

Advisor alert

Deferral of upfront non-refundable fees requirements (ASPE and ASNPO)

April 2023

In December 2019, the Canadian Accounting Standards Board (AcSB) issued amendments to Section 3400 Revenue in Part II of the CPA Canada Handbook – Accounting to provide additional application guidance on several topics, including upfront non-refundable fees. The amendments are effective for fiscal years beginning on or after January 1, 2022 and apply to private enterprises applying Accounting Standards for Private Enterprises (ASPE) and not-for-profit organizations (NPOs) applying Accounting Standards for Not-for-Profit Organizations (ASNPO).

The amendments in Section 3400, as they relate to upfront non-refundable fees, clarify that revenue for such fees must be deferred and recognized systematically over the period that the upfront fee is earned when the fee is in exchange for products delivered or services performed that have no utility to the buyer separate and independent of the entity's performance of the other elements of the arrangement. In other words, an upfront non-refundable fee must be deferred if the buyer would not have paid it in the absence of the seller's continuing involvement under the arrangement (e.g. upfront initiation fee in a private member golf course). For some entities, particularly member benefit organizations, this could result in a change in practice as certain non-refundable initiation or membership fees would need to be deferred over the period of benefit, which may be the estimated length of a membership.

As entities started to apply these amendments, the AcSB heard of application challenges from stakeholders who were concerned about the decision-usefulness and the associated cost of having to defer upfront non-refundable fees over long membership periods.

In June 2022, the AcSB considered this feedback and decided that more time is needed to research the concerns raised by stakeholders. As a result, the AcSB has deferred the effective date of the amendments specific to upfront non-refundable fees to fiscal years beginning on or after January 1, 2025.

However, in March 2023, the AcSB decided to issue an Exposure Draft to indefinitely defer the effective date of these amendments, with early application still permitted, until other research projects are complete. These other research projects may have an impact on how to account for non-refundable upfront fees and as such, the AcSB does not want to make any further decisions relating to the amendments for upfront non-refundable fees until these other research projects are complete.



Our thoughts

The amendments to Section 3400 on the accounting for upfront non-refundable continue to be available for early adoption despite the deferred effective date. Entities such as member benefit organizations may decide to defer implementation of the December 2019 amendments for upfront non-refundable fees in order to observe the AcSB's response to the concerns raised.

Since the deferred effective date and research project were prompted by circumstances more specific to member benefit organizations, other types of entities may consider early adoption of the December 2019 amendments for any upfront non-refundable fees they collect.

It is important to apply judgment regarding whether to early adopt the amendments related to upfront non-refundable

fees before the AcSB has completed its research. It is also possible for the AcSB to decide to retain the December 2019 amendments with no significant changes.

Contact your Grant Thornton advisor if you have any questions about the amendments to Section 3400 related to upfront non-refundable fees and the potential accounting impacts of a deferred effective date.

The information and comments herein are for the general information of the reader and are not intended as advice or opinion to be relied upon in relation to any particular circumstances. For particular application, the reader should seek professional advice.

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