Understanding ASPE
Section 3400
Revenue
A better working world begins with better questions. Asking better questions leads to better answers. To help preparers of financial statements with Canadian accounting standards for private enterprises (ASPE) Section 3400, Revenue, we’ve summarized the key aspects of the Section and offer relevant practical considerations for private mid-market companies through answering six commonly asked questions.

**Question 1: What is revenue?**
Revenue is defined in paragraph 3400.03(a) as the inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise, normally from the sale of goods, the rendering of services, and the use by others of enterprise resources yielding interest, royalties and dividends.

**Question 2: When is revenue from the sale of goods and rendering of services recognized?**
As described in paragraph 3400.04, revenue is recognized when the requirements as to performance are satisfied, provided that at the time of performance, ultimate collection is reasonably assured.

Paragraph 3400.07 states that performance is achieved when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, and the sellers’ price to the buyer is fixed or determinable.

As described in paragraph 3400.05, in a transaction involving the sale of goods, performance shall be regarded as having been achieved when the seller of the goods has transferred to the buyer the significant risks and rewards of ownership and reasonable assurance exists regarding the measurement of the consideration derived from the sale, and the extent to which goods may be returned. As described in paragraph 3400.16, revenue from service transactions is usually recognized as the service is performed. Paragraphs 3400.08 through 3400.18 provide additional guidance as to the timing of revenue recognition in certain circumstances.

**Question 3: How is revenue measured?**
Section 3400 does not prescribe a measurement basis for revenue. Paragraphs 3400.19 - 3400.22 emphasize that uncertainties relating to the measurement of revenue (such as rights of return or uncertainty related to the customers’ intent and ability to pay) may impact the measurement of revenue. Although not necessary, in accordance with paragraph 20 of Section 1100, *Generally accepted accounting principles*, Part I of the CPA Canada Handbook – Accounting may be an important source to consult on matters not covered in Part II of the CPA Canada Handbook – Accounting or to assist in applying a standard to specific circumstances. Therefore, preparers may look to Part I of the CPA Canada Handbook – Accounting in applying the requirements of Section 3400.
How should revenue be presented for a company that collects amounts on behalf of a third party and earns a commission on the amounts collected?

As described in paragraph 3400.23, revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties may not represent economic benefits that flow to the entity and the company must consider whether it is acting as a principal or as an agent. If the company concludes that an agency relationship exists, the company would report amounts collected on behalf of the third party on a net basis. Alternatively, revenue would be reported gross if the company concluded that they were acting as a principal.

Paragraph 3400.24 sets forth considerations to help determine whether an entity is acting as a principal or an agent. An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

How are multiple element arrangements accounted for?

Paragraph 3400.11 sets forth the accounting for multiple element arrangements. The recognition criteria in Section 3400 are applied to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognized as revenue over the period during which the service is performed.

How is revenue on long-term contracts recognized?

As indicated in paragraph 3400.16, revenue from long-term contracts is recognized using either the percentage of completion method or the completed contract method.

Paragraph 3400.03(c) indicates that the percentage of completion method recognizes revenue proportionately with the degree of completion of goods or services under the contract. As described in paragraph 3400.17, revenue recognized using the percentage of completion method would be determined on a rational and consistent basis such as on the basis of sales value, associated costs, extent of progress or number of acts.

As noted in paragraph 3400.03(b), the completed contract method recognizes revenue only when the sale of goods or rendering of services under a contract is completed or substantially completed. Paragraph 3400.18 indicates that the completed contract method would only be appropriate when performance consists of the execution of a single act or when the enterprise cannot reasonably estimate the extent of progress towards completion.

Section 3400 does not contain application guidance for either method of revenue recognition for long-term contracts. As such, it may be helpful for preparers to look to Part I of the CPA Canada Handbook — Accounting in applying the requirements of Section 3400.

To learn more about these items or for application guidance, please contact our Private Mid-Market practice at privatecompanyinfo@ca.ey.com.
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