



Advisor alert

ASPE – Accounting Standards Board proposes amendments to revenue recognition standard

June 2019

Overview

The Canadian Accounting Standards Board (AcSB) issued an [Exposure Draft](#) (ED) which proposes amendments to Section 3400 *Revenue* in Part II of the CPA Canada Handbook – Accounting – Accounting Standards for Private Enterprises (ASPE). The proposed amendments, which are related to recognition, measurement and disclosure of revenue, were issued in response to stakeholder concerns regarding the lack of guidance in ASPE concerning accounting for revenue recognition.

The AcSB indicated that the proposed amendments are not intended to significantly change existing practice or cause enterprises to exert undue effort when accounting for revenue recognition. Rather, the AcSB's intention is to reduce diversity in practice and provide preparers with sufficient guidance in the following areas:

- Percentage of completion method of recognizing revenue from services and long-term contract ;
- Multiple element arrangements;
- Reporting revenue gross versus net;
- Bill and hold arrangements; and
- Upfront non-refundable fees or payments.

The proposed amendments will apply to private enterprises and not-for-profit organizations that apply Section 3400 in ASPE when accounting for revenue from exchange transactions.

The comment period for the ED ends on July 31, 2019 and a final standard is expected to be released in late 2019. The effective date is expected to be no earlier than fiscal years beginning on or after January 1, 2021.

Summary of the Proposals

Percentage of completion method of recognizing revenue from services and long-term contracts

Under the percentage of completion method, revenue is recognized based on the amount of work accomplished. The proposed amendments add guidance on how to:

- determine when contracts should be combined or segmented for purposes of revenue recognition;
- determine the percentage of completion, including which costs should be included in or excluded from contract costs;
- account for earned revenue, costs of earned revenue and contract costs incurred but not yet expensed; and
- account for expected contract losses.

We expect that the amendments may result in some changes in existing practice for some enterprises.

Multiple element arrangements

The proposed amendments add guidance to assist with:

- assessing which deliverables in a contract should be accounted for as a separate unit of account, and
- allocating revenue to each unit of account.

The new guidance would not conflict with the existing principles in Section 3400 and are intended to increase consistency in accounting treatment.

Reporting revenue gross or net

Based on discussions with stakeholders, the AcSB felt that Section 3400 needs additional guidance to assist in assessing when a private enterprise should account for its revenue gross (when it is the principal in the transaction) or net (when it is acting as an agent). The proposed amendments provide a list of indicators that an enterprise would consider when making the assessment. Examples of factors that an enterprise would consider include whether it: is acting as the primary obligor, has inventory risk, can establish the selling price, and/or has credit risk.

Bill and hold arrangements

Currently, Section 3400 lists bill and hold arrangements as a factor to consider when assessing whether the revenue recognition criteria are met. The proposed amendments add specific criteria for an enterprise to consider when assessing whether delivery has occurred in bill and hold arrangement situations. Some of the criteria that would need to be met include that:

- the ordered goods are segregated from the sellers inventory;
- the buyer requested that the transaction be on a bill and hold basis and has a substantial business purpose for ordering the goods on a bill and hold basis; and
- there must be a schedule for delivery in place which is reasonable and consistent with the buyer's business purpose.

Upfront non-refundable fees

Similar to bill and hold arrangements, Section 3400 currently only lists upfront non-refundable fees as a consideration when assessing if the revenue recognition criteria are met. The proposed amendments would clarify that unless the upfront fee is received by an enterprise in exchange for products delivered or services performed that have a utility to the buyer separate from the other elements in the arrangement, the revenue would be deferred and recognized as the other goods or services promised in the contract are delivered and/or performed. The amendments also clarify that the timing of revenue recognition is not impacted by whether the fee is non-refundable.

Illustrative examples

Illustrative examples pertaining to each of the above topics would be added to provide additional clarity as to how the existing and amended guidance should be applied.

Disclosure

The only topic on which the AcSB proposed additional disclosure requirements pertains to service and long-term contracts accounted for using the percentage of completion method. In particular, the AcSB proposes that an enterprise disclose the following:

- the method(s) used to measure the degree of completion; and
- the aggregate amount of costs incurred and profits (less losses) recognized to date;
- the aggregate of advances received and holdbacks withheld; and
- any uncertainties affecting the measurement of the degree of completion.

Transitional provisions

The amendments to Section 3400 would be applied retrospectively; however, an enterprise would be afforded certain transition relief from retrospective application. In particular, an enterprise would not be required to make retrospective adjustments for:

- long-term contracts accounted for using the percentage of completion method which are completed during the fiscal year in which the amendments are first applied or during the immediately preceding fiscal year; and
- sales arrangements containing multiple-elements when all deliverables have been fulfilled during the fiscal year in which the amendments are first applied or during the immediately preceding fiscal year.

Next Steps

The AcSB has asked preparers, users and other stakeholders to review the [Exposure Draft](#) and provide comments on or before July 31, 2019. Comments can easily be provided by completing an online form found [here](#). The AcSB is particularly interested in comments from enterprises which expect to be significantly impacted by the proposed amendments.

The AcSB is also hosting virtual roundtable sessions in June and early July 2019 (in English or French) to gather stakeholder input on its proposed amendments. Click [here](#) to register for one of the sessions.

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