December 2021

ASPE Section 3400 Revenue

Includes amendmends effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

SCOPE

Applies to:

- Revenue, defined as the inflow of cash, receivables or other consideration, arising in the course of ordinary activities of an enterprise from the sale of goods, rendering of services and the use by others of enterprise resources yielding interest, royalties and dividends.

Does NOT apply to:

a) revenue from investments accounted for under the equity method (see Section 3051)
b) revenue from lease agreements (see Section 3065)
c) revenue from government grants and other similar subsidies (see Section 3800)

MEASUREMENT

- Measurement of revenue is usually determined by an agreement between the parties of the contract at the price to be paid for the goods or services.
- Revenue is recorded net of items such as trade or volume discounts, returns and allowances, claims for damaged goods and certain excise and sales taxes.
- When acting as an agent, amounts collected on behalf of the principal are not revenue. Revenue is the net amount of commission earned.

RECOGNITION

General Recognition Criteria

- The recognition criteria are usually applied separately to each transaction.
- In some circumstances, it is necessary to apply the recognition criteria to separately identifiable components of a single transaction to appropriately reflect the substance of the transaction.
- The recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.
- Revenue from sales and service transactions is recognized when collection is reasonably assured, and performance is achieved when the following criteria are met:

A) Persuasive evidence of an arrangement exists

Revenue cannot be recognized until an agreement has been reached between the seller and the customer about the specific nature and terms of the sale.
Items an entity may consider include:
- Customary business practices;
- Side arrangements;
- Consignment arrangements;
- Rights to return the product; and
- Requirements to repurchase the product.

B) Delivery has occurred, or services have been rendered;

Generally, delivery is not considered to have occurred unless the goods have been delivered to the customer. However, physical delivery may not be required if the risks and rewards of ownership have transferred prior to the delivery of the goods, and the other revenue recognition criteria are met.
Aspects to consider include:
- bill and hold arrangements;
- customer acceptance of product;
- layaway sales arrangements;
- non-refundable fee arrangements; and
- licensing and similar fee arrangements.

C) Sellers' price to the buyer is fixed or determinable

In determining if the seller's price to the buyer is fixed or determinable, an enterprise would consider the impact of the following factors:
- cancellable sales arrangements;
- right of return arrangements;
- price protections and/or inventory credit arrangements; and
- refundable fee for service arrangements.

When uncertainty about ultimate collection exists, which may include returns or when consideration is not determinable (e.g. contingent on resale), it may be appropriate to defer revenue until cash is received or new evidence of collectability arises.

Sale of goods

Further to the general recognition criteria, for the sale of goods, the following criteria must be met:
- Significant risks and rewards of ownership for the goods have been transferred to the buyer.
Consider whether the seller has continuing managerial involvement to the degree usually associated with ownership or effective control over the goods.
- The consideration to be received and extent of returns can be reasonably measured and are reasonably assured.

Rendering of Service and Long-term Contracts

Further to the general recognition criteria, for the rendering of services or long-term contracts, performance shall be regarded as having been achieved when:
- The consideration to be received can be reasonably measured and is reasonably assured.
Revenue is recognized by applying either of the following methods that better reflects the timing of when the work is accomplished (i.e. performance is achieved):
- Percentage of Completion method requires revenue to be recognized over a period of time, as the service is being rendered when performance consists of more than one act.
- Completed Contract method requires revenue to be recognized once all conditions of the arrangement, or all services, have been rendered or substantially rendered when performance consists of a single act, or when the enterprise cannot reasonably estimate the extent of progress toward completion.

Interest, Royalties and Dividends

Revenue arising from the use by others of enterprise resources yielding interest, royalties and dividends shall be recognized when reasonable assurance exists regarding measurement and collectability:
- interest: on a time proportion basis
- royalties: as they accrue, in accordance with the terms of the relevant agreement; and
- dividends: when the shareholder's right to receive payment is established.

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Payment made by a vendor to a customer	Note or Financial Instrument
Cash consideration received by a customer from a vendor is presumed to be a reduction of the prices of the vendor's products or services, and therefore recognized as a reduction of revenue by the vendor while the customer recognizes the consideration as a reduction of cost. Where the consideration is a payment for assets or services delivered to the vendor, the vendor would recognize the consideration as it does for any other purchases if the benefits received are identifiable and the vendor can reasonably estimate the fair value of the benefit. In such circumstances, the customer would recognize the consideration as revenue.	Consideration may include a note or other financial instrument issued by the purchaser to be settled in cash and under the terms of the note the seller has recourse effectively only against the assets sold. Revenue from the sale is only recognized when: (a) there is a substantial commitment by the purchaser demonstrating its intent to honour its obligations under the note; and (b) the seller has reasonable assurance of collecting the note.

PRESENTATION & DISCLOSURE

General Requirements

- The amount of revenue recognized during the period is required to be presented separately in the income statement.
- An enterprise shall disclose separately, either on the face of the income statement or in the notes to the financial statements, the major categories of revenue recognized during the period.
- An enterprise shall disclose its revenue recognition policy for each material type of revenue transaction and each element of a multiple element revenue transaction, including non-monetary (barter) sales.
- Where revenue transactions have multiple elements, the policy may contain items such as a description and nature of such an arrangement, including performance, cancellation, termination or refund-type provisions, and must outline how multiple elements are determined and valued.
- When applying the Percentage of completion method, for each contract in progress at the end of the reporting period, an enterprise shall disclose:
    - the method or methods of measuring the degree of completion;
    - the aggregate amount of costs incurred and recognized profits (less recognized losses) to date;
    - the aggregate amount of advances received;
    - the aggregate amount of holdbacks withheld; and
    - uncertainties affecting the measurement of the degree of completion.

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Amendments to ASPE Section 3400 Revenue

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PURPOSE AND SCOPE

The amendments to Section 3400 provide additional guidance on the following topics:

- Identifying units of account.
- Percentage of completion method.
- Multiple-element arrangements.
- Reporting revenue gross or net.
- Bill and hold arrangements, and
- Upfront non-refundable fees/ payments.
- These amendments are to be applied retrospectively. Transitional relief from full retrospective application has been provided related to identifying units of account, multiple-element arrangements and the percentage of completion method, as well as the new disclosure requirements for the percentage of completion method.

IDENTIFYING UNITS OF ACCOUNT

A group of contracts, which may include several deliverables, is treated as a single contract when the contracts are negotiated in the same economic environment with an overall profit margin objective, constitute in essence a single arrangement with a single customer, are closely interrelated and performed concurrently or in a continuous sequence. Where there are multiple deliverables, at contract inception, the deliverables should be considered a separate unit of account if:

- The arrangement includes a general right of return, the delivery/performance is probable and substantially in control of the vendor; and
- The deliverable(s) have value to the customer on a stand-alone basis.

MULTIPLE-ELEMENT ARRANGEMENTS

Consideration is allocated at the inception of the arrangement to all deliverables on a relative stand-alone selling price basis. The objective here is to allocate the consideration to each deliverable in an amount that depicts the amount of consideration to which the enterprise is expected to be entitled in exchange for the deliverables.
The stand-alone selling price is the price at which an enterprise would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, an enterprise estimates the stand-alone selling price. Examples of estimation methods include:

- Adjusted market assessment approach
- Expected cost plus margin

REPORTING REVENUE GROSS OR NET

To assess whether revenue should be reported gross or net, an enterprise considers whether it acts as principal in the transaction, takes title to the products, has risks and rewards of ownership, such as the risk of loss for collection, delivery or returns or acts as an agent with compensation on a commission or fee basis.

Indicators of gross

- Primary obligation to the customer.
- General inventory risk.
- Latitude in establishing price.
- Credit risk.
- Changes the product or performs part of the service.
- Discretion in supplier selection.
- Involvement in the determination of product or service specifications.
- Inventory risk (after customer order or during shipping).

Indicators of net

- Supplier has the primary obligation to the customer.
- Amount earned is fixed
- Supplier has the credit risk.

PERCENTAGE OF COMPLETION METHOD

Under the percentage of completion method, revenue is recognized based on the amount of work accomplished. The amount of work accomplished may be determined in a variety of ways depending on the nature of the contract.

Input and output measures

- Input measures are made in terms of efforts devoted to a contract. They measure the degree of completion indirectly. Examples include labour hours, labour dollars, machine hours, or material quantities.
- Output measures are made in terms of results achieved. They measure results directly. Examples include units produced, units delivered, and contract milestones.

Revised estimates

Revisions in revenue, cost, and profit estimates or in measurements of the degree of completion are changes in accounting estimates.

Computation of income earned

The portion of total revenue earned, or the total amount of gross profit earned to date is determined by the measurement of the degree of completion of the contract. The computation of income earned for a period involves a determination of the portion of total estimated contract revenue that has been earned to date (earned revenue) and the portion of total estimated contract cost related to that revenue (cost of earned revenue).

Contract costs are costs that relate directly to the specific contract, are attributable to contract activity, or other costs that are specifically chargeable to the customer.
Costs that cannot be attributed to contract activity or cannot be allocated to a contract are excluded from the costs of a contract. These include general administration costs*, selling costs, research, and development*, and amortization of idle plant and equipment that is not used in a particular contract.
*When reimbursement is not specified in the contract.

When it is probable that total contract costs will exceed total contract revenue, the entire expected loss is recognized as an expense immediately.

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BILL AND HOLD ARRANGEMENTS

A product is usually required to be delivered before revenue can be recognized. However, if ALL of the following criteria are met, revenue can be recognized when delivery has not occurred (a bill and hold arrangement):

- The risks of ownership must have passed to the buyer.
- The customer must have made a fixed commitment to purchase the goods.
- The buyer, not the seller, must request that the transaction be on a bill and hold basis, and the buyer must have a substantial business purpose for ordering the goods on a bill and hold basis.
- There must be a schedule for delivery of the goods that is reasonable and consistent with the buyer's business purpose.
- The seller must not have retained any specific performance obligations such that the earning process is not complete.
- The ordered goods must have been segregated from the seller's inventory and not be subject to being used to fill other orders, and
- The product must be complete and ready for shipment.

Other factors to consider

- The date by which the seller expects payment, and whether the seller has modified its normal billing and credit terms for this buyer.
- The seller's past experiences with and pattern of bill and hold transactions.
- Whether the buyer has the expected risk of loss in the event of a decline in the market value of the goods.
- Whether the seller's custodial risks are insurable and insured, and

Whether there are any exceptions to the buyer's commitment to accept and pay for the goods.

UPFRONT NON-REFUNDABLE FEES OR PAYMENTS

Enterprises may negotiate arrangements in which they may receive upfront non-refundable fees or payments upon entering into arrangements or on certain specified dates. Revenue is deferred when the upfront fee is in exchange for products delivered or services performed that have no utility to the buyer separate and independent of the enterprise's performance of the other elements of the arrangement.

Upfront fees and the continuing performance obligation related to the services to be provided or products to be delivered are assessed as an integrated package. These upfront fees, even if non-refundable, are earned as the products and/or services are delivered and/or performed and should be deferred and recognized systematically over the periods that the fees are earned.