PSAB

Public Sector Accounting Board

November 2018

In Brief

A plain and simple overview of PSAB's new standard on Revenue

This is an overview of the recently approved new standard, Revenue, Section PS 3400

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 permtted. 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.

Reason for the project

Public sector entities receive many types of revenue, such as the following:

- Taxes
- Transfers
- Contributions
- Fines
- Penalties
- Royalties
- The sale of goods or rendering of services

There is specific guidance on how to account for some of these revenue streams, such as taxes and transfers.

The purpose of this project is to put in place an overarching standard on revenue to address these other types of revenue where no guidance previously existed.

This Section addresses when revenue is recognized and how they are measured and presented in financial statements.

Scope

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.

This new standard will provide guidance on how to account and report common types of revenue in the public sector.

However, it will not take precedence over existing guidance in the PSA Handbook that address specific financial statement items. For example, guidance pertaining to revenue from taxes is addressed in TAX REVENUE, Section PS 3510, and is excluded from the scope of this standard.

Overview of key changes from Exposure Draft

PSAB issued an Exposure Draft in May 2017 that proposed two categories of revenue:

1. Those that arise from exchange transactions.
2. Those that arise from unilateral transactions.

The basic premise was that if a performance obligation was present, then it would be an exchange transaction. If there was no performance obligation, then it would be unilateral revenues.

Performance obligations are enforceable promises to provide specific goods or services to a specific payor.

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

The Exposure Draft defined unilateral revenues as increases of 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.

However, after deliberating stakeholder feedback, PSAB decided to simplify the proposals and focus on the key distinguishing feature between the two categories – is a performance obligation present or not?

The notion that unilateral revenues arose because of the public sector entities constitutional authority, or delegated constitutional authority, added complexity to the standard that was not necessary. Even if the entity was engaged in the transaction because of its authority, if a performance obligation was present, it was intended to be treated as an exchange transaction or transaction with performance obligations.

Therefore, the new Section PS 3400 replaces the terms "exchange transactions" and "unilateral revenues" with "transactions with performance obligations" and "transactions with no performance obligations", respectively.

PSAB believes this will simplify the application of the proposals, taking the focus off of trying to determine the type of transaction based on definitions and then determining whether a performance obligation exists, to only whether a performance obligation exists.

This new approach will reduce the confusion as to which category the revenue would fall under. The focus is on whether the public sector entity has a performance obligation to the payor or not.

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 what the performance obligations are, 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.

For transactions with no performance obligations, revenue is recognized when the public sector entity has the authority to claim or retain the revenue, and a past transaction or event giving rise to the claim has occurred.

Examples

With a performance obligation

A public sector entity is selling a recycling bin to a payor.

A specific payor offers consideration in return for a recycling bin.

The public sector entity has a performance obligation to provide that specific payor with a specific good or service – a recycling bin. The performance obligation will be satisfied once the payor can directly benefit from the recycling bin, that is once the payor has control of the recycling bin.

Without a performance obligation

A payor gets a parking ticket.

The public sector entity has the authority to issue a parking ticket and a past event has occurred, the payor parked in a no-parking zone that was clearly identified on the public road and a ticket was issued.

When the public sector entity is entitled to payment in respect of the ticket issued to the payor, it does not have any performance obligations to the payor. And, the payor does not receive any direct benefit from paying the ticket – it is a transaction with no performance obligations.

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.

Contact

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