PSAB
Public Sector
Accounting Board

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# In Brief

*A plain and simple overview of PSAB's new standard on how Revenue impacts local governments*

## This is an overview of the recently approved new standard, Revenue, Section PS 3400 and its impact on local governments

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| **Project objectives:** | To establish an accounting standard that addresses the accounting and reporting of revenue not previously addressed in the CPA Canada Public Sector Accounting (PSA) Handbook. |
| **Approved:** | Public Sector Accounting Board (PSAB) approved REVENUE, Section PS 3400 at its June 2018 meeting. Section PS 3400 was issued in the PSA Handbook November 2018. |
| **Implications:** | Effective April 1, 2022, all public sector entities following the PSA Handbook will be required to adopt this new Section. Early adoption is permitted. Consistent with ACCOUNTING CHANGES, Section PS 2120, Section PS 3400 may be adopted prospectively or retrospectively. |
| **Overview:** | Section PS 3400 provides a framework for recognizing revenue by distinguishing between revenue that arises from transactions that include performance obligations from transactions that do not have performance obligations. |

## What's in and out of scope?

This new standard provides guidance on how to account and report revenue in the public sector.

Section PS 3400 is a general application standard and therefore will not override existing guidance found in the PSA Handbook.

As per the new Section, revenues, including gains, are defined as increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from operations, transactions, and events of the accounting period.

### Out of Scope – Development Charges

PSAB considered if development charges should be included in this new section. But they concluded that development charges would not be addressed. The current guidance in RESTRICTED ASSETS AND REVENUE, Section PS 3100 would continue to apply. See the Basis for Conclusions for detailed information on this decision.

Section PS 3400 addresses transactions between a public sector entity and a specific payor. In some cases, the specific payor may indicate who the intended recipient of the promised goods or services will be, but it is specific enough to enable a determination of when the performance obligation is satisfied.

If development charges are collected from a payor, the development charges are for funds to cover incremental infrastructure, in accordance with legislation. The payor does not usually receive the direct benefits associated with the goods or services being promised. RESTRICTED ASSETS AND REVENUES, Section PS 3100 will continue to apply to these types of scenarios.

## When is it revenue?

Section PS 3400 requires that transactions with performance obligations recognize revenue when (or as) the performance obligation is satisfied by providing goods or services to a payor.

A performance obligation is an enforceable promise to provide specific goods or services to a specific payor.

To help identify and determine the performance obligations, a specific payor and the specific good or service needs to be identified. Each distinct good or service would be accounted for separately.

Once the performance obligation is identified, an assessment is needed to determine whether the performance obligation is satisfied over a period of time or at a point in time.

There are five indicators outlined in the new standard to determine if the revenue would be recognized over a period of time. If none of those indicators are met, then revenue would be recognized at a point in time.

**What about building permits?**

Some local governments suggest that the performance obligation associated with a building permit would not be satisfied until an occupancy permit was issued.

Other local governments thought there were multiple performance obligations during the life of the permit as key milestones and inspections, as outlined in the agreement, are satisfied.

The terms of each licence or permit need to be assessed to determine which performance obligations are included.

Section PS 3400 provides guidance that a performance obligation may be present when the payor expects to receive a direct benefit arising from the payment of a fee. For example, one or more qualifying inspections, or examinations, may be required as per the terms of the agreement.

As this new standard is principles-based, when an assessment determines there are multiple performance obligations included in the arrangement, revenue should be recognized as they are satisfied.

## When do these standards take effect?

Section PS 3400 is effective for fiscal periods beginning on or after April 1, 2022.

Early adoption is permitted.

To help apply the new section, the transitional provisions allow for either prospective or retroactive application, consistent with ACCOUNTING CHANGES, Section PS 2120, when a new standard is being implemented for the first time.

Get more information on PSAB's Revenue project.

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