PUBLIC SECTOR ACCOUNTING BOARD
PSAB CCSP
CONSEIL SUR LA COMPTABILITÉ DANS LE SECTEUR PUBLIC

Exposure Draft

Public Sector Accounting Board

Proposed accounting standards

Revenue,
Proposed Section PS 3400

May 2017

COMMENTS TO PSAB MUST BE RECEIVED BY AUGUST 15, 2017

A PDF response form has been posted with this document to assist you in submitting your comments to PSAB. Alternatively, you may send comments via email (in Word format), to:**ed.psector@cpacanada.ca** addressed to:

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This Exposure Draft reflects proposals made by the Public Sector Accounting Board (PSAB).

Individuals, governments and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by PSAB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

Highlights

The Public Sector Accounting Board (PSAB) proposes, subject to comments received following exposure, to issue a new Section on revenue. The Section would apply to public sector entities that base their accounting policies on the CPA Canada Public Sector Accounting (PSA) Handbook.

The following documents accompany this Exposure Draft:

- an "Issues Analysis" that provides information on how significant matters arising from comments received on PSAB's Statement of Principles, "Revenue" have been dealt with; and
- a "Plain Language Document" that explains the proposals in non-technical language.

Main features of the Exposure Draft

The main features of the Exposure Draft are as follows:

- A framework for revenue is proposed describing two categories of revenue — exchange transactions or unilateral transactions.
- If the transaction gives rise to one or more performance obligations, it would be an exchange transaction.
- Performance obligations are enforceable promises to provide goods or services to a payor as a result of exchange transactions.
- Revenue from an exchange transaction is recognized when the public sector entity has satisfied the performance obligation(s).
- The performance obligation(s) may be satisfied at a point in time or over a period of time.
- If no performance obligations are present, it would be unilateral revenues.
- Unilateral revenues result in increases in the economic resources of a public sector entity without a direct transfer of goods or services to the payor.
- Unilateral revenues are recognized when a public sector entity has the authority to claim or retain an inflow of economic resources and a past event gives rise to a claim of economic resources.

Implications of the proposals

The new Section would apply to fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted. The Section would be accounted for as a change in accounting policy applied retroactively with restatement of prior periods.

This Section would enhance the relevance, reliability and comparability of information reported in financial statements by establishing a framework and criteria for recognition and measurement of revenue. The decision usefulness of information provided to financial statement users would also be enhanced through additional disclosures.

This Section would require a public sector entity to review existing contracts and terms of arrangement to determine whether a performance obligation is present and therefore accounted for as an exchange transaction. Otherwise, it would be a unilateral transaction.

Consequential amendments

PSAB proposes the definitions of exchange and non-exchange transactions in TAX REVENUE, Section PS 3510, be deleted to avoid confusion when the new Section on revenue is included in the PSA Handbook.

Comments requested

PSAB welcomes comments from individuals, governments and organizations on all aspects of the Exposure Draft.

When comments have been prepared as a result of a consultative process within an organization, it is helpful to identify, generically, the sources of the comments in the response. This will promote an understanding of how the proposals are affecting various aspects of an organization.

Comments are most helpful if they relate to a specific principle, paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

Please respond to the following questions:

1. Is the distinction between a performance obligation resulting from a transaction with a specific payor versus responsibilities associated with a public sector entity's mandate clear?

2. Are the proposals clear that the granting of rights is included in the definition of a good or service?

3. Do you agree with the criteria to identify distinct goods or services? For example, in some jurisdictions, it is our understanding that a driver's licence renewal fee also includes an insurance component. Would the criteria assist you in identifying the two separate components as distinct goods or services, or a bundle of goods or services? Please provide detailed explanations of similar types of transactions.

4. Do you agree with the indicators to determine whether revenue would be recognized at a point in time or over a period of time? Provide any specific issues requiring guidance.
5. Do you agree with the proposals related to modifications or combination of transactions? How prevalent would these types of arrangements be in the public sector? Please provide examples.
6. Do you agree with the proposals related to variable consideration? How prevalent is it in the public sector to offer variable consideration? Please provide examples.
7. Are the proposals sufficient to address royalties? If not, please provide additional information about the challenges that may persist.
8. Do you agree when a transaction contains significant concessionary terms, the public sector entity would consider whether a portion of the transaction is in substance a grant? Is the guidance sufficient to address these situations?
9. Does the application of the proposals present any significant challenges to a particular revenue stream?
10. Is the guidance clear that a licence or fee that only a public sector entity can issue could contain a performance obligation and therefore be an exchange transaction?
11. Do you find the illustrative examples in Appendix B helpful? If not, please identify which example(s) is problematic and provide an alternative scenario that would be more helpful.
12. Are there other implications of the proposals that should be considered or any additional matters that need to be considered?

Revenue,
Proposed Section PS 3400

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PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report on revenue. Specifically it addresses revenue arising from exchange transactions and unilateral transactions.

.02 This Section does not apply to:

(a) contributions that are voluntary and non-reciprocal in nature;

(b) a transfer of economic resources from another public sector entity that are accounted for in accordance with GOVERNMENT TRANSFERS, Section PS 3410;

(c) inflows of economic resources that are accounted for in accordance with TAX REVENUE, Section PS 3510;

(d) inflows of restricted economic resources that are accounted for in accordance with RESTRICTED ASSETS AND REVENUES, Section PS 3100;

(e) interest, dividends and changes in the fair value of financial instruments including derivatives or their disposal that are accounted for in accordance with FINANCIAL INSTRUMENTS, Section PS 3450;

(f) revenue from restructuring transactions that are accounted for in accordance with RESTRUCTURING TRANSACTIONS, Section PS 3430;

(g) revenue from investments in government partnerships that are accounted for in accordance with GOVERNMENT PARTNERSHIPS, Section PS 3060; and

(h) revenue from investments in government business enterprises that are accounted for in accordance with INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070.

.03 This Section applies when one party to a transaction has fulfilled their performance obligation. A transaction or event of the accounting period may initially represent a contractual obligation or a contractual right of a public sector entity that will eventually result in revenue. Prior to any parties performing, the transaction or event would be outside the scope of this standard and a public sector entity would need to consider CONTRACTUAL OBLIGATIONS, Section PS 3390 or CONTRACTUAL RIGHTS, Section PS 3380.

.04 Revenues, including gains, are increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from the operations, transactions and events of the accounting period.

.05 Public sector entities obtain economic resources from a broad range of activities. In this Section, economic resources are obtained under the authority of legislation and/or earned in exchange for the transfer of goods or services.

.06 For purposes of this Section, the term goods or services includes the granting of rights (see paragraphs PS 3400.A6 and PS 3400. A12).

DEFINITIONS

.07 The following terms are used in this Section with the meanings specified:

(a) **Exchange transactions** are transactions where goods or services, are provided to a payor for consideration. These transactions create performance obligations for a public sector entity arising directly from a payment or promise of consideration by a payor.

(b) **Performance obligations** are enforceable promises to provide goods or services to a payor.

(c) **Transaction price** is the amount of consideration a public sector entity expects to receive in exchange for promised goods or services to a payor.

(d) **Unilateral revenues** increase the economic resources of a public sector entity without a direct transfer of goods or services to a payor. The right to the economic resources is attributable to legislation based on constitutional authority or delegated constitutional authority and an event entitling the public sector entity to recognize revenue.

RECOGNITION

.08 For an economic inflow to be recognized as revenue, the general recognition criteria in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, must be met. A public sector entity recognizes only those future economic benefits it expects to obtain. In this regard, two circumstances have been identified as critical to revenue recognition. Revenue is expected when the public sector entity:

(a) has the information required to record the transaction; and

(b) is able to enforce payment.

.09 When reporting on revenue within the scope of this Section, a public sector entity evaluates the composition and characteristics of the transaction. An economic inflow or portion thereof that gives rise to one or more performance obligations would be accounted for in accordance with the provisions that apply to exchange transactions. Otherwise, it would be accounted for in accordance with the provisions that apply to unilateral revenues.

.10 In some situations, revenues may have characteristics of both exchange transactions and unilateral revenues. These are referred to as hybrid transactions (see paragraphs PS 3400.44-.46).

.11 A public sector entity needs to evaluate the characteristics of the transaction to determine if it is acting as the principal or agent (see paragraphs PS 3400.A28-.A34).

Performance obligations

.12 Exchange transactions create performance obligations that arise directly from a payment or promise of consideration. A payor exchanges consideration for specific benefits in the form of enforceable promises made by a public sector entity. An exchange transaction creates performance obligations for a public sector entity in the form of the goods or services promised to the payor.

.13 Enforceable promises create a valid expectation of the payor that the public sector entity will transfer a good or service and can take many forms. They may arise from a contract negotiated with the payor or from terms set by the public sector entity. Many goods and services are subject to a payor's acceptance of standard terms. If a promise is enforceable by a payor, it is a performance obligation, whether written or not.

.14 Other exchange transactions arise from the public sector entity’s authority to grant rights to a good or service. For example, even though a public sector entity is the only entity that can grant the right to drive by issuing a driver’s licence, there is still an exchange transaction where the payor obtains specific benefits. The payor obtains the right to drive legally. When a payor obtains specific benefits in the form of enforceable promises arising from the imposition of a fee there is an exchange transaction.

.15 The mandate or mission of a public sector entity does not create performance obligations on its own. Nevertheless, in fulfilling its mandate, the public sector entity may still enter into specific transactions that result in performance obligations to a payor.

.16 Performance obligations do not include activities that a public sector entity undertakes unless those activities provide a distinct good or service to the payor. For example, a public sector entity may need to perform various administrative tasks in order to set up the terms of the arrangement with a payor. A performance obligation is not created when those tasks do not provide a distinct good or service to the payor.

.17 Many activities of public sector entities, including activities that may involve receipt of consideration, do not create performance obligations for public sector entities. Unless one or more enforceable promises to the payor can be identified that meet the definition of a liability for the public sector entity, no performance obligation is present. Unilateral revenues do not create performance obligations.

Performance obligations as liabilities

.18 Public sector entities have many types of obligations. Only those obligations that meet the definition of a liability in LIABILITIES, Section PS 3200, are present obligations. Performance obligations are one of the many types of present obligations that a public sector entity may have.

.19 An exchange transaction that creates a performance obligation for a public sector entity has all three of the essential characteristics of a liability. It is a present obligation of a public sector entity to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. There is:

(a) a duty or responsibility to others, leaving a public sector entity little or no discretion to avoid settlement of the obligation;

(b) a duty or responsibility to others that entails settlement by a future transfer or use of assets, provision of goods or services, or other forms of economic settlement at a specified or predetermined date, on occurrence of a specified event, or on demand; and

(c) a transaction or event obligating the public sector entity that has already occurred.

.20 When a public sector entity receives consideration prior to the provision of goods or services, unearned revenues would be recorded. The public sector entity still must satisfy the performance obligations identified in the exchange transaction. Although the public sector entity is in possession of the economic resources associated with those performance obligations, it has not fulfilled its obligations and, therefore, the revenue has not yet been earned.

Refunds

.21 A public sector entity would not initially record as revenue amounts that it expects to refund.

.22 Professional judgment would be applied to determine the likelihood of having to provide a refund to a payor. A refund provision would be determined using a best estimate in light of past events, current conditions and taking into account all circumstances known at the date of the financial statement preparation.

Evaluating distinct goods or services

.23 *A public sector entity should evaluate the goods or services it has promised to provide. It should identify which goods or services (or which bundles of goods or services) are distinct and should be accounted for separately.*

.24 A public sector entity identifies each distinct good or service promised to a payor at the inception of a transaction.

.25 When more than one good or service is to be provided, a public sector entity would determine whether the goods or services are distinct. Each distinct good or service has a performance obligation that would be accounted for separately. When a promised good or service is not distinct, a public sector entity would combine that good or service with other promised goods or services until the public sector entity identifies a bundle of goods or services that is distinct. This would be accounted for as a single performance obligation.

.26 A good or service is considered to be distinct if either of the following criteria is met:

(a) the public sector entity or another entity regularly offers the good or service separately; or

(b) the payor can benefit from the good or service either on its own or together with other resources that are readily available to the payor.

.27 Readily available resources are goods or services that are sold separately (by the public sector entity or another entity) or resources that the payor has already obtained from other transactions or events.

.28 A good or service in a bundle of promised goods or services is not distinct in certain circumstances, such as when the goods or services are highly interrelated and a significant level of service is required by the public sector entity to integrate the goods or services into the combined items. In these cases, the public sector entity would account for the transactions as a single performance obligation.

Applying the recognition criteria

Exchange transactions

.29 *Revenue from exchange transactions should be recognized when (or as) the public sector entity satisfies a performance obligation by the provision of the promised goods or services to a payor.*

.30 The public sector entity will need to demonstrate that a performance obligation has been satisfied. For each performance obligation, a public sector entity evaluates whether the performance obligation is satisfied at a point in time or over a period of time.

.31 The characteristics of the goods or services promised need to be identified in order to determine when and how the performance obligation will be satisfied. This evaluation is made at the inception of the transaction.

.32 Identifying the characteristics of the goods or services promised will include identifying the specific payor and the specific goods or services promised.

.33 Clearly establishing the payor and acknowledging the benefits the payor expects to receive as a result of the consideration promised will help distinguish the public sector entity's performance obligations to the payor from those responsibilities that result from trying to fulfil its general mandate.

.34 If a performance obligation is not satisfied at a point in time by the public sector entity, the performance obligation is satisfied over a period of time. The public sector entity recognizes revenue in a manner that best depicts the transfer of goods or services to the payor.

.35 A performance obligation is satisfied when a payor has control of the benefits associated with the good or service. Determining when the payor has control depends on the characteristics of the goods or services promised and whether control passes at a point in time or over a period of time. Based on the characteristics of the goods or services promised, a public sector entity must identify its performance obligations and whether they have been satisfied.

.36 A public sector entity has satisfied its performance obligation and recognizes revenue when control of the benefits associated with the goods or services has passed to the payor. Indicators that control of the goods or services have passed from the public sector entity to the payor include, but are not limited to, when the payor:

(a) 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

(b) holds the good or service and has the discretion to use it.

.37 A public sector entity satisfies its performance obligation and recognizes revenue over a period of time when control of the benefits associated with the goods or services passes to the payor over a period of time. One or more of the following indicators that a public sector entity satisfies a performance obligation and recognizes revenue over a period of time include, but are not limited to, when:

(a) the payor simultaneously receives and consumes the benefits provided by the public sector entity's performance as the public sector entity fulfils the performance obligation;

(b) the public sector entity's performance creates or enhances an asset (for example, work in progress) that the payor controls or uses as the asset is created or enhanced;

(c) the public sector entity's performance does not create an asset with an alternative use to the public sector entity and the public sector entity has an enforceable right to payment for performance completed to date;

(d) the public sector entity is expected to continually maintain or support the transferred good or service under the terms of the arrangement; and

(e) the public sector entity provides the payor with access to a specific good or service under the terms of the arrangement.

.38 When evaluating whether a payor obtains control of an asset, a public sector entity considers any agreement to repurchase the asset.

.39 When a payor directs a public sector entity to provide some or all of the promised goods or services to a third party, the performance obligation is satisfied when the third party has the ability to control the benefits of the goods or services.

.40 For additional guidance on distinguishing performance obligations satisfied at a point in time from performance obligations satisfied over a period of time and in measuring progress towards complete satisfaction of a performance obligation refer to paragraphs PS 3400.A19-.A27.

Unilateral revenues

.41 *Unilateral revenues should be recognized when a public sector entity:*

(a) has the authority to claim or retain an inflow of economic resources; and

(b) identifies a past transaction or event that gives rise to an asset.

.42 Legislation, regulations or by-laws authorizing the fine, penalty or fee must be in place for a public sector entity to have the authority to recognize unilateral revenues. Authority is based on the framework and precedents of an individual jurisdiction. As authority originates in the underlying legislation, the point of recognition may vary amongst jurisdictions.

.43 The past event is specific to the nature of the transaction. In the case of a fine or penalty, the date of an alleged infraction is not necessarily, in itself, the past event. There may not be an enforceable claim until:

(a) a guilty plea is entered;

(b) the date to contest a summons expires; or

(c) a judgment is made by an arbitrator or in a court of law.

Hybrid transactions

.44 A public sector entity separately accounts for the components of a single transaction that combine:

(a) an exchange transaction;

(b) unilateral revenues (for example, a fine or penalty); and /or

(c) another form of revenue such as a contribution, a government transfer or tax revenue.

.45 When accounting for hybrid transactions, the public sector entity accounts for each component of a transaction in accordance with the applicable recognition criteria. When a component of the transaction is within the scope of another standard, the public sector entity would apply that standard. For example, the price of a good or service may include a value-added or sales tax. The value-added or sales tax revenue is recognized in accordance with the applicable requirements in TAX REVENUE, Section PS 3510.

.46 In determining whether a transaction has components of both an exchange transaction and a unilateral transaction, professional judgment is needed. In these cases, an examination of the substance of the transaction is undertaken.

MEASUREMENT

Exchange transactions

.47 *A public sector entity should recognize as revenue the portion of the transaction price allocated to the performance obligation that has been satisfied.*

.48 When determining the transaction price, a public sector entity will need to consider the effects of:

(a) multiple performance obligations;

(b) variable consideration;

(c) existence of significant concessionary terms; and

(d) non-cash consideration.

Multiple performance obligations

.49 When more than one performance obligation is identified, a public sector entity needs to consider how it will allocate the transaction price. The stand-alone selling price is the observable price charged for the goods or services when the same public sector entity sells those goods or services in similar circumstances.

When available, the stand-alone selling price of the good or service underlying each performance obligation would be used as the basis of allocation. If a stand-alone selling price is not readily available, then a public sector entity will estimate the allocated amount based on information available.

.50 If a stand-alone selling price is not directly observable, a public sector entity would estimate it to derive an amount that would be a faithful representation of the price at which the public sector entity would sell the good or service if it were sold separately to the payor. Estimation methods that may be used include, but are not limited to:

(a) expected cost — a public sector entity forecasts its expected costs of satisfying the performance obligation and, if applicable, adds an appropriate margin;

(b) residual approach — when the stand-alone selling price is highly variable or uncertain, then the estimated stand-alone selling price is based on the total consideration less the sum of observable stand-alone selling prices; or

(c) adjusted market assessment — a public sector entity evaluates the market in which it sells goods or services and estimates the price that a payor would be willing to pay.

.51 A public sector entity uses professional judgment to apply a method for estimating the stand-alone selling price that most closely resembles the economic substance of the transaction.

Variable consideration

.52 When consideration is variable, an estimate may be needed. Consideration may be variable for a number of reasons, such as discounts offered, rebates, incentive programs or price concessions. Consideration may also be variable due to uncertainty related to the occurrence or non-occurrence of a future event.

.53 The general recognition criteria in FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.55, require that a reasonable estimate of the amount involved can be made. If the public sector entity cannot determine a reasonable estimate, the revenue is unearned until a reasonable estimate can be made.

.54 If a reasonable estimate can be made of the amount involved, the transaction would be reported. Professional judgment is needed to determine the most relevant and reliable estimated amount given the circumstances. Some methods used to determine a reasonable estimate include applying either:

(a) the expected value method — the sum of probability-weighted amounts in a range of possible consideration amounts. This method is often appropriate if a public sector entity has a large number of contracts with similar characteristics; or

(b) the most likely amount — the single most likely amount in a range of possible amounts.

Existence of significant concessionary terms

.55 Transactions with significant concessionary terms at the date of inception require particular consideration because of their nature. When a public sector entity offers a significant price concession or lengthy payment terms, all or a significant portion of the transaction price is in the nature of a price concession (grant) and would be accounted for as such when the transaction is made.

.56 If all or a portion of the transaction is considered to be in the nature of a grant because of the terms specified, the grant portion would be accounted for as a grant in accordance with GOVERNMENT TRANSFERS, Section PS 3410, when the transaction is entered into.

.57 When the terms of the transaction indicate that a portion is in the nature of a grant, present value techniques would be used to quantify the portion of the transaction price that is, in substance, a grant. The public sector entity would consider a discount rate that reflects the payor's credit risk. The grant or price concession portion would be the difference between the face value of the transaction price and its present value.

Non-cash consideration

.58 In certain instances, a public sector entity may receive or expect to receive non-cash consideration in exchange for promised goods or services. In this case, the transaction price would be the fair value of the goods or services received adjusted by the amount of any cash or cash equivalents transferred. For example, in lieu of a payor paying a fee, the payor may provide materials, equipment and/or labour.

Unilateral revenues

.59 *A public sector entity should recognize unilateral revenues at its realizable value.*

PRESENTATION AND DISCLOSURE

.60 Users of financial statements need to understand the nature, amount, timing and uncertainty associated with revenues.

.61 DISCLOSURE OF ACCOUNTING POLICIES, paragraphs PS 2100.03 and PS 2100.09, state that a clear and concise description of all significant accounting policies of a government reporting entity that have been selected and applied to significant assets, liabilities, revenues and expenses should be included as an integral part of its financial statements.

.62 MEASUREMENT UNCERTAINTY, Section PS 2130, contains specific disclosures for uncertainties affecting the measurement of items recognized or disclosed in financial statements. These disclosures would also apply to revenue recognized under this Standard.

.63 The purpose of the additional disclosure requirements below is to provide sufficient information in the financial statements to understand the nature and terms of the entity's various revenue sources. For example, significant judgments may be required to identify performance obligations, determine the transaction price and allocate it to performance obligations, and determine when performance obligations are satisfied.

.64 The level of detail disclosed by a public sector entity reflects the highly aggregated nature of the financial statements. In deciding on the level of detail to disclose, public sector entities consider the usefulness of the information to the reader. Users must be able to assess the nature and extent of performance obligations existing at the end of the current period or satisfied during the current period. Full disclosure is particularly important when the measurements depend heavily upon judgment and estimates.

.65 *A public sector entity should disclose:*

(a) disaggregated revenues reported on the statement of operations by source and type, with separate disclosure of revenues that are not related to recurring activities;

(b) for revenues from exchange transactions, typical performance obligations and the methods and policies that apply when recognizing revenues; and

(c) the nature and amount of continuing obligations grouped by category of similar transactions associated with revenues from exchange transactions.

.66 *When a public sector entity has the information necessary to record a transaction but does not expect to be able to enforce payment, disclosure of these amounts is required.*

.67 *In circumstances where the terms of the arrangement include significant concessionary terms so that all or a part of the transaction is recognized as a grant, disclosure of the original amount of the transaction price should be provided.*

.68 Providing significant revenue sources and types and describing when and how those revenues are recognized helps users of the financial statements interpret the resources available to the public sector entity as well as future revenue streams.

.69 Indicating which revenue sources and types are recurring versus non-recurring also assists users of the financial statements to better understand the annual surplus or deficit of the public sector entity and the implications for subsequent years.

TRANSITIONAL PROVISIONS

.70 This Section applies to fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted. This Section would be applied retroactively with restatement of prior periods.

APPENDIX A
APPLYING THE REQUIREMENTS

This Appendix is an integral part of this Section.

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Purpose and scope

A1 A public sector entity would apply the requirements of this Appendix when it has entered into an exchange transaction.

Identifying performance obligations

A2 An evaluation of the transaction is needed to determine if one or more performance obligations exist at the inception of the transaction. When identifying performance obligations, the public sector entity must consider the characteristics of the goods or services being promised to the payor in exchange for consideration. Only those goods or services that provide a direct benefit to the payor create performance obligations. For example, performance obligations do not include administrative activities. Identifying a public sector entity's performance obligations is necessary in order to determine when they have been satisfied.

A3 As part of this assessment, consideration needs to be given to the specificity of the payor identified in the transaction as well as the specificity of the goods or services promised.

A4 Identifying the payor who is expected to benefit from the goods or services promised will help isolate the public sector entity's performance obligation to that payor versus obligations associated with achieving its general mandate or mission. Obligations associated with fulfilling a public sector entity's mandate generally benefit the community as a whole rather than a specific payor.

A5 The goods or services promised in the transaction represent future economic sacrifices of the public sector entity. Specifically identifying the characteristics of those goods or services that the payor expects to benefit from will help determine the performance obligations a public sector entity has associated with that transaction. This will assist the public sector entity in its evaluation of when the performance obligation has been satisfied.

Goods or services

A6 Promised goods or services may include, but are not limited to, the following:

(a) goods produced by a public sector entity for sale (for example, user charges associated with drinking water);

(b) goods purchased by a public sector entity for resale (for example, the sale of recycling bins);

(c) use of tangible capital property for a specified period (for example, one-time rental of space for skating at a community centre);

(d) providing services, including those that involve another party (for example, fares received by a public transit commission on routes operated by a contracted service provider);

(e) standing ready to provide goods or services (for example, standby charges levied to have paramedics on site at an athletic competition organized by a community group);

(f) constructing, manufacturing or developing an asset for a payor (for example, fees to connect a private dwelling to the municipal water system);

(g) granting the right to use intangible assets owned or controlled by the Crown (for example, fees charged to license patented technology);

(h) granting options to purchase additional goods or services (when those options provide the payor with a concessionary right);

(i) performing an agreed-upon task (or tasks) for a payor (for example, fees charged by a daycare facility); and

(j) providing a decision and having the appropriate documentation ready (for example, fees to apply for a driver's licence and its issuance to a qualifying driver).

Combining contracts

A7 In cases where an exchange transaction is governed by a contract, the terms of the arrangement may be set out fully in a single contract. However, it is possible that the amount and timing of revenue can be affected when the consideration for goods or services in one contract is dependent on provisions in another contract.

A8 When two or more contracts are entered into at or near the same time, they would be accounted for on a combined basis if one or more of the following criteria are met:

(a) the contracts are negotiated as a package with a single common purpose;

(b) the amount of the consideration to be paid in one contract depends on the price or performance of the other contract; and

(c) the goods or services promised in the contracts (or some goods or services promised in the contracts) are a single performance obligation.

Modifications

A9 A modification exists when there is a change in the scope or price (or both) of a contract. Until a modification is approved, the existing provisions form the basis of the activities reported on. When the performance obligations derive from the contract between the two parties, accounting for the modification is not affected until each party to the contract agrees to the modification.

A10 If a change in the scope of the contract has been approved by both parties but the corresponding change in price is not yet established, the modified provisions apply when the public sector entity has an expectation that the price of the modification will be approved. The transaction price would be estimated by applying the measurement provisions within this Section.

A11 A public sector entity accounts for a modification separately if the modification affects both:

(a) promised goods or services that are distinct; and

(b) a public sector entity's right to receive an amount of consideration that reflects the public sector entity's stand-alone selling price of the promised goods or services, and any appropriate adjustments to that price to reflect the circumstances of the agreement.

Licences or permits

A12 Goods or services include rights granted by licences or permits. They have a wide variety of different features and economic characteristics. Licences and permits may include, but are not limited to:

(a) licences of businesses, such as taxi cabs;

(b) licence of skilled trades;

(c) licence of vehicles and vehicle operators;

(d) licence of wireless spectrum;

(e) passports and visas;

(f) permits to construct or renovate buildings;

(g) licences or permits to allow activities during the pre-production phase of natural resource development;

(h) permits to hold a public gathering;

(i) licences or permits to hunt and fish;

(j) licences or permits to prospect for minerals; and

(k) permits to sell alcoholic beverages.

A13 Fees charged may include, but are not limited to, amounts levied to test applicants, renew existing licences or permits, and to reissue documents that have been lost.

Identifying performance obligations in licences or permits

A14 When assessing how to account for a fee, a public sector entity must first determine whether the fee creates one or more performance obligations for the public sector entity.

A15 To determine when to recognize revenue arising from fees charged for a licence or permit, a public sector entity identifies the goods or services that will directly benefit a party holding the licence or permit. Considering the specificity of the payor will assist in determining whether the activities of the public sector entity are to fulfil its performance obligations for the benefit of a specific payor or as part of their general mandate or normal responsibilities. In many cases, benefits associated with the mission or mandate of a public sector entity are not limited to the party holding a licence or permit and are not the specific benefits the party applying for the licence or permit wants to obtain. For example, a government ministry is mandated to conserve wildlife. The benefit of achieving this mandate is enjoyed by all members of society. This benefit is not limited to those who hold a hunting permit.

A16 A performance obligation may be present when the payor expects to receive a direct benefit arising from the payment of a fee. Examples of satisfying performance obligations for a fee are:

(a) one or more qualifying inspections or examinations;

(b) a decision and issuance of a licence or permit, such as a passport or driver's licence;

(c) the right of admission to an attraction or event; and

(d) the right to traverse infrastructure subject to tolling, such as a road, bridge, or canal.

A17 Examples of activities that do not normally constitute a performance obligation, as they do not involve the transfer of a direct benefit to a payor:

(a) a good or service that benefits the community as a whole, or those specific services a public sector entity provides but does not specifically charge for, such as police protection or animal control;

(b) administrative services, including registration, the issuance of documents or tags or replacement following their loss; and

(c) inspections or testing to assess the general level of compliance with certain regulations or legislation, such as an action taken in response to complaints and assessments of a portion of the population who hold a specific licence or permit.

A18 When a transaction gives rise to one or more performance obligations for the public sector entity, the fee would be accounted for as an exchange transaction. Alternatively, when no performance obligations are identified, the fee would be accounted for as unilateral revenue.

Satisfying performance obligations at a point in time or over a period of time

A19 A public sector entity may issue single use or multi-use permits or issue annual or multi-year licences. When a public sector entity issues multi-use permits or multi-year licences, it evaluates whether the goods or services are transferred at a point in time or over a period of time. Multi-use permits or multi-year licences come in a variety of forms. For example, a multi-use pass may be time limited, such as a monthly pass, or it may be used a specific number of times.

A20 The specificity of the good or service promised in the transaction will help determine the performance obligations of the public sector entity. The public sector entity considers the specific goods or services promised in the transaction with the payor in order to determine the performance obligation(s). In some cases, the licence or permit may involve a promise by the public sector entity to make a good or service available continuously during its life. While control of the extent of use rests with the payor, the requirement to stand ready to provide goods or services suggests, in absence of evidence to the contrary, that the goods and services transfer over a period of time. For example, the specific good or service promised to an annual park pass holder is the ability to access the park during the year. In this example, the public sector entity would consider whether any ongoing performance obligations are present. Consideration would be given to the indicators outlined in paragraph PS 3400.37.

A21 In other cases, a multi-year licence that grants the licence holder the benefits upfront and no further performance obligations are required by the public sector entity would suggest that the goods or services transfer at a point in time. When evaluating the nature of the agreement, it is not simply the passage of time that creates a performance obligation. One would consider the benefit the specific good or service provides the payor and whether there are any ongoing performance obligations.

A22 When assessing progress towards complete satisfaction of a performance obligation, a public sector entity may consider the pattern of benefit to the payor. For example, a public sector entity may sell an annual pass granting the payor access to a park. If the park is only open and available for use during certain months of the year, revenue is recognized in these months.

A23 Continually maintaining or supporting the transferred good or service over a specified period of time refers to future sacrifices of economic benefits by a public sector entity in order to satisfy the performance obligations associated with that transaction. When the activities of the public sector entity directly impact the payor in either a positive or negative manner, this reflects an ongoing relationship for the term specified in the transaction. The payor has a valid expectation for recourse when negative impacts arise. When these activities are not attributed to the public sector entity's normal responsibilities or mandate, and in the absence of evidence to the contrary, the goods or services transfer over a period of time.

A24 If consideration is received before a performance obligation is satisfied, the public sector entity would need to consider LIABILITIES, Section PS 3200.

A25 A public sector entity recognizes revenue over a period of time by measuring the progress towards complete satisfaction of a performance obligation. The public sector entity needs to determine how much revenue to recognize in each reporting period. This is often based on the terms and conditions specified in the contract or agreement.

A26 In determining the appropriate method for measuring progress, a public sector entity needs to consider the characteristics of the goods or services being provided in exchange for consideration or promise of consideration. The method chosen would be a reasonable reflection of the progress towards completion, and consistently applied to similar performance obligations and similar circumstances.

A27 If a performance obligation is not satisfied at a point in time, a public sector entity satisfies a performance obligation over a period of time.

Principal versus agent transactions

A28 A public sector entity needs to evaluate the characteristics of the transaction to determine if it is acting as the principal or agent. If it is acting as a principal, then the public sector entity recognizes the revenues on a gross basis. If the public sector entity is acting as an agent, there may or may not be a fee or commission to be recognized.

A29 Determining whether a public sector entity is acting as a principal or as an agent depends on the facts of the situation and may require professional judgment.

A30 A public sector entity is acting as a principal when it has control of the goods or services prior to satisfying the performance obligation to the payor. Alternatively, a public sector entity is acting as a principal when 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.

A31 Factors to consider in determining if the public sector entity is acting as a principal include, but are not limited to, when the public sector entity:

(a) has the primary responsibility for the provision of the goods or services to a payor;

(b) has inventory risk before or after a payor order, during shipping or on return;

(c) has discretion in setting the amount charged, either directly or indirectly, of the goods or services;

(d) has discretion and authority to decide how to use the resources; and

(e) is exposed to credit risk for the amount receivable from a payor.

A32 Acting as a principal, the public sector entity would assume the performance obligations and contractual rights so that the public sector entity is obliged to satisfy the performance obligation to transfer the promised goods or services to the payor. The public sector entity would recognize revenue upon settling that performance obligation.

A33 A public sector entity is an agent when it is arranging for the provision of goods or services to a payor on behalf of another party.

A34 As an agent, the public sector entity would only recognize the fee or commission earned as revenue, not the full amount of the transaction consideration.

Existence of significant concessionary terms

A35 A public sector entity redistributes resources through a number of means, such as through price concessions in accordance with the public sector entity's objectives.

A36 Transactions with a price concession at the date of issue would be accounted for based on the substance of the transaction. It may be necessary to use present value techniques to quantify the portion of the transaction that is, in substance, a grant.

A37 The discount rate to be used would be that reflected in a separate financing transaction between the public sector entity and its payor, if practicable to determine. This discount rate would reflect the payor's credit risk. If the public sector entity does not enter into separate arrangements with the payor, a discount rate based on a similar class of payor could be used.

A38 However, in those rare cases when it is not possible to determine a discount rate as described in paragraph PS 3400.A37, a public sector entity may apply a government borrowing rate for a similar term adjusted for a reasonable estimate of the payor's credit risk.

APPENDIX B
ILLUSTRATIVE EXAMPLES

This material is illustrative only.

The examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of the Section.

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Performance obligations satisfied over a period of time

Example 1 — Fitness centre pass

B1 A community centre has a fitness centre that offers one-month or twelve-month passes to its fitness centre. A payor purchases a twelve-month pass that provides the payor with unlimited access to the fitness centre for the year.

B2 The public sector entity's promise to the payor is to provide access to the fitness centre when the payor wishes. At transaction inception, the fitness pass is issued. At this point, the payor has the ability to use the fitness centre. The community centre must determine if that is the end of its performance obligations. In this case, the community centre must stand ready to grant access to the centre when the payor chooses to use the pass. When the payor is accessing the fitness centre, the community centre would need to verify the pass and allow entry. The public sector entity concludes, as per paragraph PS 3400.37(a), that the payor simultaneously receives and consumes the benefits of the public sector entity's performance as it ensures the payor will be granted access to the fitness centre. The public sector entity also concludes that it has met the criteria in paragraph PS 3400.37(e) (i.e., that the public sector entity provides access to a specific good or service). For this simple fact situation, the revenue would be recognized over a period of time.

B3 The membership is for a twelve-month period. Thus, a best estimate of progress towards complete satisfaction of the performance obligation is to recognize revenue over the twelve-month period.

Example 2 — Continuing education course

B4 A college offers certificate courses to a payor. A number of certificate courses are offered by the college — there are one-day courses, summer courses or courses during the normal academic calendar. Other than the one-day courses, classes are normally held once a week. Consequently, the particular circumstances of each arrangement will need to be evaluated by the college to determine the associated performance obligations and assess whether revenue should be recognized over a period of time or at a point in time.

B5 The college will provide a certificate course to a payor during the fall term (September to December). The payor promises to pay $2,000 for the certificate course. At the time of registration, there are a number of activities that the university must undertake to ensure the payor is enrolled in the appropriate program. However, some of these administrative activities do not constitute performance obligations. The college determines that their performance obligations are to provide a series of lectures and teaching material over the fall term. The payor receives a direct benefit from these lectures as it increases their knowledge of the topic at hand.

B6 As per paragraph PS 3400.37(a), the payor simultaneously receives and consumes the benefits of the college's performance as it provides weekly classes to the payor. The revenue would be recognized over a period of time.

B7 The classes are for the fall term, a four-month period. Thus, a best estimate of progress towards complete satisfaction of the performance obligation is to recognize revenue over the four-month period.

Example 3 — Spectrum licence

B8 A payor purchases a spectrum licence. The particular circumstances of each arrangement need to be evaluated by the public sector entity. The period covered by the licence is five years. The payor is granted access to a specific frequency on a non-interfering basis within a defined geographic area.

B9 The public sector entity determines that its promise to the payor is to provide access to a specific good or service in accordance with paragraph PS 3400.37(e) because the payor is getting access to a predetermined frequency under the terms of the arrangement. In addition, the public sector entity concludes that the payor does simultaneously receive and consume the benefits provided by the public sector entity's performance in accordance with paragraph PS 3400.37(a). The payor has a valid expectation that if their access became subject to interference, it would likely result in negative consequences for them. Thus, they would expect the public sector entity to rectify the situation. Consequently, the public sector entity would need to monitor the particular frequency over the term of the agreement. This would satisfy the conditions in paragraph PS 3400.37(d).

B10 Given this set of circumstances, the public sector entity would recognize revenue over a period of time as it has an ongoing performance obligation after the issuance of the licence.

Performance obligations satisfied at a point in time

Example 4 — Driver's licence

B11 A payor purchases a five-year driver's licence. The terms of a driver's licence may vary depending on jurisdiction or other conditions associated with the licence. Consequently, the particular circumstances of each arrangement will need to be evaluated by the public sector entity. The payor promises to pay $200 for a five-year licence.

B12 The public sector entity determines that its promise to the payor is to issue a licence, if approved. The licence will provide the payor with the right to drive. The payor holds the licence and has discretion to use it once the public sector entity has made it available in accordance with paragraph PS 3400.36(b).

B13 The public sector entity determines that it does not have any ongoing performance obligations to the specific payor. The public sector entity concludes that it does not need to stand ready to provide access to any specific roads or highway systems and any road work or maintenance is part of the public sector entity's overall mandate. As a result, the public sector entity would record revenue at a point in time when the licence is available for the payor.

Multiple performance obligations

Example 5 — Sale of tangible capital asset and servicing

B14 The public sector entity enters into an agreement with a payor to sell one of its tangible capital assets and agrees to service that asset for the next two years. The tangible capital asset was made by the public sector entity.

B15 The public sector entity determines that its promise to the payor is to transfer control of the tangible capital asset as well as to provide service or support for operating that particular tangible capital asset for the next two years.

B16 The public sector entity must determine whether the two performance obligations are distinct. If so, the transaction price would need to be allocated. If the two performance obligations are integrated, they would need to be treated as a bundle of goods or services in accordance with paragraphs PS 3400.23-.28. In order to determine the performance obligations, the public sector entity must consider the nature of the agreement with the payor and the payor's expectations.

B17 The public sector entity does not regularly sell tangible capital assets or its services. However, similar assets and services are available by third parties. The payor is expecting to benefit from the tangible capital asset on its own. Thus, the public sector entity concludes it would be a separate performance obligation. Servicing the tangible capital asset is akin to standing ready to maintain the tangible capital asset if a problem arises.

B18 The public sector entity would estimate the stand-alone selling price of the tangible capital asset and the service element by applying a method for estimating the stand-alone selling price that most closely resembles the economic substance of the transaction.

Hybrid transactions

Example 6 — Admission fee and donation

B19 A museum charges a total fee to the exhibit of $20 that includes a $15 admission fee to see the exhibit and a $5 donation to preserve artifacts. The payor may refuse to pay the donation component at the time of entry. In exchange for the admission fee paid by a payor, the public sector entity grants the payor access to the exhibit. The public sector entity's performance obligation is satisfied once access to the exhibit is granted. Thus, revenue would be recognized at a point in time.

B20 The total fee is made up of two components. The provisions in paragraphs PS 3400.44-.46 would be considered to separate the components of the single transaction. There is both an exchange transaction and a unilateral transaction. The portion of the transaction price that grants access to the exhibit, $15, would be accounted for as exchange transactions in accordance with paragraphs PS 3400.29-.40. The payor expects to receive a good or service in exchange for the consideration paid. The remaining $5 of the transaction price would be accounted for as a donation. The payor is not expecting to receive any direct benefits associated with the donation component.