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Accounting Standards for Private Enterprises (ASPE)

December 2014

Revenue on a page

This publication is intended to provide readers with a summary of the main recognition, measurement, presentation and disclosure requirements for Section 3400 *Revenue* in the Accounting Standards for Private Enterprises (ASPE) in Part II of the CPA Canada Handbook—Accounting. Readers are always encouraged to refer to the specifics in the Handbook section before making any decisions.

For more information about this topic, please contact your Grant Thornton adviser. If you do not have an adviser, please [contact us](#). We are happy to help.

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Five-step revenue recognition assessment model

Five-step revenue recognition assessment model	
	<ol style="list-style-type: none"> 1. Consider whether separate contracts or transactions should be evaluated together as one arrangement or if one contract or transaction should be bifurcated into separate arrangements. 2. Identify the elements or deliverables of the arrangement. 3. Determine whether the elements or deliverables identified in step 2 are one unit of account or multiple units of account. 4. Allocate the consideration to the individual units of account. 5. Determine the appropriate manner and timing of revenue recognition for each unit of account.

Revenue recognition: sale of goods

Revenue is recognized once performance is achieved <u>and</u> ultimate collection is reasonably assured	
	<p>Performance is achieved when</p> <ul style="list-style-type: none"> • the seller has transferred the significant risks and rewards of ownership to the buyer by <ul style="list-style-type: none"> ○ completing all significant acts; ○ retaining no continuing managerial involvement in, or effective control of, the goods transferred; <u>and</u> • reasonable assurance exists regarding <ul style="list-style-type: none"> ○ measurement of the consideration; ○ the extent of returns.

Revenue recognition: rendering of services and long-term contracts

Revenue is recognized when performance is achieved <u>and</u> ultimate collection is reasonably assured					
	<p>Performance is achieved</p> <ul style="list-style-type: none"> • as the work is accomplished—using either the percentage of completion method or the completed contract method, <u>and</u> • when reasonable assurance exists regarding measurement of the consideration. 				
<p>Percentage of completion method vs. completed contract method → It is NOT an accounting policy choice!</p>					
	<table border="1" style="width: 100%;"> <thead> <tr> <th style="background-color: #e0e0e0; text-align: center;"><u>Percentage of completion method</u></th> <th style="background-color: #e0e0e0; text-align: center;"><u>Completed contract method</u></th> </tr> </thead> <tbody> <tr> <td style="width: 50%;"> <ul style="list-style-type: none"> • Use when performance consists of the execution of more than one act • Recognize revenue on a rational and consistent basis </td> <td style="width: 50%;"> <ul style="list-style-type: none"> • Only use when performance consists of the execution of a single act <u>or</u> when the entity cannot reasonably estimate the extent of progress toward completion • Recognize revenue when the sale of goods or rendering of services under the contract is completed </td> </tr> </tbody> </table>	<u>Percentage of completion method</u>	<u>Completed contract method</u>	<ul style="list-style-type: none"> • Use when performance consists of the execution of more than one act • Recognize revenue on a rational and consistent basis 	<ul style="list-style-type: none"> • Only use when performance consists of the execution of a single act <u>or</u> when the entity cannot reasonably estimate the extent of progress toward completion • Recognize revenue when the sale of goods or rendering of services under the contract is completed
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Performance is achieved

Performance is achieved	
	<p>Performance is regarded as being achieved (for both sale of goods and rendering of services and long-term contracts) when <u>all</u> of the following criteria have been met:</p> <ul style="list-style-type: none"> • persuasive evidence of an arrangement exists; • delivery has occurred or services have been rendered; <u>and</u> • the sellers' price to the buyer is fixed or determinable.

Other revenue recognition

Interest, royalties and dividends	
	<p>When it is probable that the economic benefits will flow to the entity and the amount can be measured reliably, revenue is recognized as follows:</p> <ul style="list-style-type: none"> • interest—on a time proportion basis • royalties—on an accruals basis in accordance with the substance of the relevant agreement • dividends—when the shareholder's right to receive payment is established

Don't forget to consider the effect of uncertainties on revenue recognition (collection and measurement)
Gross versus net reporting

Include in revenue **only** the economic benefits received/receivable by the entity on its own account. Do **not** include in revenue the gross amounts received as an agent (as they do not increase the equity of the entity); only the amount of commission received as the agent is recognized as revenue. Indicators that an entity is **acting as a principal** (i.e. has exposure to the significant risks and rewards) include when the entity

- has primary responsibility for providing the goods or services to the customer or for fulfilling the order;
- has inventory risk before or after the customer order, during shipping or return;
- has latitude in establishing prices, either directly or indirectly; **and**
- bears the customer's credit risk for the amount receivable from the customer.

An indicator that an entity is **acting as an agent** is that the amount the entity earns is predetermined (i.e. either as a fixed fee per transaction or a stated percentage of the amount billed to the customer).

Payments by a vendor to a customer
Accounting by the customer

If cash consideration is a **payment for assets or services** delivered by the customer to the vendor, the customer **recognizes it as revenue**. Those assets and services delivered to the vendor by the customer must

- have an identifiable benefit separate from the purchase from the vendor;
- be a transaction the vendor would have entered into with a third party; **and**
- have a fair value that can be reasonably estimated.

If the consideration paid is greater than the estimated fair value of the benefit (i.e. products or services received), the excess is recognized as a reduction of cost of sales and related inventory.

The cash consideration is a **reimbursement of costs incurred by the customer to sell the vendor's products** if it is a reimbursement of specific, incremental, identifiable costs incurred in selling the vendor's products or services.

If the consideration paid by the vendor is greater than the costs being reimbursed, the excess is recognized as a reduction of cost of sales.

Otherwise, the cash consideration is presumed to be a **reduction of the purchase price** of the items the customer received.

Accounting by the vendor

The consideration is treated as a reduction of the selling price and shown as a **reduction of revenue unless**

- the vendor receives an identifiable benefit (i.e. products or services) in exchange for the consideration; **and**
- the entity can reasonably estimate the fair value of those products and services.

In that case, if the consideration paid by the customer is greater than the estimated fair value of the benefit received (i.e. products and services), the excess is recognized as a reduction in revenue.

Presentation and disclosure

- Present revenue recognized separately in the income statement. Revenue must also be disclosed by major category in the income statement or notes.
- Disclose the revenue recognition policy for each type of material transaction.
- Where there are transactions with multiple elements, disclose the accounting policies used for each unit of account and explain how multiple elements are determined and valued. The policy may include the description and nature of the arrangement, including performance, cancellation, termination or refund-type provisions.