AICPA staff has observed that guidance in FASB ASC 958-605 is one method that might be considered for application by analogy by for-profit health care business entities in which the resource provider is a governmental entity. Other methods that might be considered for application by analogy by for-profit health care business entities in which the resource provider is a governmental entity are outside the scope of this TQA.

If the receiving health care entity is in the scope of FASB ASC 958-605 or elects to apply it by analogy, the receiving health care entity will assess whether it has variance power over the donated items and whether it is financially interrelated within the specified beneficiary.

As a general rule, a donor provides resources to a recipient entity (that is, the health care entity) and identifies a third-party donee (that is, a patient) as the beneficiary (as described in FASB ASC 958-605-55-78), and applies the “Transfer of Assets to a Not-for-Profit Entity or Charitable Trust That Raises or Holds Contributions for Others”³⁰ subsection of FASB ASC 958-605 unless the intermediary possesses *variance power*. The FASB ASC Master Glossary defines *variance power* as “the unilateral power to redirect the use of the transferred assets to another beneficiary. A donor explicitly grants variance power if the recipient entity’s unilateral power to redirect the use of the assets is explicitly referred to in the instrument transferring the assets. Unilateral power means that the recipient entity can override the donor’s instructions without approval from the donor, specified beneficiary, or any other interested party.”

FASB ASC 958-605-25-27 states that if a recipient entity and a specified beneficiary are financially interrelated entities and the recipient entity is not a trustee, the recipient entity should recognize a contribution received when it receives assets (financial or nonfinancial) from the donor that are specified for the beneficiary.

The health care entity should be considered to be acting as a principal and should recognize revenue (if a not-for-profit health care entity) or other income (if a for-profit health care business entity) for the contributed nonfinancial asset it received to distribute to specified patients if, after reviewing the facts and circumstances, it is determined that the health care entity has either:

- a. unilateral power to redirect the use of the transferred assets to another beneficiary, other than the specified patients (that is, the health care entity has variance power), or

²⁹ FASB ASC 105-10-05-2 explains that, in the absence of explicit guidance, entities should first analogize to other areas of authoritative generally accepted accounting principles before considering other nonauthoritative sources.

³⁰ Refer to paragraphs 21–33 of FASB ASC 958-605-25.

- b. a financially interrelated relationship with the specified patient.

If the health care entity does not meet either of the above conditions, the health care entity should be considered to be acting as an agent. A health care entity acting as an agent or in a custodial capacity that accept nonfinancial assets are permitted, but not required, to recognize those assets and the corresponding liability, provided that the health care entity consistently applies its accounting policy from period to period and discloses its accounting policy in accordance with FASB ASC 958-605-25-24. If the health care entity determines that it will recognize the assets and the corresponding liability, the facts and circumstances that often surround these transactions, including the lack of marketability or any transferable value, should be considered in determining the fair value of the contributed nonfinancial assets.

If a not-for-profit health care entity determines that the arrangement meets the criteria to be recognized as a contribution, consideration should be given to presentation and disclosure requirements in FASB Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted.

If a for-profit health care business entity determines that the arrangement meets the criteria to be recognized as a grant, consideration should be given to analogizing to FASB ASU No. 2020-07. In addition, in November 2021, the FASB issued ASU No. 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, which is effective for financial statements issued for annual periods beginning after December 15, 2021. Early adoption is permitted. FASB ASU No. 2021-10 requires certain annual disclosure by for-profit health care business entities that analogize to a grant or contribution model to account for transactions with a government (for example, International Accounting Standard 20, *Accounting for Government Grants and Disclosure of Government Assistance*, or FASB ASC 958-605).

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