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Amendments to ASPE 3400 Revenue

The Accounting Standards Board (AcSB) has issued amendments to ASPE Section 3400 *Revenue* (the "Amended Guidance"), to provide more robust guidance to support the application of the existing risk-and-rewards revenue model, which differs from the control-based model used under IFRS and U.S. GAAP post-2018.

These amendments will provide guidance on:

- Determining whether an arrangement consists of a group of contracts or a single contract and identifying the units of account in an arrangement;
- Allocating consideration in multiple-element arrangements to separate units of account;
- Accounting for revenue under the percentage-of-completion method;
- Reporting revenue gross or net;
- Determining when to recognize revenue for a bill-and-hold arrangement; and
- Determining when to recognize revenue for upfront non-refundable fees or payments.

The Amended Guidance also expands disclosure requirements for contracts in progress at the end of the reporting period accounted for using the percentage-of-completion method.

The Amended Guidance is effective for fiscal years beginning on or after January 1, 2022, with earlier application permitted.

Key provisions

Identification of units of account and multiple-element arrangements

When a revenue arrangement comprises several deliverables (i.e., a bundled arrangement), an entity must evaluate if each deliverable represents a separate unit of account. Contract consideration of a multiple-element arrangement should be allocated to each unit of account and revenue should be recognized for each unit when all revenue recognition criteria are satisfied.

Subtopics	Overview of the amendments	Application considerations
When should multiple contracts be combined?	• A group of contracts, whether with a single customer or with several customers, is treated as a single contract when the contracts: – are negotiated as a package in the same economic environment with an overall profit margin objective; – constitute in essence a single arrangement with a single customer; – are so closely interrelated; and – are performed concurrently or in a continuous sequence.	• The Amended Guidance provides more robust guidance in contract combination, identification of units of accounts and multiple element arrangements. Entities should evaluate if changes need to be made to its existing policies in these areas to be in compliance with these amendments. • Under the Amended Guidance, no element can be allocated a value of zero.
How to identify units of account	• Application guidance is provided to identify units of accounts in a revenue contract: – When the arrangement has a general right of return, delivery or performance of the remaining deliverable(s) is probable and substantially in the control of the seller; and – The deliverable(s) have value to the customer on a stand-alone basis.	
How to allocate revenue to multiple elements	• Allocation of revenue to multiple elements based on a *relative stand-alone selling price*, including guidance on methods for estimated stand-alone selling price	

Percentage-of-completion method

The percentage-of-completion method is used for revenue from service transactions and long-term contracts (e.g., construction contracts).

Subtopics	Overview of the amendments	Application considerations
Determining the percentage-of- completion ("POC")	• Alternative approaches provided for determining POC on a contract, including input and output methods. – When an input method is used, costs of uninstalled materials or equipment in the POC calculation should not be included in the measurement of progress if such costs would overstate the degree of completion.	• The Amended Guidance provides more application guidance on POC calculation, entities should evaluate their existing methods (e.g., selection of the appropriate basis for progress measurement, type of contract costs for inclusion in POC calculation (including uninstalled materials or equipment, if any) when an input method is used, method of calculating amounts of revenue and costs recorded in each reporting period) are in compliance with the new requirements. • Entities should develop appropriate policies in the identification of contract costs, including developing proper controls in the areas that require judgment (e.g., the methodology used to allocate general costs to a specific contract or assessment of when it is
How to recognize revenue, cost of sales and gross profit	• Alternative approaches provided for calculating revenue, cost of sales and gross profit for the period under the POC method. – Selected approach must be applied on a consistent basis to all contracts.	
What costs to include and how to account for contract costs	• Specifies what constitutes contract costs: – costs that relate directly to a specific contract (e.g., cost of materials, site labour); – costs that can be attributed to contract activity (e.g., insurance and overhead costs); or • costs that are chargeable to a customer pursuant to the customer contract.	

Subtopics	Overview of the amendments	Application considerations
	• Cost of equipment purchased for use on a contract may be allocated over the period of its expected use unless the title to the equipment is transferred to the customer by terms of the contract. • Costs incurred in securing a contract can be included in contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained. • Costs that cannot be attributed or allocated to a contract (e.g., selling costs, non-reimbursable administrative or development costs, amortization of idle property, plant and equipment) are excluded.	probable that a contract will be obtained). • Additionally, entities should develop and implement appropriate processes to compare total contract costs to expected contract revenue and recognize expected loss when such total contract costs exceed contract revenue.
How to account for expected contract losses	• Expense the entire expected loss immediately when it becomes probable, at any time or stage of completion (even pre-commencement).	

Report revenue gross or net

When another party is involved in providing goods or services to a customer, the entity should determine whether it is the principal in the delivery of goods or services to the customer or it is acting as an agent to arrange for those goods or services to be provided by the other party. If the entity is the principal for the delivery of goods or services, revenue should be reported on a gross basis; otherwise, revenue should be reported net. An entity may arrive at different conclusions for different revenue transactions depending on the underlying facts and circumstances.

Overview of the amendments	Application considerations
• Retain similar indicators but noting the following as strong indicators: – The enterprise is the primary obligor in the arrangement; – The enterprise has general inventory risk. • Provide more extensive guidance in the assessment of each gross vs. net indicator. • Provide supplemental indicators, which support gross revenue reporting when an enterprise: – Changes the product or performs part of the service; – Has discretion in supplier selection; – Is involved in the determination of product or service specifications; – Has physical loss inventory risk (after customer order or during shipping).	• The Amended Guidance adds extensive guidance on gross vs. net determination and places more weight on the primary obligor and inventory risk indicators. Entities should determine if their current gross vs. net position changes upon adoption of the amendments.

Bill-and-hold arrangements

A bill-and-hold arrangement refers to a sales arrangement where an entity has invoiced the customer but retains physical possession of the goods until delivery at a future date. Under the Amended Guidance, revenue is only recognized when certain criteria are met.

Overview of the amendments	Application considerations
• All of the following criteria must be met in order to recognize revenue prior to delivery: – Risks of ownership have passed to the buyer; – Customer has made fixed commitment to purchase goods; – Buyer requested the transaction to be on a bill-and-hold basis, with substantial business purpose for doing so; – Schedule in place for delivery of goods that is reasonable and consistent with buyer's business purpose; – Seller has not retained any specific performance obligations; – Ordered goods are segregated from seller's inventory and cannot be used to fill other orders; and – Product is complete and ready for shipment.	• Entities that have bill-and-hold arrangements should evaluate if their existing policies align with the requirements under the Amended Guidance. Due to the extensive list of criteria, it is expected fewer revenue arrangements would be recognized on a bill-and-hold basis under the Amended Guidance. • If an arrangement is accounted for on a bill-and-hold basis, custodial services should be assessed to determine if they represent a separate unit of account.

Upfront non-refundable fees/payments

Certain contracts may involve charging a customer an upfront non-refundable fee, such as admission fees in health-club membership contracts or activation fees in service contracts. Timing of revenue recognition for these fees is dependent on the right, product or service provided in conjunction with the fees.

Overview of the amendments	Application considerations
• Upfront non-refundable fees have to be deferred when the goods/services in exchange of the fees do not have utility to the buyer who is separate and independent of the enterprise's performance of the other elements of the arrangement, and are earned as the products and/or services are delivered and/or performed.	• When substantive costs and efforts are incurred at the outset of a revenue arrangement, careful evaluation should be performed to determine if such activities have utility to the customer that is separate from the other elements of the arrangement to support upfront revenue recognition. • Non-refundable upfront fees associated with material rights to customer should be recognized over the period that the implied performance obligation is expected to be satisfied.

Disclosures

There are new disclosure requirements for contracts in progress that are accounting for using the percentage-of-completion method:

a. the method(s) of measuring the degree of completion;
b. the aggregate amount of costs incurred and profits (less losses) recognized to date;
c. the aggregate amount of advances received;
d. the aggregate amount of holdbacks withheld; and
e. uncertainties affecting the measurement of the degree of completion.

Transition relief

The Amended Guidance is to be applied retrospectively, with transition relief available for the following:

- Amendments for identification of units of accounts, multiple-element arrangements and percentage-of-completion method (including the new disclosure requirements for contract in progress) can be applied:
  - at the beginning of the earliest period presented, or
  - at the beginning of the fiscal year in which the amendments are first applied, with cumulative effects recorded in opening retained earnings.
- No retrospective amendments required for:
  - Contracts accounted for using the percentage-of-completion method that are completed during or prior to the fiscal year in which the amendments are first applied.
  - Allocation of revenue in multiple-element arrangements for which all deliverables are delivered by the fiscal year in which the amendments are first applied or during the immediately preceding fiscal year.

Next steps

The Amended Guidance contains robust application guidance that does not exist in the current Revenue standard. With the effective date fast approaching, entities should develop a detailed and thoughtful implementation plan for the adoption of the Amended Guidance. Set forth below are illustrative key activities that an entity may consider in their adoption plan:

Key activities	Description
Scope and plan	• Identify and inventory revenue arrangements that may be affected by the Amended Guidance • Develop an adoption plan, including identifying resource needs
Assess	• Review existing accounting policies against the requirements of the Amended Guidance to identify areas of adoption impact, including impact on financial statements, financial metrics, financial covenants, etc. • Identify areas of judgment, estimates and policy choices
Quantify	• Perform analysis to quantify adoption impact, including developing applicable judgment, estimates and policy choices
Sustain	• Update or develop accounting policies and procedures, including controls, to comply with the requirements of the Amended Guidance
Educate	• Train all stakeholders (finance and operational personnel, shareholders, board of directors or equivalents, creditors, etc.) of the impact from the Amended Guidance

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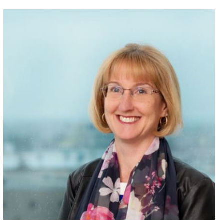

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