



REVENUE RECOGNITION CONSIDERATIONS FOR MEMBER-OWNED PRIVATE CLUBS

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1. Introduction and Background

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* to provide a robust framework and comprehensive principles for addressing revenue recognition issues. Additionally, the guidance on accounting for certain costs related to a contract with a customer in the scope of Topic 606 was codified in ASC 340-40, *Other Assets and Deferred Costs – Contracts with Customers (Topic 340-40)*.

The guidance in ASC 606 applies to contracts with customers. As such, it only affects the accounting for revenue transactions entered into by member-owned private clubs (including Common Interest Realty Associations [CIRA's] with significant private club operations) with individuals that meet the definition of a customer.

For additional information and an overview of some of the considerations involved in applying the five steps in the revenue recognition model in ASC 606 to revenue transactions, including subscriptions and membership fees, refer to our white paper, [Revenue recognition for not-for-profit organizations](#).

This white paper includes discussion of the following topics that a member-owned private club may encounter in its application of ASC 606:

- Scope: Customer or owner?
- Scope: Revenue transaction or ownership transaction?

These topics, as well as how a member-owned private club should address the disclosure requirements, are discussed further in the remainder of this white paper, which also includes examples to illustrate certain concepts.

2. Scope: Customer or Owner?

As mentioned earlier, ASC 606 applies to contracts with customers. As such, it only affects the accounting for revenue transactions entered into by member-owned private clubs with individuals that meet the definition of a customer.

Customer is defined in ASC 606-10-15-3 as “a party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration.” As such, contracts with a counterparty other than a customer do not fall within the scope of ASC 606.

Therefore, a key question in determining the scope and applicability of ASC 606 to member-owned private clubs centers on whether the arrangements involve transactions with members in their capacity as customers or transactions with members in their capacity as owners of the club (or in the case of not-for-profit entities, rights and obligations synonymous with owners). This is key, as there are likely instances when the member may be acting as a customer (e.g., purchasing a beverage in the clubhouse), as well as instances when a member may be acting as an owner (e.g., contributing capital to obtain a voting interest in the club or to fund capital improvement projects).

Member-owned private clubs typically have more than one form of membership or more than one type of membership category, each offering different rights or benefits to the members in that category. Given this, a question arises as to how the member-owned private club determines whether members are acting in their capacity as customers or owners. The Master Glossary of the ASC offers the following definitions that clubs should consider, in addition to the definition of customer noted previously, when evaluating this question:

Owners: Used broadly to include holders of ownership interests (equity interests) of investor-owned entities, mutual entities, or not-for-profit entities. Owners include

shareholders, partners, proprietors, or members or participants of mutual entities. Owners also include owner and member interests in the net assets of not-for-profit entities.

Equity Interests: Used broadly to mean ownership interests of investor-owned entities; owner, member, or participant interests of mutual entities; and owner or member interests in the net assets of not-for-profit entities.

An ownership interest in a member-owned private club is typically evidenced in a number of ways, including:

- The member receives a certificate or other form of evidence of membership.
- Members may receive a right to vote on club matters, including the election of board members or the decision to build new facilities or even to dissolve the club.
- In some cases, members may receive a liquidation right should the club dissolve.
- The members may be required to contribute personal capital to fund amenity improvements.
- In some cases, the member may be entitled to a refund of their initiation fee upon leaving the club, subject to certain circumstances. As such, the club issues the exiting member a Form 1099-B, evidencing the sale of stock to the Internal Revenue Service.

Ownership interests in a private club may be represented by the above factors to varying degrees, and clubs should evaluate to which extent their various membership categories consist of club owners. As part of this evaluation, clubs should carefully review relevant documents, such as their bylaws and membership offerings and related membership documents, to determine what has been communicated to members with regards to the nature of their membership.

3. Scope: Revenue Transaction or Ownership Transaction?

Member-owned private clubs should consider whether transactions with their members are revenue transactions or ownership transactions.

Revenue is defined in the Master Glossary of the ASC as “Inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity’s ongoing major or central operations.”

In the case of most member-owned clubs, the vast majority of transactions with members are expected to meet this definition of revenue. This would include the payment of membership dues, payments for food and beverage products and payments for golf and other sporting activities. Upon evaluation of such revenue transactions, clubs may find that applying the ASC 606 five-step revenue recognition model will not significantly change how they currently recognize revenue for these types of transactions.

There are, however, significant membership transactions that member-owned private clubs will need to review further to determine whether they are revenue transactions (and subject to ASC 606) or ownership transactions or a combination of an ownership and revenue transaction. These include primarily initiation fees, which are sometimes referred to as entrance or joining fees, and capital assessments. Capital assessments typically are either ongoing assessments for general capital improvements and replacements or specific assessments for the construction or rebuilding of a significant club amenity, such as a clubhouse, golf course or fitness center.

When determining whether these transactions should be accounted for as revenue transactions or ownership transactions, clubs should review the preceding definition of revenue and determine whether the payments made for initiation fees and capital assessments are amounts received from delivering or producing goods, rendering services or other activities that constitute the club’s ongoing major or central operations. Thus, it is necessary to determine whether the member receives a good or service or an

enhanced right thereto (other than the member's ownership rights) in exchange for the consideration paid.

If a club has determined that initiation fees and capital assessments are being received from members in their capacity as owners rather than customers, such amounts would be considered synonymous with contributions of capital from owners and would not fall within the scope of ASC 606. In the absence of evidence of an ownership interest in the club, such transactions with members would likely be considered revenue transactions and subject to the provisions of ASC 606.

4. Examples



Example 4-1: Initiation fee in exchange for voting interest, liquidation right and membership certificate

Club A receives a \$10,000 initiation fee from a new member. The member receives a voting interest in the club, a liquidation right and a membership certificate. The initiation fee is not used to fund current or future operations of the club and is designated for capital purposes.

Club A might determine that this is a transaction with an owner and the initiation fee is treated as a contribution of capital to the club that is recognized when received and does not fall within the scope of ASC 606.



Example 4-2: Initiation fee with no voting rights

Club B receives a \$5,000 initiation fee from a new member. The member does not receive any voting rights in the club. The initiation fee may be used to fund current or future operations of the club.

Club B will need to determine whether the member is paying an upfront fee for the prospective right of use of the facilities and whether the arrangement falls within the scope of ASC 606. If the initiation fee is determined to be a revenue transaction with a customer, Club B might determine that the revenue should be recognized over the expected length of time the person will remain a member of the club.



Example 4-3: Initiation fee with voting rights but no liquidation right

Club C receives a \$10,000 initiation fee from a new member. The member receives a vote and a membership certificate, but no liquidation right. The initiation fee may be used to fund current or future operations of the club.

Club C should evaluate and determine whether this arrangement is partly an ownership transaction and partly a revenue transaction with a customer. If the arrangement is determined to be a combination of an ownership and revenue transaction, Club C might recognize a portion of the initiation fee immediately as a contribution of capital from an owner and might recognize a portion as revenue over the expected length of time the person will remain a member of the club.

**Example 4-4: Capital assessments**

Club D institutes a capital assessment to pay for a major golf course renovation. The club has two types of members. Regular members are considered ownership members based on the rights they receive, including the right to vote on club matters. Sporting members are not considered ownership members as they do not have the right to vote on club matters.

Regular members pay \$10,000 each for this assessment. Sporting members pay \$5,000 each for this assessment.

Club D should evaluate and determine whether the amounts received from regular members for this assessment are contributions of capital from owners and recognized when received or whether the arrangement is a combination of an ownership and revenue transaction.

Club D should evaluate and determine whether the amounts received from sporting members are transactions with customers. If the arrangement is determined to be a transaction with a customer, Club D might determine that the revenue should be recognized over the expected length of time the person will remain a member of the club.

5. Disclosure Requirements

Many qualitative and quantitative disclosure requirements are included in ASC 606-10-50 and ASC 340-40-50. ASC 606-10-50-1 states the following as the overall disclosure objective of ASC 606 (which is also the overall disclosure objective of ASC 340-40): “The objective of the disclosure requirements in this Topic is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.” In general, entities are required to disclose a variety of information about the contracts they have with customers and significant judgments used in the application of the guidance.

The disclosures required to achieve this objective focus on providing a variety of revenue-related information. Some of the information that must be disclosed is high-level, such as the amount of revenue recognized from customer contracts and the amount of any impairment (or credit) losses recognized on receivables or contract assets related to customer contracts. However, there is also a significant amount of detailed information that must be disclosed annually related to customer contracts, including information about:

- Disaggregated revenue
- Contract assets, contract liabilities and receivables
- Performance obligations
- Transaction price allocated to remaining performance obligations at the end of the reporting period (disclosures required for public entities and elective for nonpublic entities)
- Significant judgments about the timing of satisfying performance obligations
- Significant judgments about the transaction price and the amounts allocated to performance obligations
- Practical expedients (disclosures required for public entities and non-public franchisors, elective for nonpublic entities)

- Capitalized costs related to obtaining or fulfilling a customer contract (disclosures required for public entities and elective for nonpublic entities)

The nature and extent of the required disclosures in each of the preceding categories depends on whether the entity is a public entity (more required disclosures) or nonpublic entity (fewer required disclosures). In addition, while more disclosures are required for annual periods, some disclosures also are required for interim periods. However, when an entity applies ASC 606 and 340-40 in its interim financial statements for one or more interim periods before it applies ASC 606 and 340-40 in its annual financial statements, the entity must provide all the required annual disclosures in those interim financial statements.

Detailed discussion and illustrations of the presentation and disclosure requirements for both public and nonpublic entities are included in Chapters 14 and 15 of [our guide to revenue recognition](#).

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