

POLICY

	Policy:	REVENUE RECOGNITION		
	Department:	Corporate Services		
	Division:	Finance	By-Law No:	2016-19
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1. POLICY STATEMENT

- 1.1. The Corporation of the Town of Amherstburg is committed to ensuring that revenue earned by the Town is properly recognized and accounted for.

2. PURPOSE

- 2.1. This policy defines when a sale transaction is recognized as revenue for financial reporting.
- 2.2. This policy ensures that revenue is earned when a product or service is delivered, the price is determined and is likely to be collected, and there is a revenue arrangement with individual, company and/or resident.

3. SCOPE

- 3.1. This policy applies to the Financial Services Department and to Sales Staff, who must be familiar with the procedures set out in this policy.

4. DEFINITIONS

- 4.1. **Accountability** means the obligation to answer to the general public, Council, and vendors for procurement results and for the manner in which purchasing responsibilities are discharged.

- 4.2. **Accrue** refers to the act of taking into the Statement of Financial Activities, revenue, or expenses which have not yet been invoiced or paid in order to recognize them in the current fiscal period.
- 4.3. **Arrangement** refers to the final understanding between the seller and the buyer as to the specific nature and the terms of the transaction.
- 4.4. **Barter Transactions** refers to an exchange of goods and/or services between two or more parties where no money changes hands.
- 4.5. **Bundled Sale** refers to a sale price that includes multiple elements. For example, the sale of equipment that includes training, or the sale of a car that includes “free” routine maintenance.
- 4.6. **Chief Administrative Officer (CAO)** is the Chief Administrative Officer for the Corporation of the Town of Amherstburg, which includes the roles and responsibilities as laid out in Section 229 of the Municipal Act, 2001.
- 4.7. **Clerk** is the Municipal Clerk for the Corporation of the Town of Amherstburg, which includes the roles and responsibilities as laid out in Section 228 of the Municipal Act, 2001.
- 4.8. **Contra Account** refers to an account which operates as an offset to another related account in order that the amounts in each account may continue to be tracked separately as well as the net effect of the two together.
- 4.9. **Council** refers to the current elected Council for the Corporation of the Town of Amherstburg. This includes, as an entirety, the Mayor, Deputy Mayor and Councillors.
- 4.10. **Defer** refers to the act of holding a revenue or expense in an asset or liability account in order that it can be reflected in the income statement of another period.
- 4.11. **Delivery** refers to the risk and reward of ownership being transferred from the seller to the purchaser. This occurs once there is physical delivery and the purchaser bears the responsibility for any physical loss or damage (which may be insured).
- 4.12. **Director** is the person responsible for direction and operational control of a division as defined on the Town’s organizational structure.
- 4.13. **Line of Credit** refers to an arrangement whereby a bank or any other similar entity (i.e. Infrastructure Ontario) extends an unsecured loan that is drawn down as it is required by the borrower.

- 4.14. **Manager** reports directly to a Director (or the CAO in some instances) and who is responsible for a department within a division of the Corporation, as defined on the Town's organizational structure.
- 4.15. **Revenue Recognition** refers to the policy for recognizing sales as revenue for financial reporting purposes. A sale that does not qualify as revenue under the revenue recognition policy must be deferred and reported in the period in which it may be recognized.
- 4.16. **Sales Staff** are identified as anyone who takes payment on behalf of the Town.
- 4.17. **Senior Management Team (SMT)** is comprised of the Chief Administrative Officer and the Directors. If a Director is unavailable, a delegate may be assigned.
- 4.18. **Title** refers to legal ownership.
- 4.19. **Town** is the Corporation of the Town of Amherstburg.
- 4.20. **Treasurer** is the Treasurer for the Corporation of the Town of Amherstburg, which includes the roles and responsibilities as laid out in Section 286 of the Municipal Act, 2001.

5. INTERPRETATIONS

- 5.1. Any reference to this Policy to any statute or any section of a statute shall, unless expressly stated, be deemed to be reference to the statute as amended, restated or re-enacted from time to time. Any references to a By-law or Town policy shall be deemed to be a reference to the most recent passed policy or By-law and any replacements thereto.

6. GENERAL CONDITIONS

6.1. Revenue Recognition for Point of Sale Revenues

- 6.1.1. Revenue from all point of sale transactions involving the following must be recognized daily:
- 6.1.1.1. Cash
 - 6.1.1.2. Cash-equivalents including debit cards
 - 6.1.1.3. Credit cards
 - 6.1.1.4. Personal Cheques & Corporate Cheques
- 6.1.2. Credit transactions posted at the point of sale must be recognized daily.

6.2. **Revenue Recognition for Invoiced Revenues**

- 6.2.1. Invoiced revenues are recognized at the time of sale. A sale occurs when the following conditions are satisfied:
 - 6.2.1.1. The product has been delivered or the service rendered to the customer.
 - 6.2.1.2. The price is agreed upon with the customer.
 - 6.2.1.3. All of the terms of the sale have been agreed with the customer and the documentation required has been executed.
- 6.2.2. At month-end, billings should be reviewed to identify:
 - 6.2.2.1. Items invoiced for which the product or service has not been delivered.
 - a. These revenues should be deferred until the product or service is actually delivered and any other conditions for recognizing revenue are satisfied.
 - 6.2.2.2. Items not invoiced for which the product or service has been delivered.
 - a. These revenues should be accrued to the extent that the product or service has been delivered and any other conditions for recognizing revenue are satisfied.
- 6.2.3. Interest income on overdue accounts is recognized in the month in which it has been invoiced.

6.3. **Revenue Recognition for Contract Revenues**

- 6.3.1. Contract revenues are recognized according to the terms of the contract and any other conditions for recognizing revenue are satisfied.
- 6.3.2. Where services are provided on an ongoing basis under the contract, revenues are recognized evenly over time.
 - 6.3.2.1. Other cases must be reviewed by the Director of Financial Services/Treasurer.
- 6.3.3. Subject to the foregoing, contract revenues may be recognized when the following conditions are satisfied:
 - 6.3.3.1. The product has been delivered or the services rendered to the customer.
 - 6.3.3.2. The price is agreed upon with the customer.

6.3.3.3. All of the terms of the sale have been agreed with the customer and all documentation required has been executed.

6.3.3.4. The terms of the contract have been fulfilled.

6.4. **Revenue Recognition for Payments Made in Advance**

6.4.1. Revenue should be recognized in the same period as the product or service is delivered and matched as closely as possible to the period in which the expense related to the delivery of the product or service was incurred.

6.4.2. If a payment is made in advance, it will be accounted for as deferred revenue until the period to which it should be matched. At that time, the deferred revenue entry is reversed and the revenue recognized.

6.5. **Revenue Recognition for Barter Transactions**

6.5.1. If the company has bartered for a good or service, the value of the good or service received is identical to the value of the good or service delivered.

6.5.2. Revenue should be booked for the “sale” of the product or service at the estimated amount that would have been received had the transaction been undertaken for cash.

6.5.3. An identical amount should be booked for the “purchase” of the product or service received. The revenue should be recorded at the good or service is delivered to the other party.

7. **ROLES AND RESPONSIBILITIES**

7.1. **Director of Financial Services/Treasurer** has the authority and responsibility to:

7.1.1. Determine when to recognize sales as revenues.

7.1.2. Defer or accrue revenues when the flow of cash or the set-up of an account receivable does not correspond to the timing of revenue recognition.

8. **REFERENCES AND RELATED DOCUMENTS**

8.1. Procurement Policy

8.2. Accounts Receivable Billing Policy

8.3. Accounts Receivable Collections Policy