SECTION PS 3400
revenue

Basis for Conclusions

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PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report on revenue. Specifically, it differentiates between revenue arising from transactions that include performance obligations, referred to as "exchange transactions", and transactions that do not have performance obligations, referred to as "non-exchange transactions".

.02 **Revenue**, including a gain, is an increase in assets or a decrease in liabilities in the accounting period that results in an increase in net assets or a decrease in net liabilities. [Former paragraph PS 3400.02, amended by the Conceptual Framework, retained in Archived Pronouncements.]

.03 This Section does not apply to:

(a) contributions that are voluntary and non-reciprocal in nature;

(b) a transfer of economic resources from another public sector entity that are accounted for in accordance with GOVERNMENT TRANSFERS, Section PS 3410;

(c) inflows of economic resources that are accounted for in accordance with TAX REVENUE, Section PS 3510;

(d) inflows of restricted economic resources that are accounted for in accordance with RESTRICTED ASSETS AND REVENUES, Section PS 3100;

(e) interest, dividends and changes in the fair value of financial instruments including derivatives or their disposal that are accounted for in accordance with FINANCIAL INSTRUMENTS, Section PS 3450;

(f) revenue from restructuring transactions that are accounted for in accordance with RESTRUCTURING TRANSACTIONS, Section PS 3430;

(g) revenue from investments in partnerships that are accounted for in accordance with INTERESTS IN PARTNERSHIPS, Section PS 3060; and

(h) revenue from investments in government business enterprises that are accounted for in accordance with INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070.

.04 A transaction or event of the accounting period may initially represent a contractual obligation or a contractual right of a public sector entity that will eventually result in revenue. The transaction or event would be outside the scope of this standard, and a public sector entity would need to consider CONTRACTUAL OBLIGATIONS, Section PS 3390, or CONTRACTUAL RIGHTS, Section PS 3380, until the transaction or event creates a revenue or liability.

DEFINITIONS

.05 The following terms are used in this Section with the meanings specified:

(a) **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. These transactions are not necessarily exchanges of fair or equal value.

(b) **Performance obligations** are enforceable promises to provide specific goods or services to a specific payor.

(c) **Transaction price** is the amount of consideration a public sector entity expects to receive in exchange for promised goods or services to a payor.

(d) **Non-exchange transactions** are transactions or events where there is no direct transfer of goods or services to a payor.

RECOGNITION

.06 Public sector entities obtain economic resources or revenue from a broad range of activities. In this Section, economic resources are earned in exchange for the transfer of goods or services and/or obtained under legislative authority.

.07 Transactions with performance obligations are often referred to as "exchange transactions". However, an exchange of approximately equal value is not necessary. Only the presence of a performance obligation is necessary.

.08 Revenue earned in exchange for the transfer of goods or services, such as the sale of a recycling bin or the sale of a park pass, includes one or more performance obligations. For a public sector entity, a performance obligation arises from an enforceable promise to transfer goods or services directly to a payor in return for promised consideration.

.09 Transactions with no performance obligations arise when the public sector entity's economic resources increase without a direct transfer of goods or services to a payor. There is no transfer as the public sector entity is acting under its authority, such as when it issues a speeding ticket.

.10 For purposes of this Section, the term "goods or services" includes rights provided for situations where the public sector entity has a performance obligation and the payor obtains a specific benefit (see paragraphs PS 3400.11, PS 3400.21, PS 3400.AG.06 and PS 3400.AG.14). 1

.11 Promised goods or services may include goods purchased or produced for resale, the use of intangible and tangible assets, or services provided.

.12 For example, royalties may be received by a public sector entity in exchange for the use of intangible assets or the ability to access public resources. The public sector entity has a performance obligation to provide access to a public resource in exchange for consideration. The ability to access a public resource, by a specific payor in return for promised consideration, is a transaction with performance obligations.

.13 Another example is a public sector entity that issues a licence to a specific payor allowing the payor to extract a determined amount of ore from a mine. The public sector entity has granted the payor mining rights and the payor, in return for the consideration paid or to be paid, receives a direct benefit from the ability to mine.

.14 For an economic inflow to be recognized as revenue, the general recognition criteria in Chapter 9 of the Conceptual Framework must be met. A public sector entity recognizes only those future economic benefits it expects to obtain. Revenue is expected when:

(a) a transaction or event has occurred; and

(b) the public sector entity expects to obtain future economic benefits.

[Former paragraph PS 3400.14, amended by the Conceptual Framework, retained in Archived Pronouncements.]

.15 For example, when a parking summons is unenforceable because the information collected is incomplete, revenue would not be recognized, as it is inherently uncollectable.

.16 When reporting on revenue within the scope of this Section, a public sector entity evaluates the composition and characteristics of the transaction. An assessment is needed to determine whether the economic inflow gives rise to one or more performance obligations.

.17 In some situations, a transaction may have characteristics of both transactions with performance obligations and events with no performance obligations. These are referred to as "hybrid transactions" (see paragraphs PS 3400.55-.57).

.18 A public sector entity also needs to evaluate the characteristics of the transaction to determine if it is acting as the principal or agent (see paragraphs PS 3400.AG.35-.AG.41). 2

Performance obligations

.19 A payor exchanges consideration for specific benefits in the form of enforceable promises made by a public sector entity. These enforceable promises constitute performance obligations.

.20 Enforceable promises create a valid expectation of the payor that the public sector entity will transfer a good or service. Enforceable promises may arise from a contract negotiated with the payor or from terms set by the public sector entity. Many goods and services are subject to a payor's acceptance of standard terms. If a promise is enforceable by a payor, it is a performance obligation, whether written or not.

.21 In some cases, transactions with performance obligations arise from the public sector entity's authority to provide rights to a good or service. For example, a public sector entity is the only entity that can provide a payor the right to drive by issuing a driver's licence.

.22 A public sector entity's mandate or mission does not create performance obligations on its own because it does not establish an enforceable promise to a specific payor. Obligations associated with fulfilling a public sector entity's mandate generally benefit the community as a whole rather than a specific payor.

.23 Social policies or programs established by a public sector entity, such as health care, do not create performance obligations. The public sector entity has not entered into a specific transaction with a particular payor.

.24 Performance obligations do not include activities that a public sector entity undertakes unless those activities provide a distinct good or service to the payor. For example, a public sector entity may need to perform various administrative tasks to set up the terms of the arrangement with a payor, such as enrollment activities to register a student for a course. A performance obligation does not arise when those tasks do not provide a distinct good or service to the payor.

.25 Many activities of public sector entities, including activities that may involve receipt of consideration, do not create performance obligations for public sector entities. Unless one or more enforceable promises to the payor can be identified that meet the definition of a liability for the public sector entity (see LIABILITIES, Section PS 3200), no performance obligation is present.

Performance obligations as liabilities

.26 Public sector entities have many types of obligations. Only those obligations that meet the definition of a liability in LIABILITIES, Section PS 3200, are present obligations. Unfulfilled performance obligations are one type of present obligations that a public sector entity may have.

.27 An unfulfilled performance obligation for a public sector entity has all three of the essential characteristics of a liability. It is a present economic obligation of a public sector entity to others as a result of a past event(s), 3 the settlement of which is expected to result in the future sacrifice of economic benefits. There is:

(a) a duty or responsibility to others, leaving a public sector entity little or no discretion to avoid settlement of the obligation;

(b) a duty or responsibility to others that entails settlement by a future transfer or use of economic resources (such as the provision of goods or services, or other forms of economic settlement) at a specified transaction or other or predetermined date, on occurrence of a specified transaction or other event, or on demand; and

(c) a transaction or other event obligating the public sector entity that has already occurred. 4

[Former paragraph PS 3400.27, amended by the Conceptual Framework, retained in Archived Pronouncements.]

.28 When a public sector entity receives consideration prior to the provision of goods or services, unearned revenues would be recorded provided the definition of a liability is met. The public sector entity still must satisfy the performance obligations identified in the exchange transaction. Although the public sector entity is in possession of the economic resources associated with those performance obligations, it has not fulfilled its obligations and, therefore, the revenue has not yet been earned.

Evaluating distinct goods or services

.29 *A public sector entity should evaluate the goods or services it has promised to provide. It should identify which goods or services (or which bundles of goods or services) are distinct and should be accounted for separately.* [APRIL 2023]

.30 A public sector entity identifies each distinct good or service promised to a payor at the inception of a transaction. Refer to paragraph PS 3400.AG.06 for examples of goods or services. 5

.31 When more than one good or service is to be provided, a public sector entity would determine whether the goods or services are distinct. Each distinct good or service has a performance obligation that would be accounted for separately. A promised good or service may not be distinct when it is highly interrelated to another good or service. In these cases, the public sector entity would combine that good or service with other promised goods or services until the public sector entity identifies a bundle of goods or services that is distinct. This would be accounted for as a single performance obligation.

.32 A good or service is considered to be distinct if both of the following criteria are met:

(a) the payor can benefit from the good or service either on its own or together with other resources that are readily available to the payor (i.e., the good or service is capable of being distinct); and

(b) the public sector entity's promise to provide the good or service to the payor is separately identifiable from other promises in the transaction (i.e., the promise to transfer the good or service is distinct in the context of the transaction).

.33 Readily available resources are goods or services that are sold separately (by the public sector entity or by another entity) or goods or services that the payor has already obtained from other transactions or events (if known). If resources are readily available, the goods or services promised in the transaction are capable of being distinct. For example, a computer and a monitor are each capable of being a distinct good.

.34 A good or service in a bundle of promised goods or services is not distinct in certain circumstances, such as when the goods or services are highly interrelated and a significant level of service is required by the public sector entity to integrate the goods or services into the combined items. Goods or services are highly interrelated when they must be combined together by the public sector entity or the goods or services are dependent on each other in order to fulfil the performance obligation as set out in the terms of the arrangement. The goods or services would not be functional on their own until they have been combined together. In these cases, the public sector entity would account for the transactions as a single performance obligation. For example, if a public sector entity designs and builds a rail hub, the design phase and the build phase may be dependent on each other as the designs may change and be further customized as the building phase occurs.

APPLYING THE RECOGNITION CRITERIA

Transactions with performance obligations

.35 *Revenue from transactions with performance obligations should be recognized when (or as) the public sector entity satisfies a performance obligation by providing the promised goods or services to a payor.* [APRIL 2023]

.36 The public sector entity will need to demonstrate that a performance obligation has been satisfied. For each performance obligation, a public sector entity evaluates whether the performance obligation is satisfied over a period of time or at a point in time.

.37 The characteristics of the goods or services promised need to be identified in order to determine when and how the performance obligation will be satisfied. This evaluation is made at the inception of the transaction.

.38 Identifying the characteristics of the goods or services promised will include identifying the specific payor and the specific goods or services promised.

.39 Clearly establishing the payor and acknowledging how the performance obligation will be settled, as a result of the consideration promised, will help distinguish the public sector entity's performance obligations to the payor from those responsibilities that result from trying to fulfil its general mandate. For example, a public sector entity may have a general responsibility to enforce safe driving as part of its mandate to move people and goods safely. This responsibility benefits the community as a whole and is not specific to a particular payor who may have entered into an arrangement to receive a driver's licence.

.40 A public sector entity will determine whether the performance obligation is considered satisfied over a period of time or at a point in time. If none of the indicators in paragraph PS 3400.43 are met, then the performance obligation is satisfied at a point in time. The public sector entity recognizes revenue in a manner that best depicts the transfer of goods or services to the payor.

.41 A performance obligation is satisfied when a payor has control of the benefits associated with the good or service. The evidence to support whether control of the benefits has passed to the payor may vary and symmetrical accounting may not occur between the payor and the public sector entity. Determining when the payor has control depends on the characteristics of the goods or services promised and whether control passes over a period of time or at a point in time. Based on the characteristics of the goods or services promised, a public sector entity must identify its performance obligations and whether they have been satisfied.

.42 A public sector entity has satisfied its performance obligation and recognizes revenue when control of the benefits associated with the goods or services has passed to the payor. Indicators that control of the goods or services have passed from the public sector entity to the payor include, but are not limited to, when the payor:

(a) has the ability to use or direct the use of, sell or exchange and obtain substantially all of the remaining benefits from the good or service; or

(b) holds the good or service and has the discretion to use it.

.43 A public sector entity satisfies its performance obligation and recognizes revenue over a period of time when control of the benefits associated with the goods or services passes to the payor over a period of time. A public sector entity satisfies a performance obligation and recognizes revenue over a period of time if any of the following indicators are met:

(a) 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;

(b) the public sector entity's performance creates or enhances an asset (for example, work in progress) that the payor controls or uses as the asset is created or enhanced;

(c) 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;

(d) the public sector entity is expected to continually maintain or support the transferred good or service under the terms of the arrangement; or

(e) the public sector entity provides the payor with access to a specific good or service under the terms of the arrangement.

.44 If a performance obligation is not satisfied over a period of time, the public sector entity satisfies the performance obligation at a point in time. The performance obligation is satisfied when the payor obtains control of the benefits associated with the promised good or service (see paragraph PS 3400.42).

.45 A payor that controls an economic resource has the ability to benefit from the economic resource. For example, a public sector entity selling a recycling bin has a performance obligation to provide the payor a recycling bin in return for the consideration received. Once the payor has control of the recycling bin, the payor has the ability to benefit from it and the public sector entity has satisfied its performance obligation.

.46 When evaluating whether a payor obtains control of an asset, a public sector entity considers any agreement to repurchase the asset. The payor may not obtain control of the asset as the payor is limited in its ability to direct the use of that asset or obtain the remaining benefits of that asset if the public sector entity has the right to repurchase the asset.

.47 When a payor directs a public sector entity to provide some or all of the promised goods or services to a specific third party, the performance obligation is satisfied when the specific third party has the ability to control the benefits of the goods or services.

.48 For additional guidance on distinguishing performance obligations satisfied over a period of time and in measuring progress toward complete satisfaction of a performance obligation from performance obligations satisfied at a point in time, refer to paragraphs PS 3400.AG.21-.AG.32. 6

Transactions with no performance obligations

.49 A public sector entity may receive an increase in economic resources for which the payor does not receive any goods or services in return. These transactions do not have performance obligations. These types of transactions are often referred to as "non-exchange transactions".

.50 There are many types of non-exchange transactions. Non-exchange transactions are either voluntary or involuntary.

.51 Involuntary transactions, such as fines or penalties, arise because the right to the economic resource is attributable to legislation based on constitutional authority or delegated constitutional authority. For example, a public sector entity has the authority to issue a penalty or fine, such as a parking ticket, in efforts to enforce laws and regulations. In these cases, the payment received by the public sector entity does not entitle the payor to any specific good or service as the public sector entity has no performance obligations.

.52 *Revenue from transactions with no performance obligations should be recognized when a public sector entity:*

(a) has the authority to claim or retain an inflow of economic resources; and

(b) identifies a past transaction or event that gives rise to an asset. [APRIL 2023]

.53 Legislation, regulations or bylaws authorizing the fine, penalty or fee must be in place for a public sector entity to have the authority to recognize such revenues. The exercise of authority may vary between jurisdictions.

.54 The past event is specific to the nature of the transaction. In the case of a fine or penalty, the date of an alleged infraction is not necessarily, in itself, the past event, because the fine or penalty may not be enforceable at that time. There may not be an enforceable claim until:

(a) a guilty plea is entered;

(b) the date to contest a summons expires; or

(c) a judgment is made by an arbitrator or in a court of law.

Hybrid transactions

.55 A public sector entity separately accounts for the components of a single transaction that combine:

(a) an element with performance obligations;

(b) an element with no performance obligations (for example, a fine or penalty); and/or

(c) another form of revenue such as a contribution, a government transfer or tax revenue.

.56 When accounting for hybrid transactions, the public sector entity accounts for each component of a transaction in accordance with the applicable recognition criteria. When a component of the transaction is within the scope of another standard, the public sector entity would apply that standard. For example, the price of a good or service may include a value-added or sales tax. The value-added or sales tax revenue is recognized in accordance with the applicable requirements in TAX REVENUE, Section PS 3510.

.57 In determining whether a transaction has multiple components, professional judgment is needed.

MEASUREMENT

Transactions with performance obligations

.58 *A public sector entity should recognize as revenue the portion of the transaction price allocated to the performance obligation that has been satisfied.* [APRIL 2023]

.59 When determining the transaction price, a public sector entity will need to consider the effects of:

(a) multiple performance obligations;

(b) variable consideration;

(c) existence of significant concessionary terms; and

(d) non-cash consideration.

Multiple performance obligations

.60 When more than one performance obligation is identified, a public sector entity needs to consider how it will allocate the transaction price. The stand-alone selling price is the observable price charged for the goods or services when the same public sector entity sells those goods or services in similar circumstances. When available, the stand-alone selling price of the good or service underlying each performance obligation would be used as the basis of allocation. If a stand-alone selling price is not readily available, then a public sector entity will estimate the allocated amount based on information available.

.61 If a stand-alone selling price is not directly observable, a public sector entity would estimate it to derive an amount that would be a faithful representation of the price at which the public sector entity would sell the good or service if it were sold separately to the payor. Estimation methods that may be used include, but are not limited to:

(a) expected cost — a public sector entity forecasts its expected costs of satisfying the performance obligation and, if applicable, adds an appropriate margin;

(b) residual approach — when the stand-alone selling price is highly variable or uncertain, then the estimated stand-alone selling price is based on the total consideration less the sum of observable stand-alone selling prices; or

(c) adjusted market assessment — a public sector entity evaluates the market in which it sells goods or services and estimates the price that a payor would be willing to pay.

.62 A public sector entity uses professional judgment to apply a method for estimating the stand-alone selling price that most closely resembles the economic substance of the transaction.

Variable consideration

.63 When consideration is variable, an estimate may be needed. Consideration may be variable for several reasons, such as discounts offered, rebates, incentive programs or price concessions. Consideration may also be variable due to uncertainty related to the occurrence or non-occurrence of a future event.

.64 For example, there is often a variable component associated with royalty transactions. In some cases, the amount of revenue earned is uncertain until a future event occurs, such as the payor sells or uses the promised good or service. Another example of variable consideration could be rebates provided at a future date based on sales volume.

.65 Chapter 9 of the Conceptual Framework requires that in order for a transaction to be recognized, a reasonable estimate can be made of the amount involved. [Former paragraph PS 3400.65, amended by the Conceptual Framework, retained in Archived Pronouncements.]

.66 When a reasonable estimate can be made of the amount involved, the transaction would be recognized. Professional judgment is needed to determine the most relevant and representationally faithful amount given the circumstances. Some methods used to determine a reasonable estimate include applying either:

(a) the expected value method — the sum of probability-weighted amounts in a range of possible consideration amounts. This method is often appropriate if a public sector entity has a large number of contracts with similar characteristics; or

(b) the most likely amount — the single most likely amount in a range of possible amounts.

[Former paragraph PS 3400.66, amended by the Conceptual Framework, retained in Archived Pronouncements.]

.67 At date of inception, the public sector entity would choose the most appropriate method based on the facts and circumstances specific to the arrangement. This method would then be applied consistently throughout the term of the arrangement.

.68 Offering different rate structures at inception of the transaction does not constitute variable consideration. For example, a museum may offer a reduced price for students to enter an exhibit. Under these circumstances, an estimate of the consideration is not needed. The transaction price is known at the inception of the transaction.

Refunds

.69 A public sector entity would recognize a refund liability if it received consideration from a payor and expects to refund some or all of that consideration to the payor. A refund liability is the amount of consideration received (or receivable) for which the public sector entity does not expect to be entitled (i.e., amounts not included in the transaction price). The refund liability (and corresponding change in the transaction price) would be updated at the end of each reporting period for changes in circumstances.

.70 Professional judgment would be applied to determine the likelihood of having to provide a refund to a payor. A refund liability would be determined using a best estimate in light of past events, current conditions and taking into account all circumstances known at the date of the financial statement preparation.

.71 For additional guidance on variable consideration, refer to paragraphs PS 3400.AG.33-.AG.34. 7

Existence of significant concessionary terms

.72 Transactions with significant concessionary terms are rare situations that occur when a public sector entity is entering into an arrangement with a specific payor who receives advantageous terms and conditions that another payor does not receive for a similar type transaction. The nature and substance of each transaction must be assessed to determine if there are significant concessionary terms at the date of inception. When a public sector entity offers a significant concession, such as lengthy payment terms, compared to a similar transaction, all or a significant portion of the transaction price is in the nature of a concession (grant) and the transaction price would need to reflect the amount expected to be earned.

.73 When the terms of the transaction indicate that a portion of the transaction has significant concessionary terms or is in substance a grant, present value techniques may be used to quantify the portion of the transaction price that is, in substance, a grant.

.74 *For transactions with significant concessionary terms, measurement of the transaction price should reflect the best estimate based on the terms of the transaction at each reporting date.* [APRIL 2023]

.75 Professional judgment will be required in assessing the appropriate measurement technique that results in the best estimate of the transaction price.

.76 When the cash flows to be received are expected to occur over extended future periods, a present value technique is often the best available technique with which to estimate the transaction price.

.77 A key input into a present value technique, such as a discounted cash flow calculation, is the discount rate. A discount rate reflects the time value of money and the risks specific to the transaction, for which future cash flow estimates have not been adjusted. The assumptions applied in the cash flows and the discount rate should be internally consistent. For example, if the cash flows include the effect of expected inflation, then the discount rate also incorporates the same inflation expectations.

.78 Often in the public sector, certain discounts may be offered, such as discounts for senior citizens or low-income housing, in an effort to meet policy objectives. In these scenarios, the concessions are available to any person or entity that meets the eligibility criteria, such as being in a certain demographic group. Given that these types of transactions are common and not specific to a particular individual, they would not be considered to have significant concessionary terms associated with them.

Non-cash consideration

.79 In certain instances, a public sector entity may receive or expect to receive non-cash consideration in exchange for promised goods or services. In this case, the transaction price would be the fair value of the goods or services received adjusted by the amount of any cash or cash equivalents transferred. For example, in lieu of a payor paying for goods or services, the payor may provide materials, equipment and/or labour in exchange.

.80 If a transaction occurs between commonly controlled entities, refer to INTER-ENTITY TRANSACTIONS, Section PS 3420, for measurement guidance.

Transactions with no performance obligations

.81 *A public sector entity should recognize revenue from transactions with no performance obligations at its realizable value.* [APRIL 2023]

.82 Transactions with no performance obligations are to be recognized at their realizable value. This represents the future economic benefit the public sector entity expects to obtain. Realizable value is the amount of cash or its equivalent into which an asset is expected to be converted in the due course of operations. It is expected at initial recognition that assets acquired in transactions with no performance obligations will be cash or cash equivalents or a receivable that will be settled in cash or cash equivalents. Thus, the amount of revenue recognized would be the amount of cash or cash equivalents received or receivable.

PRESENTATION AND DISCLOSURE

.83 Users of financial statements need to understand the nature, amount, timing and uncertainty associated with revenues.

.84 DISCLOSURE OF ACCOUNTING POLICIES, paragraphs PS 2100.03 and PS 2100.09, state that a clear and concise description of all significant accounting policies of a government reporting entity that have been selected and applied to significant assets, liabilities, revenues and expenses should be included as an integral part of its financial statements.

.85 MEASUREMENT UNCERTAINTY, Section PS 2130, contains specific disclosures for uncertainties affecting the measurement of items recognized or disclosed in financial statements. These disclosures would also apply to revenue recognized under this standard.

.85A FINANCIAL STATEMENT PRESENTATION, Section PS 1202 contains guidance on how to classify liabilities as either financial or non-financial, including liabilities recognized under this standard.

.86 The purpose of the additional disclosure requirements below is to provide sufficient information in the financial statements to understand the nature and terms of the entity's various revenue sources. For example, significant judgments may be required to identify performance obligations, determine the transaction price and allocate it to performance obligations, and determine when performance obligations are satisfied.

.87 The level of detail disclosed by a public sector entity reflects the highly aggregated nature of the financial statements. In deciding on the level of detail to disclose, public sector entities consider the usefulness of the information to the reader. Users must be able to assess the nature and extent of performance obligations existing at the end of the current period or satisfied during the current period. Full disclosure is particularly important when the measurements depend heavily upon judgment and estimates.

.88 *A public sector entity should disclose:*

(a) disaggregated revenues reported on the statement of operations by source and type, with separate disclosure of revenues that are not related to recurring activities;

(b) typical performance obligations and the methods and policies that apply when recognizing revenues; and

(c) the nature and amount of continuing performance obligations grouped by category of similar transactions. [APRIL 2023]

.89 *When a public sector entity has the information necessary to record a transaction but does not expect to collect payment, disclosure of these amounts is required.* [APRIL 2023]

.90 *In circumstances where the terms of the arrangement include significant concessionary terms so that all or a part of the transaction is concessionary in nature, disclosure of the original amount of the transaction price should be provided.* [APRIL 2023]

.91 Providing significant revenue sources and types, and describing when and how those revenues are recognized, helps users of the financial statements interpret the resources available to the public sector entity as well as future revenue streams.

.92 Indicating which revenue sources and types are recurring versus non-recurring also assists financial statements users to better understand the annual surplus or deficit of the public sector entity and the implications for subsequent years.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.93 This Section applies to fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted. This Section may be applied retroactively or prospectively.

.94 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, added paragraph PS 3400.85A. The amendment is applicable at the same time as Section PS 1202, for fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted if Section PS 1202 is also early adopted. Prior period amounts would need to be restated to conform to the requirements for comparative financial information in Section PS 1202.

.95 Narrow-scope amendments issued in February 2025, explicitly identified the GAAP designation of Appendix A as level (i) as set out in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d), because the Appendix is application guidance integral to the Section. This GAAP level clarification is applicable for fiscal years beginning on or after April 1, 2026. Early adoption is allowed.

APPENDIX A

APPLICATION GUIDANCE – APPLYING THE REQUIREMENTS

This Appendix is an integral part of this Section and is therefore a primary source of GAAP identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(i).

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Purpose and scope

AG.01 A public sector entity would apply the requirements of this Appendix when it has entered into transactions with performance obligations (i.e., exchange transactions).

Identifying performance obligations

AG.02 An evaluation of the transaction is needed to determine if one or more performance obligations exist at the inception of the transaction. When identifying performance obligations, the public sector entity must consider the characteristics of the goods or services being promised to the payor in exchange for consideration. Only those goods or services that provide a direct benefit to the payor include performance obligations. For example, performance obligations do not include administrative activities. Identifying a public sector entity's performance obligations is necessary in order to determine when they have been satisfied.

AG.03 As part of this assessment, consideration needs to be given to the specificity of the payor identified in the transaction and to the specificity of the goods or services promised.

AG.04 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 that payor from obligations associated with achieving its general mandate or mission. Obligations associated with fulfilling a public sector entity's mandate generally benefit the community as a whole rather than a specific payor.

AG.05 The goods or services promised in the transaction represent future economic sacrifices of the public sector entity. Specifically identifying the characteristics of those goods or services that benefit the payor will help identify the performance obligations of a public sector entity. This will assist the public sector entity in its evaluation of when the performance obligation has been satisfied.

Goods or services

AG.06 Promised goods or services may include, but are not limited to:

(a) goods produced by a public sector entity for sale (for example, municipal water provided for a fee);

(b) goods purchased by a public sector entity for resale (for example, recycling bins);

(c) use of tangible capital property for a specified period (for example, rental of space for skating at a community centre);

(d) services provided, including those that involve another party (for example, routes operated by a contracted service provider for a public transit commission for a fee);

(e) standing ready to provide goods or services (for example, paramedics on site at an athletic competition organized by a community group);

(f) an asset constructed, manufactured or developed for a payor (for example, connecting a private dwelling to the municipal water system);

(g) rights provided to use intangible assets owned or controlled by the Crown (for example, an agreement to use electromagnetic spectrum, licence providing rights for natural resources or licence for patented technology);

(h) options granted to purchase additional goods or services (when those options provide the payor with a concessionary right);

(i) an agreed-upon task (for example, day-care services provided for a fee); and

(j) a decision provided and having the appropriate documentation ready (for example, issuing a driver's licence to a qualified driver).

Combining contracts

AG.07 In cases where an exchange transaction is governed by a contract, the terms of the arrangement may be set out fully in a single contract. However, it is possible that the amount and timing of revenue can be affected when the consideration for goods or services in one contract is dependent on provisions in another contract.

AG.08 When two or more contracts are entered into at or near the same time with the same payor (or related parties of the payor), they would be accounted for on a combined basis if one or more of the following criteria are met:

(a) the contracts are negotiated as a package with a single common purpose;

(b) the amount of the consideration to be paid in one contract depends on the price or performance of the other contract; and

(c) the goods or services promised in the contracts (or some goods or services promised in the contracts) are a single performance obligation.

Modifications

AG.09 A modification exists when there is a change in the scope or price (or both) of a contract. Until a modification is approved, the existing provisions form the basis of the activities reported on. Accounting for the modification is not affected until each party to the contract agrees to the modification.

AG.10 If a change in the scope of the contract has been approved by both parties but the corresponding change in price is not yet established, the modified provisions apply when the public sector entity has determined, based on the relevant facts and circumstances of the transaction, that it will be able to enforce payment and has the information necessary to estimate the price of the modification. The transaction price would be estimated by applying the measurement provisions in this Section.

AG.11 A public sector entity accounts for a modification separately if the modification affects both:

(a) the scope of the arrangement due to additional or reduced promised goods or services being promised that are distinct; and

(b) a public sector entity's right to receive an amount of consideration that reflects the public sector entity's stand-alone selling price of the additional or reduced promised goods or services, and any appropriate adjustments to that price to reflect the circumstances of the agreement.

AG.12 A modification is accounted for as part of the existing arrangement when the remaining goods or services are not distinct.

AG.13 When a public sector entity chooses to cancel the existing arrangement, the amount of consideration would be allocated to the remaining performance obligations as the sum of:

(a) the consideration promised because of the modification; and

(b) any unearned revenue received from the payor or any amounts still owing for performance obligations that have not yet been satisfied.

Licences or permits

AG.14 Goods or services include rights provided by licences or permits. They have a wide variety of different features and economic characteristics. Licences and permits may include, but are not limited to:

(a) licences of businesses, such as taxi cabs;

(b) licences of skilled trades;

(c) licences of vehicles and vehicle operators;

(d) licences of wireless spectrum;

(e) passports and visas;

(f) permits to construct or renovate buildings;

(g) licences or permits to allow activities during the pre-production phase of natural resource development;

(h) permits to hold a public gathering;

(i) licences or permits to hunt and fish;

(j) licences or permits to prospect for minerals;

(k) licences or permits to extract natural resources; and

(l) licences or permits to sell alcoholic beverages.

AG.15 Fees charged, in respect of paragraph PS 3400.AG.14,9 include, but are not limited to, amounts levied to issue a licence or permit, to test applicants, to renew existing licences or permits and to reissue documents that have been lost.

Identifying performance obligations in licences or permits

AG.16 When assessing how to account for a fee, a public sector entity must first determine whether imposing the fee creates one or more performance obligations for the public sector entity.

AG.17 To determine when to recognize revenue arising from fees charged for a licence or permit, a public sector entity identifies the goods or services that will directly benefit a party holding the licence or permit. Considering the specificity of the payor will assist in determining whether the activities of the public sector entity are to fulfil its performance obligations for the benefit of a specific payor or as part of their general mandate or normal responsibilities. In many cases, benefits associated with the public sector entity's mission or mandate are not limited to the party holding a licence or permit and are not the specific benefits the party applying for the licence or permit wants to obtain. For example, a government ministry is mandated to conserve wildlife. The benefit of achieving this mandate is enjoyed by all members of society. This benefit is not limited to those who hold a hunting permit.

AG.18 Another example of a licence or permit commonly found in the public sector is a licence for the use or extraction of a natural resource. There are several scenarios that could occur and therefore the facts and circumstances of the transaction must be considered to determine the performance obligations. Not all licences to use or extract a natural resource would have the same performance obligations.

AG.19 A performance obligation may be present when the payor expects to receive a direct benefit arising from the payment of a fee. Examples of satisfying performance obligations for a fee are:

(a) one or more qualifying inspections or examinations;

(b) a decision and issuance of a licence or permit, such as a driver's licence or passport;

(c) the right of admission to an attraction or event; and

(d) the right to traverse infrastructure subject to tolling, such as a road, bridge or canal.

AG.20 Public sector entities that generate revenue may undertake activities that do not constitute a performance obligation, as they do not involve the transfer of a direct benefit to a payor, such as providing:

(a) a good or service that benefits the community as a whole, or those specific services a public sector entity provides but does not specifically charge for usually as part of its mandate, such as police protection or animal control;

(b) administrative services, including registration processes; and

(c) inspections or tests to assess compliance with certain regulations or legislation such as a fire inspection of a restaurant.

Satisfying performance obligations over a period of time or at a point in time

AG.21 A public sector entity may issue single-use or multi-use permits or issue annual or multi-year licences. When a public sector entity issues multi-use permits or multi-year licences, it evaluates whether the goods or services are transferred over a period of time or at a point in time. Multi-use permits or multi-year licences come in a variety of forms. For example, a multi-use pass may be time limited, such as a monthly pass, or it may be used a specific number of times.

AG.22 The specificity of the good or service promised in the transaction will help determine the performance obligations of the public sector entity. The public sector entity considers the specific goods or services promised in the transaction with the payor in order to determine the performance obligation(s). In some cases, the licence or permit may involve a promise by the public sector entity to make a good or service available continually during its life. While control of the extent of use rests with the payor, the requirement to stand ready to provide goods or services suggests, in absence of evidence to the contrary, that the goods and services transfer over a period of time. For example, the specific good or service promised to an annual park-pass holder is the ability to access the park during the year. In this example, the public sector entity would consider whether any ongoing performance obligations are present. Consideration would be given to the indicators outlined in paragraph PS 3400.43.

AG.23 A performance obligation is satisfied when the payor simultaneously receives and consumes the benefits provided by the public sector entity as the public sector entity fulfils the performance obligation. This would be the case when the public sector entity is providing the payor with routine and recurring services. For example, certain municipalities may charge a fee to collect garbage for a payor on a regular basis.

AG.24 Determining whether the public sector entity creates or enhances an asset that the payor controls would be evidenced by whether control has passed to the payor as described in paragraph PS 3400.42. The payor may have the ability to use or direct the use of the asset while it is being created or enhanced. For example, one phase of a multi-phased building project may be complete and available for use by the payor while the other phases are still being completed.

AG.25 An indication that a public sector entity's performance does not create an asset with an alternative use to the public sector entity would be when the specifications of the promised goods or services have been customized and specific to that particular payor and would not be suitable for any other payor or for use by the public sector entity. For example, a public sector entity designs a rail system for a payor that is specific and customized for their purposes. These designs could not be used by any other payor.

AG.26 Continually maintaining or supporting the transferred good or service over a specified period of time refers to future sacrifices of economic benefits by a public sector entity in order to satisfy the performance obligations associated with that transaction. An ongoing relationship for the term specified in the transaction exists when the activities of the public sector entity directly affect the payor in either a positive or a negative manner. The payor has a valid expectation for recourse when negative effects arise. When these activities are not attributed to the public sector entity's normal responsibilities or mandate, and in the absence of evidence to the contrary, the goods or services transfer over a period of time.

AG.27 The public sector entity provides the payor with access to a specific good or service under the terms of the arrangement. This is making a distinction between providing access to a specific good or service versus providing the right to do something. For example, an annual park pass would provide the payor with access to a specific good (the park). Therefore, the public sector entity has an ongoing performance obligation. On the other hand, a hunting licence provides the payor with the right to hunt (an activity); it does not provide the payor with access to any specific asset. Therefore, with a hunting licence there are no ongoing performance obligations.

AG.28 A public sector entity recognizes revenue over a period of time by measuring the progress toward complete satisfaction of a performance obligation. The public sector entity needs to determine how much revenue to recognize in each reporting period, based on the terms and conditions specified in the contract or agreement.

AG.29 In determining the appropriate method for measuring progress, a public sector entity needs to consider the characteristics of the goods or services being provided in exchange for consideration or promise of consideration. The method chosen would be a reasonable reflection of the progress toward completion, and consistently applied to similar performance obligations and similar circumstances. A public sector entity may consider the pattern of benefit to the payor. For example, a public sector entity may sell an annual pass granting the payor access to a park. If the park is only open and available for use during certain months of the year, revenue is recognized in these months.

AG.30 The goods or services transfer at a point in time when a multi-year licence grants the licence holder the benefits upfront and requires no further performance obligations from the public sector entity. When evaluating the nature of the agreement, it is not simply the passage of time that creates a performance obligation. One would consider the benefit the specific good or service provides the payor and whether there are any ongoing performance obligations.

AG.31 If consideration is received before a performance obligation is satisfied, the public sector entity would need to consider LIABILITIES, Section PS 3200.

AG.32 If a performance obligation is not satisfied over a period of time, a public sector entity satisfies a performance obligation at a point in time.

Variable consideration

AG.33 As described in paragraphs PS 3400.63-.70, variable consideration can arise for several reasons. When a reasonable estimate of the amount involved can be made, the transaction would be reported. Some methods used to determine a reasonable estimate include applying either the expected value amount or the most likely amount.

AG.34 In some instances related to a licence for intellectual property, the amount of consideration expected is based on uncertain future events, such as when the consideration is based solely on the subsequent performance of the payor. These situations are often referred to as "sales-based" or "usage-based" royalties. Given the amount of consideration will be based on factors outside the public sector entity's control, a reasonable estimate of the consideration cannot be made. In these cases, revenue would be recognized when the later of the following events occur:

(a) the subsequent sale or usage occurs; and

(b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied or partially satisfied.

For example, a public sector entity issues a licence for intellectual property whereby the payor remits a percentage of future revenues generated by the use of the intellectual property.

Principal versus agent transactions

AG.35 A public sector entity needs to evaluate the characteristics of the transaction to determine if it is acting as the principal or agent. If it is acting as a principal, then the public sector entity recognizes the revenues on a gross basis. If the public sector entity is acting as an agent, there may or may not be a fee or commission to be recognized.

AG.36 A public sector entity is acting as a principal when it has control of the goods or services prior to satisfying the performance obligation to the payor. A public sector entity is also acting as a principal when amounts collected give rise to an increase in assets or revenues of the public sector entity because it can control the use of and benefit from the amounts collected.

AG.37 Factors to consider in determining if the public sector entity is acting as a principal include, but are not limited to, when the public sector entity:

(a) has the primary responsibility for the provision of the goods or services to a payor;

(b) has inventory risk before or after a payor order, during shipping or on return;

(c) has discretion in setting the amount charged, either directly or indirectly, of the goods or services;

(d) has discretion and authority to decide how to use the resources; and

(e) is exposed to credit risk for the amount receivable from a payor.

AG.38 When acting as a principal, the public sector entity would assume the performance obligations and contractual rights so that the public sector entity is obliged to satisfy the performance obligation to transfer the promised goods or services to the payor. The public sector entity would recognize revenue upon settling that performance obligation.

AG.39 A public sector entity is an agent when it is arranging for the provision of goods or services to a payor on behalf of another party.

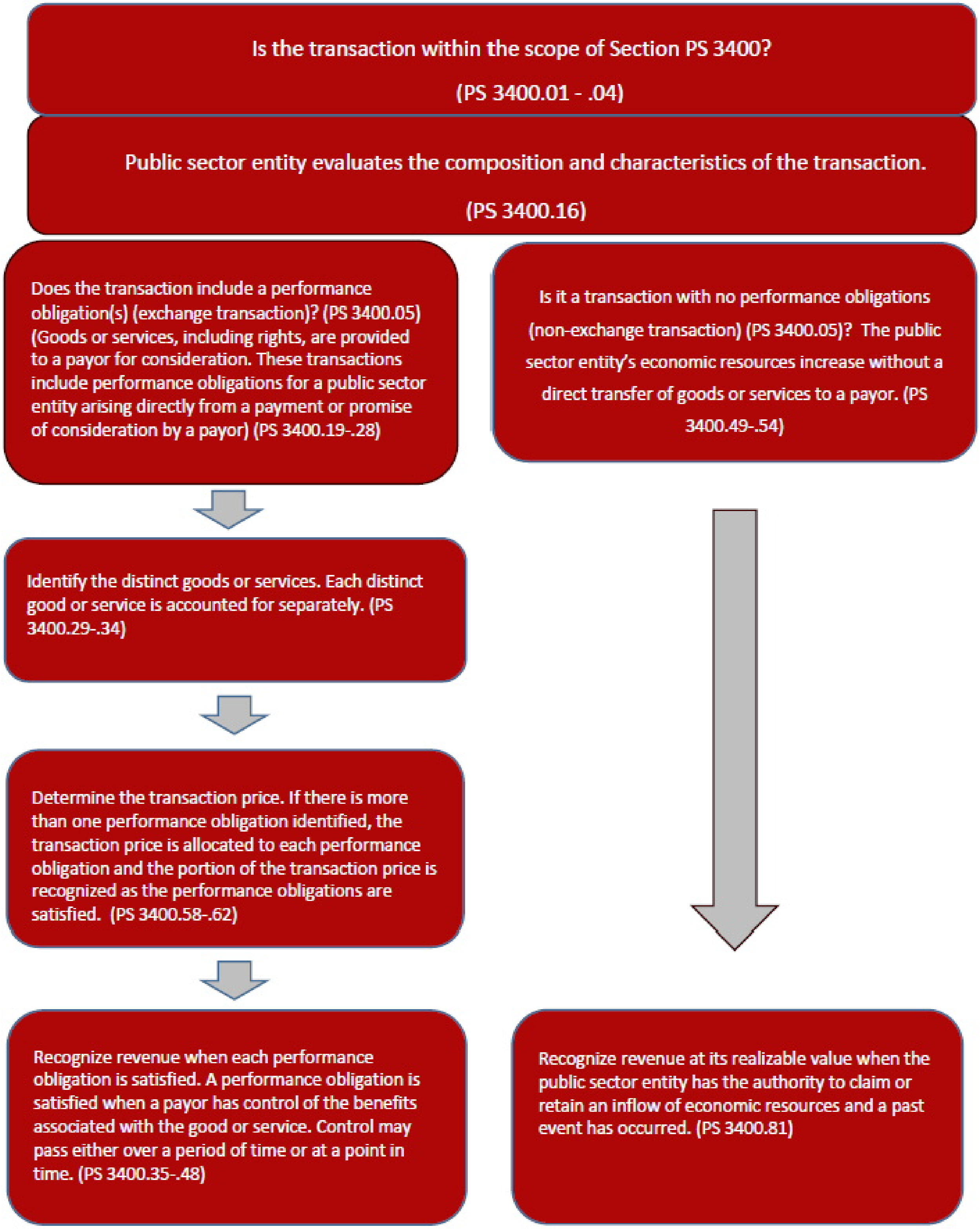
AG.40 As an agent, the public sector entity would only recognize the fee or commission earned as revenue, not the full amount of the transaction consideration.

AG.41 Determining whether a public sector entity is acting as a principal or as an agent depends on the facts of the situation and may require professional judgment.

APPENDIX B

FRAMEWORK OVERVIEW

The following overview has been prepared to illustrate the framework set out in the Section. The overview is illustrative only and matters of principle relating to particular situations should be decided in the context of the Section. While illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).



APPENDIX C

ILLUSTRATIVE EXAMPLES

This material is illustrative only.

The examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of the Section. While illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).

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Performance obligations satisfied over a period of time

Example 1 — Park pass

IE.01 A payor purchases a park pass from a public sector entity. The park pass provides the payor the right to access provincial parks for two years. The provincial parks are only open from the spring to fall of each year (April 1 to October 31). The payor has unlimited use of the parks for two years when the parks are open for the season.

IE.02 The public sector entity needs to identify the distinct good or service and associated performance obligations outlined in the arrangement with the specific payor.

IE.03 A public sector entity's mandate includes providing outdoor recreation opportunities while practicing sustainable resource management to ensure the parks' long-term health. This does not represent a performance obligation.

IE.04 The public sector entity determines that although this particular transaction will help fulfil its mandate, it meets the criteria of a transaction with performance obligations. A specific payor can be identified that has provided consideration in return for a distinct good or service. In this example, the good or service expected is the ability to access the parks; access to a specific asset is being provided. The payor will receive a direct benefit from accessing the parks when the payor chooses.

IE.05 At transaction inception, the public sector entity determines that its promise to the payor is to provide a service of granting access to the park any time during the season for the payor to use as and when the payor wishes.

IE.06 The public sector entity determines it has a performance obligation to provide access to the park for the duration of the arrangement.

IE.07 As per paragraph PS 3400.43(e), the public sector entity provides the payor with access to a specific good or service under the terms of the arrangement. Consequently, the public sector entity's performance obligation is satisfied over time.

IE.08 Paragraphs PS 3400.AG.28-.AG.2911 indicate that the public sector entity would measure its progress of satisfying the performance obligation considering the characteristics of the goods or services being provided. The public sector entity would consider the pattern of benefit to the payor. Therefore, given the parks are only open for seven months of the year and the public sector entity must ensure the parks are available during that period regardless of whether the payor actually uses the parks or not, revenue would be recognized on a straight-line basis over seven months in each of the two years.

Example 2 — Continuing education course

IE.09 A college offers certificate courses to a payor. Several certificate courses are offered by the college: one-day courses, summer courses and courses during the normal academic calendar. Other than the one-day courses, classes are normally held once a week. Consequently, the particular circumstances of each arrangement will need to be evaluated by the college to determine the associated performance obligations and assess whether revenue should be recognized over a period of time or at a point in time.

IE.10 The college will provide a certificate course to a payor during the fall term (September to December). The payor promises to pay $2,000 for the certificate course. At the time of registration, there are several activities that the college must undertake to ensure the payor is enrolled in the appropriate program. However, some of these administrative activities do not constitute performance obligations. The college determines that their performance obligations are to provide a series of lectures and teaching material over the fall term. The payor receives a direct benefit from these lectures as it increases their knowledge of the topic at hand.

IE.11 As per paragraph PS 3400.43(a), the payor simultaneously receives and consumes the benefits of the college's performance as it provides weekly classes to the payor. The revenue would be recognized over the period of course delivery.

IE.12 The classes are for the fall term, a four-month period. Thus, as per paragraphs PS 3400.AG.28-.AG.29,12 a best estimate of progress toward complete satisfaction of the performance obligation is to recognize revenue over the four-month period.

IE.13 In the scenario where the payor fails the course, the public sector entity has satisfied its performance obligations by delivering the course as promised in the terms of the arrangement. Failure of the course would not affect the revenue earned.

Example 3 — Wireless spectrum licence

IE.14 A payor purchases a spectrum licence. The particular circumstances of each arrangement need to be evaluated by the public sector entity. The period covered by the licence is five years. The payor is granted access to a specific frequency on a non-interfering basis within a defined geographic area.

IE.15 The public sector entity determines that its promise to the payor is to provide access to a specific good or service controlled by the public sector entity in accordance with paragraph PS 3400.43(e) because the payor is getting access to a predetermined frequency under the terms of the arrangement. In addition, the public sector entity concludes that the payor simultaneously receives and consumes the benefits provided by the public sector entity's performance in accordance with paragraph PS 3400.43(a). The payor has a valid expectation that if their access became subject to interference, it would likely result in negative consequences for them. Thus, they would expect the public sector entity to rectify the situation. Consequently, the public sector entity would need to continually maintain and support the good or service provided as per the terms of the agreement. This would satisfy the conditions in paragraph PS 3400.43(d).

IE.16 Given this set of circumstances, the public sector entity has satisfied one or more of the indicators in paragraph PS 3400.43 and would therefore recognize revenue over a period of time (i.e., five years) as it has an ongoing performance obligation after the issuance of the licence.

Example 4 — Design and build

IE.17 A public sector entity enters into a transaction for $100,000,000 with a payor to design and build a central rail hub for a centralized transportation system, which includes several wings and concourses. The terms of the arrangement are such that the construction is divided into three phases, and control of the various parts of the hub transfers to the payor as the construction of each part is completed and the payor has accepted the wings and concourses. If the arrangement is terminated, the public sector entity is entitled to payment for work in process.

IE.18 The public sector entity determines that its promise to the payor is to design and construct the rail hub. The public sector entity must determine whether the revenue would be recognized over a period of time or at a point in time.

IE.19 The public sector entity determines that its performance creates or enhances an asset that the payor controls or uses as the asset is created or enhanced satisfying the conditions in paragraph PS 3400.43(b). As the wings and concourses are built and completed, the payor, after accepting those areas, will control the benefits associated with the new wings and concourses. Therefore, revenue would be recognized over a period of time.

IE.20 The public sector entity, as per paragraphs PS 3400.AG.28-.AG.29,13 would measure its progress toward satisfying its performance obligation by choosing a method that provides a reasonable reflection of the progress toward completion and is consistently applied to similar performance obligations and similar circumstances. In this example, the public sector entity may evaluate performance based on the costs incurred to date relative to the total costs expected to be incurred.

Performance obligations satisfied at a point in time

Example 5 — Driver's licence

IE.21 A payor purchases a five-year driver's licence. The terms of a driver's licence may vary depending on jurisdiction or other conditions associated with the licence. Consequently, the particular circumstances of each arrangement will need to be evaluated by the public sector entity. The payor promises to pay $200 for a five-year licence.

IE.22 The public sector entity determines that its promise to the payor is to issue a licence, if approved. The licence will provide the payor with the right to drive. The payor holds the licence and has discretion to use it once the public sector entity has made it available in accordance with paragraph PS 3400.42(b).

IE.23 The public sector entity determines that it does not have any ongoing performance obligations to the specific payor. The public sector entity concludes that it does not expect to sacrifice any future economic resources specific to this transaction. Maintaining road systems and enforcing safe driving practices are not specific activities to a particular payor but rather part of the public sector entity's overall mandate to move people and goods and services safely. Therefore, the public sector entity would record revenue at a point in time when the licence is available for the payor.

IE.24 When a driver's licence is cancelled after two years (for example, the payor is moving to another jurisdiction), and the unused portion is refundable, refer to paragraphs PS 3400.69-.70.

Multiple performance obligations

Example 6 — Sale of a tangible capital asset with servicing

IE.25 The public sector entity enters into an agreement with a payor to sell a tangible capital asset and agrees to service that asset for the next two years. The public sector entity offers both of these elements, the tangible capital asset and services, together and provides a single transaction price.

IE.26 The public sector entity determines that its promise to the payor is to transfer control of the tangible capital asset as well as to provide service or support for operating that particular asset for the next two years. At the end of the two-year term, the payor retains control of the tangible capital asset.

IE.27 The public sector entity must determine whether the two performance obligations are distinct. If so, the transaction price would need to be allocated. If the two performance obligations are integrated, they would need to be treated as a bundle of goods or services in accordance with paragraphs PS 3400.29-.34. In order to determine the performance obligations, the public sector entity must consider the nature of the agreement with the payor and the payor's expectations.

IE.28 The public sector entity does not regularly sell the tangible capital asset without the support service. However, similar assets and services are available by third parties. In this particular case, the payor would be able to benefit from the tangible capital asset on its own. The asset and services being provided are not highly interrelated, as the asset will function on its own without the service and therefore is capable of being distinct. Thus, the public sector entity concludes it would be a separate performance obligation. Servicing the asset is also a separate performance obligation.

IE.29 The public sector entity would estimate the stand-alone selling price of the tangible capital asset and the service element by applying a method for estimating the stand-alone selling price that most closely resembles the economic substance of the transaction.

Example 7 — Building permit

IE.30 The public sector entity receives an application from a payor to build a low-rise apartment building. The public sector entity determines the permit fee will be $50,000. It is important to note that other fees may be collected by the public sector entity at the same time as the building-permit fee is received. For example, development charges are often collected at the same time. However, development charges would not be covered by this standard (see RESTRICTED ASSETS AND REVENUES, Section PS 3100).

IE.31 The public sector entity determines that one or more performance obligations exist. In return for the building-permit fee, the payor will receive a direct benefit from the goods or services that the public sector entity promised to provide.

IE.32 The public sector entity evaluates the characteristics of the transaction to determine what the performance obligations are. The first performance obligation is to review, approve and issue the building permit. In accordance with the prescribed Building Code Act, several inspections will be required at key stages of the project, with a final sign-off at the end of the building period to permit the activities intended. Once the final sign-off is received, the permit is closed.

IE.33 Each inspection represents a key milestone of the project and is needed before the payor is able to proceed to the next stage. In the event that a key milestone was not inspected, efforts are made to properly assess the status of that stage. For example, if a cement foundation was needed, the inspectors must be able to examine the cement foundation; therefore, it cannot be covered until inspected. In the event that it was covered early, it is possible that the covering would be removed so the cement foundation can be properly inspected.

IE.34 Therefore, as per paragraph PS 3400.AG.19(a),14 these inspections would represent performance obligations. Under these circumstances, each key inspection represents a performance obligation and revenue would be recognized as the performance obligations are satisfied.

Hybrid transactions

Example 8 — Admission fee and donation

IE.35 A museum charges a total fee of $20 that includes a $15 admission fee to see the exhibit and a $5 donation to preserve artifacts. The payor may refuse to pay the donation component at the time of entry. In exchange for the admission fee paid by a payor, the public sector entity grants the payor access to the exhibit. The public sector entity's performance obligation is satisfied once access to the exhibit is granted. Thus, revenue would be recognized at a point in time.

IE.36 The total fee has two components. The provisions in paragraphs PS 3400.55-.57 would be considered to separate the components of the single transaction. There is both an exchange transaction and another component outside the scope of this standard — the donation component. The portion of the transaction price that grants access to the exhibit ($15) would be accounted for as a transaction with performance obligations in accordance with paragraphs PS 3400.35-.48. The payor expects to receive a good or service in exchange for the consideration paid. The remaining $5 of the transaction price would be accounted for as a donation. The payor is not expecting to receive any direct benefits associated with the donation component.

Variable consideration

Example 9 — Advertising

IE.37 A payor has entered into an agreement with a public sector entity that allows the payor to advertise on street furniture, such as transit shelters, for a two-year period. The public sector entity would receive a guaranteed amount of consideration every year: $100,000 in exchange for providing the payor the right to advertise on the public sector entity's property. In addition, the public sector entity can earn additional consideration if the payor engages in providing "special" advertising initiatives. These special advertising initiatives may take various forms but for our purposes it would be a special poster added to designated public benches. When a special advertising initiative is undertaken, the public sector entity would be entitled to $1,000 per special poster added. The consideration from the special advertising arrangement is variable.

IE.38 At the inception of the transaction, the public sector entity considers whether a reasonable estimate of the amount involved can be made in accordance with paragraphs PS 3400.63-.68. The promised consideration has two components: The $100,000 flat fee for allowing the payor the right to advertise and a variable fee based on special advertising initiatives.

IE.39 Therefore, the public sector entity concludes that at the inception of the arrangement, the $100,000 flat fee is expected to be received and would be recognized. In accordance with the terms of the arrangement, the $100,000 would be recognized over a period of time as the public sector entity has provided the payor with access to use its specific assets, street furniture, in accordance with paragraph PS 3400.43(e). The public sector entity cannot determine a reasonable estimate for the amount of consideration from special advertising initiatives. The ability of the payor to obtain such contracts from outside parties is beyond the public sector entity's control and susceptible to outside factors, such as the general economy.

IE.40 At each reporting date, the public sector would re-evaluate the facts and circumstances pertaining to the situation to determine if a reasonable estimate can be made.

Example 10 — Early delivery bonus

IE.41 As part of the arrangement to design and build a rail hub, as described in Example 4, the public sector entity is entitled to an early delivery bonus if each phase of the arrangement is completed ahead of schedule.

IE.42 At inception of the transaction, the public sector entity considers whether a reasonable estimate of any early delivery bonuses can be made in accordance with paragraphs PS 3400.63-.68. The promised consideration is based on the public sector entity's performance and ability to complete the construction of a particular phase of the rail hub ahead of schedule.

IE.43 At inception of the transaction, the public sector entity concludes that it cannot determine a reasonable estimate as there is uncertainty about whether construction will be completed ahead of schedule.

IE.44 At each reporting date, the public sector entity would re-evaluate the facts and circumstances pertaining to the situation to determine the likelihood of earning an early delivery bonus.

Modifications

Example 11 — Modification request

IE.45 During the project to design and build a rail hub for a payor, the public sector entity received a request to modify the existing power supply to a particular wing of the project. Both the public sector entity and the payor agreed to the project scope change of providing additional voltage or power to a particular wing.

IE.46 The public sector entity determines, at the date of the modification request, a reasonable estimate of the price for the modification can be made and it expects to be able to enforce payment.

IE.47 The public sector entity must determine whether the modification should be accounted for separately or as part of the existing arrangement. The public sector entity would consider the guidance in paragraphs PS 3400.AG.09-.AG.13.15

IE.48 The public sector entity determines the additional voltage or power does not represent a distinct good or services and thus the modification would be accounted for as part of the existing arrangement.

Footnotes

1. Editorial change (February 2025).

2. Editorial change (February 2025).
3. "Events" include "transactions". "Transactions" are a subset of events.
4. There could also have been the occurrence of multiple events that obligated the entity.
5. Editorial change (February 2025).
6. Editorial change (February 2025).
7. Editorial change (February 2025).
8 Editorial change, paragraph renumbering only (February 2025).
9. Editorial change (February 2025).
10 Editorial change, paragraph renumbering only (February 2025).
11 Editorial change (February 2025).
12 Editorial change (February 2025).
13 Editorial change (February 2025).
14 Editorial change (February 2025).
15 Editorial change (February 2025).
