

PSAB

At a Glance

Section PS 3400 - Revenue

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Effective Date
Fiscal periods beginning on or after April 1, 2023¹

Scope

Applies to all revenue transactions, except for:

- Contributions that are voluntary and non-reciprocal in nature
- A transfer of economic resources from another public sector entity that are accounted for in accordance with Section PS 3410, *Government Transfers*
- Inflows of economic resources that are accounted for in accordance with Section PS 3510, *Tax Revenue*
- Inflows of restricted economic resources that are accounted for in accordance with Section PS 3100, *Restricted Assets and Revenues*
- Interest, dividends, and changes in the fair value of financial instruments including derivatives or their disposal that are accounted for in accordance with Section PS 3450, *Financial Instruments*
- Revenue from restructuring transactions that are accounted for in accordance with Section PS 3430, *Restructuring Transactions*
- Revenue from investments in partnerships that are accounted for in accordance with Section PS 3060, *Interests in Partnerships*
- Revenue from investments in government business enterprises (GBE's) that are accounted for in accordance with Section PS 3070, *Investments in Government Business Enterprises*

The Section also does not apply to transactions within the scope of Section PS 3380, *Contractual Rights*, or Section PS 3390, *Contractual Obligations*

Exchange transactions

- Are transactions where goods or services are provided to a payor for consideration.
- These transactions include performance obligations for a public sector entity arising directly from a payment or promise of consideration by a payor.
- These transactions are not necessarily exchanges of fair or equal value.



Performance obligations

- Performance obligations are enforceable promises to provide specific goods or services to a specific payor.
 - Enforceable promises create a valid expectation of the payor that the public sector entity will transfer a good or services. They can be written or unwritten.
- Performance obligations must meet the definition of a liability (refer to Section PS 3200).
- At the inception of a transaction, a public sector entity must determine if one or more performance obligations exist. In identifying performance obligations, a public sector entity must consider the characteristics of the goods or services being provided to the payor in exchange for consideration and the specificity of the payor. Performance obligations do not include activities a public sector entity undertakes unless those activities provide a distinct good or services to the payor (refer to paragraphs PS 3400.A2-.A5 for additional guidance).
- When identifying performance obligations related to licenses or permits refer to the guidance in paragraphs PS 3400.A14-.A20.



Distinct goods / services

- At the inception of each transaction, a public sector entity evaluates the goods or services it has promised to provide and identifies which goods or services (or which bundles of goods or services) are distinct and should be accounted for separately (refer to paragraph PS 3400.A6 and .A14-.A15 for examples of goods or services).
- Each distinct good or service would be assigned a performance obligation.
- A good or service is considered distinct if **both** of the following criteria are met:
 - A payor can benefit from the good or service on its own or together with other resources readily available to the payor (i.e. the good or services is capable of being distinct); and
 - The public sector entity's promise to provide the good or service to the payor is separately identifiable from other promises in the transaction (i.e. the promise to transfer the good or service is distinct in the context of the transaction).
- In some cases, the goods or services might be highly interrelated. If that is the case, then these goods or services must be grouped together until there is a bundle of goods or services that is distinct. This bundle would then be assigned a single performance obligation.

Non-exchange transactions

- Are transactions or events where there is no direct transfer of goods or services to a payor.
- These transactions do not contain performance obligations.
- There are two types of non-exchange transactions:
 - Voluntary; and
 - Involuntary (e.g. fines and penalties)
 - Involuntary transactions arise due to the public sector entity having the right to receive economic resources due to legislation based on constitutional or delegated constitutional authority.

¹ This Section applies to fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted. This Section may be applied retroactively or prospectively.

Recognition		
Transactions without performance obligations	Transactions <u>with</u> performance obligations	Hybrid transactions
<ul style="list-style-type: none"> Revenue from transactions with no performance obligations (non-exchange transactions) is recognized when: <ul style="list-style-type: none"> There is authority to claim or retain the economic resources received or receivable; and There is a past transaction or event that gives rise to the economic resources. 	<ul style="list-style-type: none"> Revenue from transactions with performance obligations (exchange transactions) is recognized when OR as the public sector entity satisfies a performance obligation by providing the promised goods or services. A performance obligation is either satisfied at a point in time or over a period of time. <ul style="list-style-type: none"> Identifying the specified goods and services promised and the specified payor will assist in determining when the individual performance obligations are satisfied. A performance obligation is satisfied and revenue can be recognized when control of the benefits associated with the good or service has passed to the payor. Indicators that control has passed to the payor include, but are not limited to, when the payor: <ul style="list-style-type: none"> Has the ability to use or direct the use of, sell or exchange and obtain substantially all of the remaining benefits from the good or service; or Holds the good or service and has the discretion to use it. An assessment must be made as to when control passes. If any of the following indicators <u>are met</u> then control passes to the payor <u>over a period of time</u>: <ul style="list-style-type: none"> The payor simultaneously receives and consumes the benefits provided by the public sector entity's performance as the public sector entity fulfils the performance obligations; The public sector entity's performance creates or enhances an asset that the payor controls or uses as the asset is created or enhanced; The public sector entity's performance does not create an asset with any alternative use to the public sector entity and there is an enforceable right to payment for performance completed to date; The public sector entity is expected to continually maintain or support the goods or services transferred under the terms of an arrangement; or The public sector entity provides the payor with access to a specified good or service under the terms of the arrangement. If the criteria above are <u>not met</u> and performance is not satisfied over a period of time, then control passes and performance is satisfied <u>at a point in time</u> (refer to paragraphs PS 3400.A21-.A32 for additional guidance on distinguishing performance obligations satisfied over a point in time from those satisfied at a point in time). When performance is satisfied over a period of time, a public sector entity recognizes revenue over time by measuring the progress toward complete satisfaction of a performance obligation. An appropriate method that provides a reasonable reflection of progress would be used to measure progress toward completion. This method would be consistently applied to similar performance obligations and similar circumstances. 	<ul style="list-style-type: none"> In some circumstances, a single transaction may contain: <ul style="list-style-type: none"> An element with performance obligations; An element without performance obligations; and/or Another form of revenue that is not in the scope of Section PS 3400 (e.g. a government transfer). When this is the case, the individual elements of the transaction must be separated and each component must be accounted for in accordance with the applicable recognition criteria in Section PS 3400 or the criteria in the relevant standard (e.g. Section PS 3410, <i>Government Transfers</i>).

Principal vs agent
<ul style="list-style-type: none"> The characteristics of a transaction are evaluated to determine if the public sector entity is acting as a principal or as an agent. A public sector entity is acting as an agent when it is arranging for the provision of goods or services to a payor on behalf of another party. The public sector entity is acting as principal when it has control of the goods or services prior to satisfying the performance obligation(s) to the payor. It is also acting as a principal when the amounts collected give rise to an increase in assets or revenues of the public sector entity because it can control the use of and benefit from the amounts collected. Some factors to consider in determining if the public sector entity is acting as principal include, but are not limited to, if the public sector entity: <ul style="list-style-type: none"> Has the primary responsibility for the provision of the goods or services to the payor; Has the inventory risk before or after a payor order, during shipping or on return; Has the discretion in setting the amount charged, either directly or indirectly, for the goods or services; Has discretion and authority to decide how to use the resources; and Is exposed to credit risk for the amount receivable from the payor. If after the assessment it is determined the public sector entity is acting as: <ul style="list-style-type: none"> A principal in a transaction, then it recognizes revenue on a gross basis when/as performance obligation(s) are settled. An agent, then it recognizes revenue on a net basis. Revenue is limited to the commission or fee earned not the full transaction price.

Combining contracts and contract modifications
<ul style="list-style-type: none"> In some cases, an exchange transaction will be dependent on the terms present in two separate contracts. When two or more contracts are entered into at or near the same time with the same payor (or related parties of the payor), they will be accounted for on a combined basis if one or more of the following are met: <ul style="list-style-type: none"> The contracts are negotiated together with a single common purpose; The amount of the consideration to be paid in one contract depends on the price or performance of the other contract; and The goods or services promised in the contracts (or some of the goods or services) are a single performance obligation. Some contracts may contain modifications, which must either be accounted for as part of the original contract or separately from the original contract. A modification exists when the scope, price or both of a contract are changed, but accounting for the modification does not occur until the modification is approved by each party to the contract. An approved modification would be accounted for separately if it affects both: <ul style="list-style-type: none"> The scope of the arrangement due to additional or reduced promised goods or services being promised that are distinct; and The public sector entity's right to receive an amount of consideration that reflects the stand alone selling price of the additional or reduced promised goods or services, and any appropriate adjustments to that price to reflect the circumstances of the agreement. If the remaining goods or services are not distinct, the modification is accounted for as part of the exiting arrangement. When a public sector entity cancels an existing arrangement, the amount of consideration allocated to the remaining performance obligations is the sum of: <ul style="list-style-type: none"> The consideration promised because of the modification; and Any unearned revenue received from the payor or any amounts still owing for performance obligations that have not yet been satisfied.

Measurement

Transactions without performance obligations

- For transactions with no performance obligations, revenue is measured at its realizable value.
- Realizable value represents the future economic benefits expected to be obtained by the public sector entity. This is the amount of cash or cash equivalents into which an asset is expected to be converted in the due course of operations.

Transactions with performance obligations

- A public sector entity must allocate the transaction price to the individual distinct goods and services and their associated performance obligations.
- The transaction price is the amount of consideration a public sector entity expects to receive in exchange for promised goods or services to a payor.
- When determining the transaction price, a public sector entity needs to consider the effects of multiple performance obligations, variable consideration, existence of significant concessionary terms and non-cash consideration.
- As each performance obligation is satisfied, the corresponding portion of the transaction price is recognized as revenue.

Multiple performance obligations

- When a transaction contains more than one performance obligation, the public sector entity must allocate the transaction price.
- When available, the stand alone selling price for the distinct good or service underlying each performance obligation would be used as the basis for the allocation.
 - The stand-alone selling price is the observable price charged for a good or service when the public sector entity sells the good/service in similar circumstances.
- If the stand alone selling price is not readily available, the public sector entity would estimate an amount that faithfully represents the price which that good or service would be sold for separately to the payor.
- Estimation methods that may be used include, but are not limited to:
 - Expected cost - a public sector entity forecasts the expected cost of satisfying the performance obligation and, if applicable, adds an appropriate margin;
 - Residual approach - when the stand-alone selling price is highly variable or uncertain, then it is based on the total consideration less the sum of observable stand-alone selling prices; or
 - Adjusted market assessment - a public sector entity evaluate the market in which it sells goods or services and estimates a price that a payor would be willing to pay.

Variable consideration

- Consideration can be variable for many reasons such as discounts, rebates, incentive programs or price concessions. Consideration can also depend on the occurrence or non-occurrence of a future event.
- In order for a transaction to be recognized, a reasonable estimate must be able to be made of the amount involved.
- Some methods to determine a reasonable estimate include applying either:
 - The expected value method - this is the sum of probability-weighted amounts in a range of possible consideration amounts. It is appropriate in circumstances where there is a large number of contracts with similar characteristics; or
 - The most likely amount - this is the single most likely amount in a range of possible amounts.
- The most appropriate estimation method would be chosen at inception and applied consistently throughout the term of the arrangement.
- A refund liability is the amount of consideration received or receivable that a public sector entity does not expect to be entitled to.
- A public sector entity would recognize a refund liability if it expects to refund some or all of the consideration received from a payor. The liability would be updated at the end of each reporting period.
- Professional judgement would be used to determine the likelihood of having to provide a refund and any refund liability would be based on the public sector entity's best estimate considering past events, current conditions and all circumstances known at the date the financial statements are prepared.
- Refer to paragraphs PS 3400.A33-.A34 for additional guidance on variable consideration.

Significant concessionary terms

- Transactions with significant concessionary terms are rare situations where a public sector entity enters into an arrangement with a specific payor who receives advantageous terms and conditions that another payor does not receive for a similar transaction.
- Each transaction must be assessed at inception to determine whether it contains any significant concessionary terms.
- In such situations, all or a significant portion of the transaction price is in substance a grant and the transaction price needs to reflect the amount the public sector entity expects to earn.
- Measurement of the transaction must reflect the best estimate based on the terms of the transaction at each reporting date.
- A present value technique may be used to quantify the portion of the transaction price that is, in substance, a grant.

Non-cash consideration

- In situations where the public sector entity receives or expects to receive non-cash consideration in exchange for promised goods and services, the transaction price is the fair value of the goods or services received adjusted by the amount of any cash or cash equivalents transferred.
- If the transaction occurs between commonly controlled entities refer to Section PS 3420, *Inter-Entity Transactions*, for measurement guidance.

Presentation

- Disaggregated revenues are reported on the Statement of Operations by source and type.

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