

CANADIAN FAQ FOR THE TAX SAVVY

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REVENUE RECOGNITION

Tax Question:

When should revenue be recognized?

Facts:

Revenue from goods and services is recognized when all the following criteria are satisfied:

- Performance is achieved.
- Revenue can be measured reliably.
- Collection is reasonably assured.

Discussion:

Let's discuss some common situations and whether revenue should be recognized:

- Your company has signed a 6-month service agreement to commence this month. One month's portion of the revenue can be recognized at the end of each month as that month's service is completed. The remaining upfront payment for future services should be recorded as unearned revenue on the balance sheet and transferred to revenue when the services have been performed and the risks and rewards of ownership have transferred.
- Your company sold a product with the condition that the customer has a general right of return; the amount to be returned cannot be reliably estimated. Wait until the return privileges have expired before recognizing revenue. Or, if future returns can be reliably estimated based on past track record, revenue can be recognized (net of the provision for the estimated return).
- Your company sells floor tiles and is scheduled to provide installation of these tiles next month. The tiling service to be provided is considered part of the overall package and you do not provide installation of product you do not sell. Different components of the project are not separable from each other and performance obligation for one component is not yet complete. Revenue cannot be recognized at the point of tile sale, but rather after the tiles are installed. The sale should be recorded as unearned revenue until the installation has been completed.
- Your company delivered an order of a new product to a customer for resale. The customer has agreed to pay you 30% of the gross revenue of the product but is not certain how many items will be sold and at what price because the product is new to the market. Revenue cannot be recorded until it can be reliably measured. You must either wait until your customer has sold all the product or enough that revenue can be reliably measured.

Recommendation:

If you have any questions about revenue recognition, please contact Gilmour Group Chartered Professional Accountants.



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