

**ASPE**

# **At a Glance**

Section 3400 - Revenue

# Section 3400 - Revenue

Effective Date  
Periods beginning on or after January 1, 2011<sup>1</sup>

## Revenue - Definition

Revenue is the inflow of cash, receivables, other consideration arising in the course of ordinary activities of an enterprise, normally from the sale of goods, rendering of services, interest, royalties, and dividends. Revenue does not include income from investments accounted for under the equity method, revenues arising from lease agreements, and income from government grants.

## Measurement

- Revenue is usually measured at the amount agreed upon by the parties to the transaction.
- Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. In an agency relationship, the amounts collected on behalf of the principal are not revenue; instead, revenue is the commission (refer to paragraphs 3400.24 and A35-.A39 for additional guidance on reporting revenue gross vs net).
- Revenue is net of items such as trade or volume discounts, returns and allowances, claims for damaged goods, and certain excise and sales taxes.
- 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, not revenue; unless the consideration is payment for assets or services rendered to the vendor.

## Recognition

### Recognition Criteria

- Revenue arising from the sale of goods or rendering of services is recognized when all of the following criteria have been satisfied:
  - The significant risks and rewards of ownership are transferred;
    - Consider whether the seller has continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold;
  - The amount of revenue can be measured reliably; and
  - Ultimate collection of consideration is reasonably assured
- When there is uncertainty as to ultimate collection of consideration, it may be appropriate to recognize revenue only as cash is received.
- The recognition criteria are usually applied separately to each transaction.
- A transaction may consist of a group of contracts or a single contract. Where a transaction consists of a group of contracts, it may be necessary to combine contracts to reflect the proper substance of the transaction (refer to paragraphs 3400.A1-A3 for additional guidance).
- A single contract, or group of contracts, may contain multiple deliverables. At the inception of the arrangement all deliverables are evaluated to determine whether they represent separate units of account. Arrangement consideration is then allocated to each deliverable based on a relative stand-alone selling price basis (refer to paragraphs 3400.A4-.A12 for additional guidance).

### Rendering of Services

- Revenue from service transactions and long-term contracts is usually recognized as the service or contract activity is performed, using either the percentage of completion method or the completed contract method.
- The percentage of completion method is used when performance consists of the execution of more than one act, and revenue would be recognized proportionately by reference to the performance of each act. Measures of performance include output measures, such as units produced and project milestones, or input measures, such as labour hours or machine use. Amounts billed are not an appropriate basis of measurement (refer to paragraphs 3400.A13-.A34 for additional guidance).
  - The completed contract method would only be appropriate when performance consists of the execution of a single act or when the enterprise cannot reasonably estimate the extent of progress toward completion.

### Interest, Royalties and Dividends

- For interest, royalties and dividends, if it is probable that the economic benefits will flow to the enterprise and the amount of revenue can be measured reliably, revenue should be recognized as follows:
- **Interest:** on a time proportion basis.
  - **Royalties:** on an accruals basis in accordance with the substance of the relevant agreement; and
  - **Dividends:** when the shareholder's right to receive payment is established.

<sup>1</sup> Except as specified in paragraphs 3400.37 - 3400.37B

## Performance

Performance would be regarded as being achieved when all of the following criteria have been met:

- persuasive evidence of an arrangement exists;
- delivery has occurred or services have been rendered; and
- the sellers' price to the buyer is fixed or determinable



### Persuasive Evidence

Some of the items an entity would consider in determining if persuasive evidence of an arrangement exists are as follows:

- customary business practices;
- side arrangements;
- consignment arrangements;
- rights to return the product; and
- requirements to repurchase the product

### Delivery

Generally, delivery is not considered to have occurred unless the product has been delivered to the customer's place of business or another site specified by the customer. Some of the aspects of the revenue arrangement an entity would consider in determining if delivery has occurred or services have been rendered are as follows:

- bill and hold arrangements (refer to paragraphs 3400.A40-.A44 for additional guidance);
- customer acceptance of product;
- layaway sales arrangements;
- non-refundable fee arrangements (refer to paragraphs 3400.A45-.A48 for additional guidance); and
- licensing and similar fee arrangements

### Price

In determining if the seller's price to the buyer is fixed or determinable, an entity 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

## Presentation & Disclosure

- The amount of revenue recognized during the period must be presented separately on the income statement.
- An entity must disclose:
  - The major categories of revenue recognized during the period
  - The revenue recognition policy for each type of revenue stream
  - Revenue recognition policy for sales transactions with multiple elements including: determination of multiple elements, performance, cancellation, and termination provisions and valuation.
  - For contracts in progress at the end of the reporting period accounted for using the percentage of completion method:
    - The method or methods of measuring the degree of completion;
    - The aggregate amount of costs incurred and recognized in profit (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 in accordance with Section 1508, *Measurement Uncertainty*.
  - The nature and amount of upfront non-refundable fees or payments recognized in revenue when the enterprise recognizes the fee or payment in revenue upon entering into the arrangement.

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