

ASSURANCE AND ACCOUNTING

REVENUE RECOGNITION

FOR PRIVATE ENTERPRISES

An Opportunity for Change (2018)

Introduction

The introduction of the new revenue standard IFRS 15 *Revenue from Contracts with Customers* may be an opportunity for private enterprises to change their pattern of revenue recognition. IFRS 15 provides specific guidance on complex revenue transactions that does not exist under Section 3400 Revenue. For example, IFRS 15 provides guidance on areas such as variable consideration, distinct performance obligations, accounting for licenses, material rights, and contract modifications.

IFRS 15 provides guidance on complex revenue issues that does not exist in Section 3400.

What is the current practice?

Canadian Private Enterprises apply Part II of the CPA Handbook – Accounting Standards for Private Enterprises (ASPE). Section 3400 *Revenue* is a judgment based standard that contains very little guidance on revenue recognition and measurement. As a result, when private enterprises transitioned from Part V of the CPA Handbook – Pre-changeover accounting standards (Part V) to ASPE, many left their revenue recognition accounting policies unchanged and continued to apply the guidance of EIC 141 *Revenue Recognition* and EIC 142 *Revenue Arrangements with Multiple Deliverables*. The guidance in Part V was significantly based on US GAAP, and in many cases private enterprises looked to the US standards for additional guidance. This is acceptable due to the fact that Section 3400 is not a prescriptive standard and therefore, Section 1100 *Generally accepted accounting principles* allows entities to look to the more prescriptive guidance that existed in US GAAP.

What has changed?

In 2014 the International Accounting Standards Board issued IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 and the equivalent US standard ASU 2014-09 (Topic 606), replace nearly all existing IFRSs and US GAAP guidance on revenue recognition. These standards became mandatorily effective on January 1, 2018. This means that the US GAAP literature on which many private enterprises have based their revenue recognition policies on no longer exists. The issue then is whether private enterprises can use the guidance in IFRS 15 for revenue recognition.

Can private enterprises use the guidance in IFRS 15 for revenue recognition?

What does this mean to private enterprises?

While there is no requirement for a private company following ASPE to apply the guidance in IFRS 15, the application of this new guidance may result in more relevant revenue information. By using the GAAP hierarchy in Section 1100 *Generally accepted accounting principles* this change may be an opportunity for many private enterprises to reconsider their revenue recognition policies.

The GAAP hierarchy permits a private enterprise to look to IFRSs to assist in selecting accounting policies and disclosures when the primary sources of GAAP do not deal with the



accounting and reporting in financial statements of transactions or events encountered by the entity. As such, private enterprises could use the guidance in IFRS 15 since Section 3400 provides very little specific guidance. However, Section 1100 clarifies that an entity should adopt accounting policies and disclosures that are consistent with the primary sources of GAAP. In this case, IFRS 15 is a control based revenue recognition model whereas, Section 3400 is a risks and rewards based revenue model. As such, it is only acceptable for private entities to apply the IFRS 15 guidance when it does not conflict with the risks and rewards approach of Section 3400.

Yes, private enterprises following ASPE can apply the guidance in IFRS 15 if the control model does not conflict with the risks and rewards model of Section 3400

A private enterprise choosing to apply the guidance in IFRS 15 would have a voluntary change in accounting policy under Section 1506 *Accounting changes* if it results in the financial statements providing reliable and more relevant information about the effects of transactions on its financial statements.

Applying IFRS 15 guidance is a voluntary change in accounting policy requiring retrospective application.

What are the Pros and Cons of a Private Enterprise Voluntarily Applying the Guidance in IFRS 15?

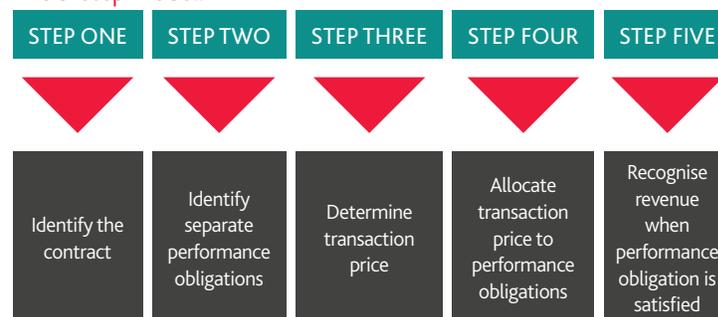
Pros	Cons
Comparability of financial statements to competitors following IFRS or US GAAP. This may impact financial statement users including investors and financiers.	Cost of transition including analysis and implementation
Existence of relevant guidance on complex transactions, which doesn't currently exist in Section 3400.	The standard is new and application issues are still emerging.
IFRS 15 guidance could result in a different pattern of revenue recognition. In many cases this will better reflect the economic substance of the revenue contract.	Retrospective application of new guidance is required.

BDO Canada can help to ease your change in accounting policies

What is IFRS 15?

IFRS 15 sets out a single and comprehensive framework for revenue recognition. The core principle is that a vendor should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the vendor expects to be entitled in exchange for those goods or services. Revenue will now be recognized by a vendor when control over the goods or services is transferred to the customer. The core principal is applied through a 5-step model.

The 5-step model:



IFRS 15 applies to annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

For more information on IFRS 15 Revenue from Contracts with Customers, please refer to [IFRS in Practice — IFRS 15 \(2018\)](#)

Next steps

Please contact your local BDO advisor for further information on the opportunity that IFRS 15 can provide your private enterprise to revisit its revenue recognition policies.

The information in this publication is current as of March 15th, 2018.

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