PSAB

Public Sector
Accounting Board

Basis for Conclusions

Revenue

November 2018

Section PS 3400

CPA Canada Public Sector Accounting Handbook

Prepared by the staff of the Public Sector Accounting Board

Foreword

CPA Canada Public Sector Accounting Handbook Revisions Release No. 47, issued in November 2018, contained a new standard: REVENUE, Section PS 3400.

The primary objective of a Basis for Conclusions document is to set out how the Public Sector Accounting Board (PSAB) reached its conclusions. As well, it sets out significant matters arising from comments received in response to the proposals exposed and indicates how the Board has dealt with the issues raised.

These documents are intended to assist financial statement users, preparers, auditors and other parties interested in public sector financial reporting in understanding the rationale PSAB followed when developing standards.

This document has been prepared by PSAB staff. It does not form part of the CPA Canada Public Sector Accounting (PSA) Handbook nor is it part of public sector generally accepted accounting principles (GAAP). Basis for Conclusions documents also do not include any guidance on the application of the relevant Section or Guideline.

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BACKGROUND

1 Public sector entities receive many types of revenue (e.g., when goods or services are provided by a public sector entity in return for consideration from a payor). Other types of revenue are unique to the public sector (e.g., a fine or penalty).

2 Prior to the issuance of REVENUE, Section PS 3400, there was no overarching standard to address common types of revenue in the public sector. The CPA Canada Public Sector Accounting (PSA) Handbook has some standards for specific types of revenue, such as TAX REVENUE, Section PS 3510, and GOVERNMENT TRANSFERS, Section PS 3410, but a general application standard did not exist.

3 Without a standard on revenue, preparers and auditors must rely on GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150. Although the policies developed are expected to be consistent with FINANCIAL STATEMENT CONCEPTS, Section PS 1000, this approach can result in inconsistencies among various public sector entities as to how and when to recognize revenue.

4 Appendix A, Applying the Requirements, in Section PS 3400 provides more detail and is a primary source of GAAP.

PURPOSE AND SCOPE

5 REVENUE, Section PS 3400, establishes standards on how to account for and report on revenue. This is a general application standard, meaning that it is not intended to supersede individual standards in the PSA Handbook that address specific types of revenue. For example, TAX REVENUE, Section PS 3510, and GOVERNMENT TRANSFERS, Section PS 3410, are specifically excluded from the scope of Section PS 3400.

6 This standard is principles-based. Some respondents to the Exposure Draft requested guidance on specific revenue transactions and on determining the nature of the revenue such as whether it would be a fee or tax. Not all possible revenue transactions can be specifically addressed. Instead, the general principles would be applied.

7 The Exposure Draft reconfirmed to respondents to the Statement of Principles that both RESTRICTED ASSETS AND REVENUES, Section PS 3100, and GOVERNMENT TRANSFERS, Section PS 3410, were excluded from the scope of the Section. For example, Section PS 3100 would apply to transactions that include an external restriction on the purpose and use of the consideration paid by the payor. Section PS 3100 would also apply when development charges are collected from a payor, as the direct benefit to be received from the goods or services associated with the development charges is to an unspecified third party.

8 Respondents to the Exposure Draft requested PSAB reconsider whether donations should be in or out of scope. They suggested that donations are an increase in economic resources without a direct transfer of goods or services to a payor, and thus would fit within the proposals. Furthermore, since there is no specific guidance in the PSA Handbook for donations, it should not be excluded from the scope of the proposals.

9 Originally, contributions were excluded from the scope because the Accounting Standards Board (AcSB) and PSAB Joint Not-for-Profit Task Force was reviewing contributions. Once the responses to the joint AcSB and PSAB Statement of Principles, "Improvements to Not-for-Profit Accounting," were considered, each Board deliberated not-for-profit issues from its own perspective. As part of its 2017-2020 Strategic Plan, PSAB has a not-for-profit strategy in place whereby consultations are undertaken to understand government not-for-profit organizations and their stakeholder perspectives. The Board thinks that a review of contributions and donations should be considered as part of its not-for-profit strategy.

10 Other respondents raised concerns about leases, from the lessor's perspective, suggesting that since there is no guidance on leases from the lessor's perspective in the PSA Handbook, Section PS 3400 would apply. PSAB is aware that there have been recent developments by other standard setters in accounting for leases from both a lessee's and a lessor's perspectives. The PSA Handbook contains two guidelines pertaining to leases, each addressing a lessee's perspective only: LEASED TANGIBLE CAPITAL ASSETS, PSG-2, and SALE-LEASEBACK TRANSACTIONS, PSG-5. The Board is aware that PSG-2 and PSG-5 need to be updated.

11 Section PS 3400 is a principles-based standard. Although it does not specifically address leases, from a revenue standpoint, the Section provides high-level principles that could apply. One of the indicators to recognize revenue over a period of time is when a public sector entity provides a payor with access to a specific good or service under the terms of the arrangement. Given that this Section does not provide specific guidance on how to account for leases, financial statement preparers may need to consult other accepted sources of GAAP if more specific guidance is needed.

12 The Exposure Draft noted that for the purposes of this Section, the term "goods or services" includes the granting of rights. One respondent noted that GOVERNMENT REPORTING ENTITY, paragraph PS 1300.29, states, "Imposed fees and penalties, such as licenses and fines, do not represent sales of goods or services." This reference describes situations where a government business enterprise sells goods or services in direct exchange for revenues, demonstrating one of the characteristics of such an organization. This differs from Section PS 3400, which is based on whether a performance obligation exists or not. In the final standard, the phrase "granting of rights" has been changed to "rights provided" to better reflect the nature of the arrangement whereby the public sector entity is permitting or providing a payor the use of either a tangible or an intangible asset.

13 The term "goods and services" is also defined in INTER-ENTITY TRANSACTIONS, Section PS 3420, as "include such items as materials and supplies, services, use of facilities or licences. They do not include financial or non-financial assets (for example, tangible capital assets)." This is a very narrow interpretation of "goods and services" that was developed to describe the types of costs that may be allocated to another entity within the same reporting entity. The use of the phrase "goods or services" within this Section is broader.

14 Finally, some respondents questioned why the Exposure Draft did not address royalties, and sought guidance on whether they would be exchange or unilateral. As noted in the Issues Analysis that accompanied the Exposure Draft, PSAB did not want to predetermine which category any particular transaction would apply. Instead, the guidance noted that an assessment of the characteristics of each individual transaction is needed to determine whether a performance obligation is created. The Board agrees that royalties are a significant revenue source in the public sector and should be specifically mentioned in the Section. However, specific guidance for how to account for particular types of royalty transactions is not provided as the general principles would apply. One respondent did suggest that royalties were too complex and warrant a separate standard. The Board reiterated that this is a general application standard that will not preclude a separate standard, which addresses royalties or any other specific type of revenue transaction at a later point in time.

15 As noted above, some respondents wanted to know which royalty transactions and other types of transactions were exchange or unilateral. PSAB agreed that to make that determination, the facts and circumstances of each individual transaction need to be assessed. This is a principles-based standard and the substance of the transaction needs to be evaluated to determine if a performance obligation is present or not. Several examples have been included in Appendix C in the standard to help illustrate the application of the guidance.

DEFINITIONS

16 As mentioned earlier, Section PS 3400 establishes standards on how to recognize revenue. The Statement of Principles and the Exposure Draft both described the standard as establishing an overarching framework that identified two categories of revenue: revenue from exchange transactions and revenue from unilateral transactions. The key distinguishing feature between the two categories was whether a performance obligation was present. If a performance obligation were present, then it would be an exchange transaction. If no performance obligation were present, then it would be unilateral revenue.

17 Respondents to the Statement of Principles generally supported the key premise that identification of performance obligations differentiates revenue from exchange transactions from revenue that does not give rise to a transfer of goods or services to a payor (i.e., unilateral revenues).

18 Some respondents to the Statement of Principles also questioned whether a transaction was an exchange or unilateral transaction when only a public sector entity can issue certain licences or permits.

19 The Exposure Draft included guidance to clarify that it is the performance obligation to provide goods or services to the payor that distinguishes an exchange transaction from a unilateral transaction. A transaction would be considered an exchange transaction if it includes a performance obligation, regardless of the reason for or the authority needed to enter into the transaction. In return for the consideration, the payor would receive a direct benefit from the goods or services. It is also important to note that to be an exchange transaction, it does not necessarily have to be an exchange of equal value.

20 Some respondents to the Exposure Draft were still uncertain about whether a transaction would be classified as exchange or unilateral. These two categories distinguish between transactions that had performance obligations from those that did not.

21 This uncertainty may be partially due to the definition of unilateral revenues. Unilateral revenues were defined as "increase[ing] the economic resources of a public sector entity without a direct transfer of goods or services to a payor. The right to the economic resource is attributable to legislation based on constitutional authority or delegated constitutional authority and an event entitling the public sector entity to recognize revenue."

22 The second sentence of the definition focuses on the public sector entity's authority. In many cases, a public sector entity is the only entity with the authority to enter into certain transactions. For example, the public sector entity is the only entity within a jurisdiction that can issue a licence providing a payor a particular right (e.g., a driver's licence). This may have caused some confusion with determining under which category the transactions would fall.

23 Even though a public sector entity may be the only entity with legislative authority to engage in these transactions, if the transaction includes a performance obligation, then it is an exchange transaction. In these cases, a specific, identifiable payor will directly benefit from the goods or services being promised in return for consideration received.

24 The second sentence had originally been included as part of the definition to restrict the application of the proposals to a narrow set of revenues, such as fines or penalties, rather than the broader category of non-exchange revenues.

25 One option explored to address the concerns raised was to add more guidance and descriptors to illustrate the difference between the two categories. However, to avoid the challenges associated with determining the type of transaction, PSAB agreed that a simplified approach was needed. The terms "exchange" and "unilateral" were used to distinguish transactions that had performance obligations from those that did not.

26 PSAB agreed to focus the guidance on whether a performance obligation is present. Therefore, Section PS 3400 refers to “transactions with performance obligations” and “transactions with no performance obligations”, instead of “exchange” and “unilateral”. This will help alleviate some of the challenges with determining under which category the transactions would fall. The underlying principles or intent of the proposals has not changed, but less significance on the terms describing the two categories has been made.

27 Replacing the term “unilateral” with the phrase “transaction with no performance obligations” emphasizes that the presence of a performance obligation is key to distinguishing between the two types of revenue streams.

28 Making this change has not expanded the scope of transactions being captured because significant non-exchange transactions, such as TAX REVENUE, Section PS 3510, are specifically excluded from the scope. In fact, if there is a specific standard addressing a particular revenue transaction in the PSA Handbook, this Section will not override that Section.

RECOGNITION

29 Some respondents to the Exposure Draft suggested the proposed recognition criteria of (a) having the information required to record the transaction and (b) being able to enforce payment, could be strengthened. It was noted that the general recognition criteria in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, must be met and that a public sector entity only recognizes those future economic benefits it expects to obtain. These additional recognition criteria were added to emphasize that there are situations in the public sector when a public sector entity renders a service but may be unable to invoice for the service (e.g., when the entity provides ambulance services but does not have the payor’s name or address to charge a fee).

30 Clarifications have been made to these criteria in this Section to emphasize that (a) an event has occurred and (b) the public sector entity expects to obtain the future economic benefits. These criteria still capture the essence of what was intended, and more closely align with FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

31 Respondents to the Statement of Principles raised concerns about the ability to identify performance obligations and how to differentiate a performance obligation from an obligation associated with the public sector entity’s responsibilities or mandate.

32 The Exposure Draft provided additional guidance to explain that general obligations associated with a public sector entity’s mission or mandate were not intended to be within the scope of this Section. Performance obligations are narrower in scope than a public sector entity’s mission. They represent enforceable promises to deliver goods or services, including rights provided, to a specific payor who has entered into an exchange transaction with a public sector entity. Obligations associated with fulfilling the public sector entity’s general mandate or mission generally benefit the community as a whole rather than a specific payor.

PERFORMANCE OBLIGATIONS

33 As noted above, some respondents to the Statement of Principles and Exposure Draft raised application challenges with identifying performance obligations and determining whether a transaction was an exchange or unilateral transaction (referred to as “transactions with performance obligations” and “transactions with no performance obligations”, respectively in the final standard) when only a public sector entity can issue certain licences or permits.

34 The Exposure Draft provided guidance that each individual transaction needed to be assessed. As part of the 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.

35 The application guidance explained that 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 the payor versus general obligations associated with fulfilling its mandate or mission.

36 Some respondents to the Exposure Draft suggested referencing LIABILITIES, Section PS 3200, to ensure only those performance obligations that meet the definition of a liability would be recorded. The Exposure Draft and Section PS 3400 include a section on performance obligations as liabilities trying to emphasize the link. Section PS 3200 has also been referenced in the final standard.

DISTINCT GOODS OR SERVICES

37 The majority of respondents to both the Statement of Principles and Exposure Draft agreed that distinct goods or services should be identified. However, some respondents to the Exposure Draft requested some additional guidance and clarifications regarding the criteria to determine whether a good or service was distinct. Some respondents suggested that the criteria should be the same as IFRS 15 *Revenue from Contracts with Customers*.

38 PSAB agreed that amending the criteria to be similar to IFRS 15 might help alleviate the concerns raised and avoid any confusion over its application. The differences between the Exposure Draft proposals and IFRS 15 were not significant. In fact, the criteria that a payor can benefit from the good or service on its own or together with other resources that are readily available to the payor was similar to IFRS 15. The concern respondents raised with this criteria related to the public sector entity's ability to be aware of what resources the payor has readily available. The amended wording recognizes the fact that this information may not always be known.

39 The second criteria, noted in paragraph .26(a) of the Exposure Draft was:

> The public sector entity or another entity regularly offers the good or service separately.

40 The wording in paragraph 27(b) of IFRS 15 is:

> The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (ie the promise to transfer the good or service is distinct within the context of the contract).

41 Some respondents indicated that another entity offering the goods or services should not affect whether the goods or services were considered distinct.

42 PSAB thought that wording similar to IFRS 15 would be clearer and would help ensure the intent of the agreement between the payor and public sector entity was upheld. The revised wording will help alleviate some of the respondents' concerns regarding another entity regularly selling the good or service. However, the fact that another entity regularly offers the good or service separately to its payors may provide evidence to support a distinct good or service. There may be a range of evidence needed together with professional judgment to consider the facts and circumstances of each transaction to make the appropriate classification.

APPLYING THE RECOGNITION CRITERIA

43 The majority of respondents agreed that revenue be recognized when the performance obligation is satisfied. This may be over a period of time or at a point in time. A performance obligation is satisfied when control of the benefits associated with the goods or services has passed to the payor.

44 Respondents to both the Statement of Principles and Exposure Draft indicated that determining whether revenue should be recognized over a period of time or at a point in time is one of the most significant challenges of applying the standard, especially concerning transactions where rights have been provided. For instance, the driver's licence example in the Statement of Principles illustrated

the differing views on the matter. The Exposure Draft emphasized that each individual transaction or arrangement needs to be considered separately because not all licences or permits are the same, and provided indicators to help determine whether revenue would be recognized over a period of time. Some of the indicators were based on IFRS 15.

45 Many of the respondents to the Exposure Draft raised concerns about the amount of flexibility in determining whether revenue would be recognized over a period of time and requested additional guidance to understand the proposed indicators to recognize revenue over a period of time. PSAB agreed the intent was always to emphasize the need for professional judgment and the need to make an informed and reasonable assessment of whether revenue should be recognized over a period of time based on the facts and circumstances of the arrangement. Each arrangement needs to be considered as the terms and conditions associated with each transaction may be different.

46 The first three indicators of when revenue can be recognized over a period of time are based on IFRS 15. PSAB acknowledged that for many transactions with performance obligations, there is no reason why the indicators used in the private sector would not be applicable in the public sector. However, the Board believed two additional indicators were relevant in the public sector to help demonstrate when revenue should be recognized over a period of time for situations unique to the public sector, such as when rights to specific assets controlled by the public sector entity are provided through the issuance of licences or permits.

47 The first indicator is that 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. For example, certain municipalities may charge a fee to collect garbage for the payor on a regular basis. In this case, the payor receives the benefits provided by the public sector entity as the entity fulfils the performance obligation on a regular basis.

48 The second indicator is that the public sector entity's performance creates or enhances an asset (e.g., work in progress) that the payor controls or uses as the asset is created or enhanced. The payor would have the ability to use or direct the use of the asset while it is being created or enhanced.

49 The third indicator is that 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. In these situations, based on the terms and conditions of the arrangement, the public sector entity would be unable to take the work performed to date and provide it to another payor without substantial rework.

50 The last two indicators were developed to address situations unique to the public sector. Some respondents to the Exposure Draft wondered whether these additional indicators should be stand-alone indicators rather than additional guidance to support one of the first three indicators. PSAB agreed to retain these last two indicators as stand-alone indicators to reflect the nature of some types of revenue transactions in the public sector.

51 These last two indicators address situations where a licence or permit is issued to a payor that grants them the right to use or access an asset, either tangible or intangible. When assessing these types of transactions, an understanding of the characteristics of the goods or services being provided is needed. Each licence or permit needs to be assessed based on the terms and conditions associated with it to determine whether there are any ongoing performance obligations.

52 The fourth indicator is that the public sector entity is expected to continually maintain or support the transferred good or service under the terms of the arrangement. Continually maintaining or supporting the transferred good or service over a specified period of time refers to the public sector entity's future economic sacrifices that will be needed to fulfil or satisfy the performance obligations associated with the transaction. In these situations, the payor would expect the public sector entity to intervene and act when remedial action is needed to ensure the performance obligations are met.

The public sector entity's future economic sacrifices are specific to the terms of the arrangement and would not include any activities that the entity normally undertakes in fulfilling its general mandate.

53 The final indicator is that the public sector entity provides the payor with access to a specific good or service under the terms of the arrangement. PSAB made a distinction between granting access to a specific good or service versus granting the right to do something. For example, issuing a park pass grants a right to access a specific good or service versus issuing a hunting licence, which grants the payor the right to hunt (undertake an activity), but not to a specific asset. This distinction is important to help assess whether the public sector entity has any ongoing performance obligations after the issuance of the licence or permit.

54 If none of the indicators to recognize revenue over a period of time are met, then revenue would be recognized at a point in time. That is, the performance obligation is satisfied once the payor controls the benefits associated with the goods or services. This is usually evidenced when the payor has the ability to use or direct the use of, sell or exchange the good or service or hold the good or service with the discretion to use it.

55 One respondent to the Exposure Draft noted that in certain situations, the application of the proposals may burden a public sector entity. Not only will they be costly to implement, they will require additional administrative processes to track the necessary information. For example, building or construction permits may have multiple performance obligations. The ability to track when each performance obligation has been satisfied may be challenging. PSAB agreed that if the public sector entity has determined that multiple performance obligations exist, then revenue should be recognized when they are satisfied. However, when providing such information, an assessment of whether the benefits of providing the specific information justify the related costs is a matter of professional judgment.

REFUNDS

56 Some respondents suggested guidance on refunds belongs under variable consideration, similar to IFRS 15. In addition, they suggested that guidance for "constraining estimates of variable consideration," as found in IFRS 15, be included. This guidance would state that an estimated amount of variable consideration should only be recognized to the extent that it is highly probable that a significant reversal will not occur.

57 PSAB thinks that a public sector entity does not initially record revenue it expects to refund. However, if the public sector entity has already received the consideration that is expected to be repaid, a refund liability would be recorded.

58 When a public sector entity enters into a transaction with a specific payor, it does not anticipate that a portion of the goods or services promised will be returned. That would be a separate event. However, there may be some history of a percentage of goods or services that are returned on an annual basis. This history may be evidence to establish a refund liability.

59 Some respondents to the Exposure Draft wondered whether an asset should be recognized when a good is expected to be returned. Consideration of ASSETS, Section PS 3210, would be needed.

VARIABLE CONSIDERATION

60 The majority of respondents supported the use of either the expected value method or the most likely amount to estimate transactions with variable consideration.

61 It is understood that when dealing with variable consideration, the exact amount of consideration may not be known until it has been received. It is expected that in most instances, a reasonable estimate can be made.

62 Some respondents also suggested that royalties be addressed because they often contain a component of variable consideration. Additional guidance has been added to Section PS 3400 to recognize that royalties may include variable consideration.

EXISTENCE OF SIGNIFICANT CONCESSIONARY ITEMS

63 Many respondents supported the proposals that if a portion of a transaction was concessionary, it be treated as a grant. However, additional clarifications were needed.

64 PSAB agreed that transactions where discounts or concessions are offered that apply to anyone who meets the eligibility criteria would not be affected, such as seniors' discounts for admission to a museum or low-income housing.

65 The proposals were intended to apply to those rare situations when a public sector entity provides a significant concession to a specific payor that, in substance, is more of a grant in nature.

66 The Exposure Draft provided guidance for transactions with significant concessionary terms based on the guidance found in LOANS RECEIVABLE, Section PS 3050. Essentially, the proposals were to recognize the grant portion of the transaction as an expense and to recognize the transaction's face value as revenue. The intent was to make the transaction transparent.

67 However, some respondents felt this would be inconsistent with the revenue definition, as amounts not expected to be collected would be recognized as revenue. PSAB agreed that in these situations, given the different nature of a revenue transaction from a loan receivable, the transaction price should be adjusted to reflect the expected amount to be received. This is consistent with the revenue definition and provides a conservative approach to revenue recognition. Also, there is required disclosure of the original amount of the transaction price when an arrangement contains significant concessionary terms to provide transparency of the arrangement.

68 Some respondents suggested that present value techniques are only appropriate when the concession relates to delayed payment terms but not for a price concession. The everyday price concessions, such as those noted above, were not the intent of the proposals.

69 In addition, some respondents raised concerns regarding the proposed discount rate, in particular the requirement to reflect the payor's credit risk. It was noted that this approach is inconsistent with other standards in the PSA Handbook. Another respondent also noted that the discount rate should be based on the entity's own factors and it would be difficult to determine the payor's credit risk.

70 The objective is to measure the revenue transaction at its fair value that is at an amount that the payor would have paid in exchange for the promised goods or services if they had paid cash.

71 Taking into account some basic principles for developing discount rate guidance, PSAB provided non-prescriptive guidance. By not prescribing the discount rate, the standard allows the public sector entity to choose a rate that best reflects the risks specific to the transaction.

72 Some respondents to the Exposure Draft raised concern over the inconsistency of the discount rate guidance among the various PSA standards and the standards being developed. PSAB is establishing a methodology for developing discount rate guidance to ensure similar factors are considered when developing discount rate guidance.

DISCLOSURE

73 Some respondents thought the disclosure proposals were too onerous; for example, separately disclosing disaggregated revenues by source and type, with separate disclosure of revenues that are not related to recurring activities especially from a consolidated summary financial statement perspective.

74 Some respondents requested additional guidance indicating that materiality and the sensitivity of information needs to be considered in determining disclosure. The usefulness of the information presented to the reader of the summary financial statements should be considered when determining the level of detail to be provided. In addition, materiality of the information is always considered when determining the appropriate level of disclosures to be provided.

TRANSITIONAL PROVISIONS

75 Some respondents suggested the Exposure Draft proposal of retroactive application with restatement of prior years' figures was too onerous. PSAB thought that the ability to compare information over time was relevant and retroactive application with restatement would result in consistent information regarding revenue transactions regardless of whether those revenue transactions were entered into before or after the standard became effective. Comparative information, when prepared on a consistent basis, provides useful information for financial statement users. However, given the concerns raised and the understanding that applying a performance obligation approach to revenue transactions would be a new concept in the public sector, requiring a review or reconsideration of how to account for certain transactions, the Board agreed to apply transitional provisions consistent with ACCOUNTING CHANGES, Section PS 2120. When a change in accounting policy is made to conform to new standards, the new standards may be applied either retroactively or prospectively.

76 Section PS 3400 is effective for fiscal periods beginning on or after April 1, 2022. As noted above, the standard's key basic principles have not significantly changed from the Exposure Draft. However, a number of clarifications and revisions have been made to alleviate the concerns raised. PSAB agreed to extend the effective date from April 1, 2021 (as proposed in the Exposure Draft) to April 1, 2022, to allow stakeholders more time to prepare for its implementation.

ILLUSTRATIVE EXAMPLES

77 Many respondents to the Exposure Draft found the illustrative examples helpful. Some respondents requested additional examples to help illustrate the proposals' application to specific types of revenue transactions.

78 PSAB agreed that adding some additional examples would help illustrate the standard's application. In particular, as some respondents suggested, in place of the fitness centre example proposed in the Exposure Draft, a park pass example was used because it better reflects circumstances in the public sector. The park pass example illustrates the recognition of revenue over a period of time and the difference between a public sector entity's mandate versus a performance obligation included in a transaction with a specific payor.

79 Some of the additional examples added included a building permit, variable consideration and work in process.

80 PSAB agreed that examples for all possible scenarios or particular revenue transactions were not feasible. These examples simply illustrate the application of the guidance. Each transaction needs to be assessed and the standard's basic principles need to be applied.

81 Some respondents suggested that a decision tree would be helpful to understand how to apply the standard. PSAB agreed and included a diagram representing an overview of the standard. The diagram is intended to illustrate the standard's key components that need to be considered when assessing a particular revenue transaction.

OTHER MATTERS

Transaction with no performance obligations

82 One respondent wondered how in-kind services would be treated when they were offered in lieu of the fee or fine associated with a transaction with no performance obligations. For example, a payor convicted of an offence may perform community service in lieu of paying a fine.

83 In many cases, the public sector entity would be unlikely to have sufficient control over the services being provided. It may also be difficult to determine a reasonable estimate of the value of those services. Consequently, the recognition criteria may not be met.

Contract costs

84 The Statement of Principles proposed that contract costs be expensed unless they gave rise to a tangible capital asset or inventory. The majority of respondents supported the proposal. Some respondents also suggested that they would need to meet the test of an asset, as well. In other cases, specific examples were provided that may represent a private public partnership arrangement. A Private Public Partnerships project is underway.

85 The Exposure Draft excluded contract costs. One respondent to the Exposure Draft suggested guidance was needed to address contract costs. The purpose of the guidance is to develop a framework that would apply to many forms of revenue reported by public sector entities.

Collectibility

86 The Statement of Principles proposed that a public sector entity recognize the gross amount of revenue with both a bad debt expense and a valuation allowance if the receivable is impaired. Many respondents supported this approach. It was thought to present a more complete picture of potential revenue and outcomes associated with collection efforts. However, some respondents believed the approach was inconsistent with PSAB's general recognition criteria and initial measurement requirements in other Sections. This was a concern as some public sector entities are mandated to provide services to parties who may be unwilling or unable to pay. The proposals in the Exposure Draft were in accordance with the general recognition criteria stated in FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.55 (i.e., a public sector entity recognizes only future economic benefits it expects to obtain). Respondents to the Exposure Draft no longer raised this as an issue.

Professional judgment

87 Some respondents to the Statement of Principles thought certain areas of the proposals were too prescriptive. Other respondents thought additional guidance was needed to help apply the proposals.

88 One of the proposals' objectives was to improve consistency and comparability over time and between public sector entities. Therefore, the Exposure Draft provided some guidance around possible approaches (e.g., when allocating the transaction price among performance obligations). However, the guidance requires professional judgment to ensure the facts and circumstances of each transaction are properly assessed.

89 Respondents to the Exposure Draft suggested that too much professional judgment was allowed, which could impair consistency and comparability over time and between public sector entities. In some areas, such as determining when to recognize revenue over a period of time, PSAB agreed and made some clarifications. However, this is a principles-based standard and choices will be needed to reflect the economic substance of the transaction.