Raymond Chabot Grant Thornton

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Private Enterprises, NFPO and Pension Plans

December 2013

Flash

Flash bulletins provide a summary of the most recent news and publications from standard setters on accounting standards for private enterprises (ASPE), not-for-profit organizations (NFPO) and pension plans. International Financial Reporting Standards (IFRS) are not covered by the *Flash* bulletins, but we issue *IFRS Newsletters*, dedicated exclusively to new IFRS developments, and *Adviser Alerts* on specific topics of importance.

This publication is intended to inform readers about recent changes in accounting; however, it cannot deal with all topics. Readers are always encouraged to refer to the original publications mentioned in the articles before making any decisions.

A new name for the *CICA Handbook*

The Canadian Institute of Chartered Accountants (CICA) Board of Directors recently approved the renaming of the *CICA Handbook* to reflect that it is now published by the Chartered Professional Accountants of Canada (CPA Canada). Effective November 1, 2013, the *CICA Handbook – Accounting* is renamed *CPA Canada Handbook – Accounting* (hereafter "*CPA Handbook*").

Private enterprises (Part II)

2013 Improvements to Accounting Standards for Private Enterprises

In October 2013, the Canadian Accounting Standards Board (AcSB) updated ASPE for amendments approved from the Exposure Draft entitled *2013 Improvements to Accounting Standards for Private Enterprises*. The update of the *CPA Handbook* also includes other minor amendments that were not initially proposed in the Exposure Draft. The following paragraphs present a summary of the significant amendments made.

Section 1582, Business Combinations

- Section 1582 requires the remeasurement of the contingent consideration at fair value only on settlement. To address certain application issues related to determining when remeasurement should occur, the word "settlement" is replaced by "when the contingency is resolved".
- Certain disclosure requirements in Section 1582, which were applicable to all business combinations regardless of the subsequent accounting method used to account for the subsidiary, are now only applicable when the subsidiary is consolidated.

Section 1590, Subsidiaries, and Section 3055, Interests in Joint Ventures

Sections 1590 and 3055 have been amended to clarify that the accounting for a change in ownership interest when the cost or equity method is used to account for an investment in a subsidiary or interest in a joint venture should be based on the accounting policy used to account for that investment or interest.

Section 1602, Non-controlling Interests

The amendments made to Section 1602 clarify that:

- an entity consolidating a subsidiary must not deduct the amount attributable to non-controlling interests in arriving at net income; and
- exchange gains and losses arising from the translation of the financial statements of a self-sustaining foreign operation that are recognized in a separate component of shareholder's equity and that are attributable to the non-controlling interest must be included in the non-controlling interests component of equity.

Section 3856, Financial Instruments

The AcSB has amended Section 3856 to clarify:

- that a financial instrument that would only be redeemable as a result of economic compulsion, rather than by any contractual requirement, is not classified as a financial liability; and
- the application of hedge accounting when an anticipated transaction is hedged by a foreign exchange forward contract settled gross before the hedged transaction is recognized.

All amendments made in the October 2013 update must be applied for fiscal years beginning on or after January 1, 2014. Earlier application is permitted. Most of the amendments must be applied retrospectively; however the amendments to Section 1582 regarding the word "settlement" and Section 3856 regarding hedge accounting are exempt from full retrospective application.

Some of the changes in this *CPA Handbook* update also apply to NFPO that apply Part III of the *CPA Handbook*.

Future amendments to ASPE

The AcSB is continuing with various amendment projects to ASPE in order to preserve the quality and credibility of private enterprises' financial statements.

In August 2013, the AcSB issued two Exposure Drafts entitled *Consolidations* and *Joint Arrangements and Investments*, which are summarized in separate articles in this edition of *Flash*. The final versions of the new standards are expected to be released into the *CPA Handbook* in the third quarter of 2014 and are expected to be effective for fiscal years beginning on or after January 1, 2016.

The following is a summary of the projects for which the AcSB plans to issue a Discussion Paper or an Exposure Draft by the end of 2014.

Current projects	Summary
2014 annual improvements	Minor improvements to ASPE. An Exposure Draft is expected in the first quarter of 2014.
Agriculture	This project addresses the accounting for biological assets. A Discussion Paper is expected in the first quarter of 2014.
Redeemable preferred shares issued in a tax planning arrangement	This project plans to re-examine the requirements related to accounting for redeemable preferred shares issued in a tax planning arrangement within Section 3856, Financial Instruments. Issues to be discussed include scope, reclassification and measurement. An Exposure Draft is expected in the first quarter of 2014.
Subsidiaries	This project plans to clarify certain issues in accounting for subsidiaries under the cost method and the equity method. One of the areas that will be considered is if or when Section 1582, Business Combinations should be applied when an entity accounts for a subsidiary using either the cost or equity method. An Exposure Draft is expected in the third quarter of 2014.

Some of these projects could also affect the financial statements of NFPO that apply Part III; therefore, these organizations must keep abreast of the proposed amendments.

For more information on ASPE amendments, go to the Financial Reporting & Assurance Standards Canada website.

Consolidations

In August 2013, the AcSB published an Exposure Draft, *Consolidations*, which proposes the elimination of AcG-15, Consolidation of Variable Interest Entities and the introduction of new guidance on the identification and consolidation of entities that are controlled through means other than voting interests. This new guidance, which would be based on the concepts in IFRS 10 *Consolidated Financial Statements*, would be combined with the existing guidance in Section 1590, Subsidiaries to create the new Section 1591, Subsidiaries.

Under the proposed Section 1591, an entity would continue to make an accounting policy choice regarding the method in which it accounts for its investments in its subsidiaries:

consolidation, the cost method or the equity method. The following summarizes the significant changes proposed in the Exposure Draft.

Scope

Accounting for contractual arrangements between enterprises under common control would no longer fall under the scope of this standard; an entity would account for the rights and obligations of these arrangements in accordance with the applicable sections (e.g., Section 3065, Leases).

Assessing Control

The current definition of control and the guidance on accounting for subsidiaries controlled through equity interests would be retained. Additional guidance would be provided and focused around assessing when control may be obtained through means other than voting interests (i.e., contractual arrangements, statute and ownership of financial instruments that if converted or exercised would give the enterprise control) or through a combination of voting interests and means other than voting interests. Although there is no change proposed to the definition of control, additional guidance would be provided on how to apply the definition of control, which would still require the use of professional judgment.

Joint Arrangements and Investments

Section 3055, Interests in Joint Ventures, the current joint venture standard, permits an entity with an interest in a joint venture to make an accounting policy choice to either account for its interest in joint ventures through proportionate consolidation or using the cost or the equity method. The AcSB noted that proportionate consolidation may result in an investor reporting in its financial statements: assets that it does not control, liabilities for which it has no direct obligation and cash flows to which it does not have any direct access. In August 2013, the AcSB published an Exposure Draft, *Joint Arrangements and Investments*, which proposes the issuance of new Section 3056, Joint Arrangements along with some revisions to Section 3051, Investments. Under proposed Section 3056, the definitions of jointly controlled operations, jointly controlled assets and jointly controlled enterprises would remain unchanged; however, the accounting policy options available would be reduced to more faithfully represent the nature of the arrangement in an investor's financial statements.

The following summarizes the manner in which an entity would account for their investment in a joint arrangement as proposed in the Exposure Draft.

Jointly Controlled Assets and Operations

Investors in jointly controlled assets or operations would account for their rights to individual assets and revenues and obligations to individual liabilities and expenses based on the details of the joint arrangement. The proposed methods of accounting would be similar to the proportionate consolidation method currently used under Section 3055 except that the proportion of the assets, liabilities, revenues and expenses recognized by the investor would be based on the relevant facts and circumstances in the contractual agreement and not solely on the investor's percentage ownership.

Jointly Controlled Enterprises

For jointly controlled enterprises, the investor would determine whether they have rights to the individual assets and liabilities of the joint arrangement or rights to the net assets of the joint arrangement. Where the investor has rights to the net assets, the Section proposes an accounting policy choice to account for its interest in the joint arrangement using the cost or equity method in accordance with Section 3051. However, in cases where an investor has rights to individual assets and obligations for individual liabilities of the jointly controlled enterprise, the investor would apply the accounting method applicable for either jointly controlled assets or jointly controlled operations, as appropriate.

The Exposure Draft also proposes some consequential changes to Section 3051 which are intended to clarify the guidance and wording in the standard, but these changes are not expected to have a significant impact on an entity's financial statements.

Private Enterprise Advisory Committee

The Private Enterprise Advisory Committee (the "Committee") was established by the AcSB to assist the AcSB in maintaining and improving ASPE and advise when non-authoritative guidance is needed with respect to the standards. The Committee's most recent meetings were held on September 17, 2013 and December 10, 2013. The following paragraphs summarize certain topics discussed at the September meeting. The minutes of the December meeting have not yet been made available and will be discussed in our next *Flash* publication in 2014.

2014 annual improvements

The Committee discussed various items for inclusion in the 2014 annual improvements project.

- Translation of foreign currency hedging instruments

  The Committee discussed concerns that Section 3856, Financial Instruments, is unclear on how to account for a foreign currency-denominated hedging forward contract that matures after the hedged anticipated transaction occurs. The Committee agreed to recommend to the AcSB that Section 3856 be clarified to state that when a year-end occurs after the hedged transaction occurs but before the forward contract matures, the contract denominated in a foreign currency should be remeasured in accordance with Section 1651, Foreign Currency Translation (i.e., the exchange rate in effect at the balance sheet date should be applied and any exchange gain or loss would be included in net income).

- Disclosure of impaired accounts receivable

  The current disclosure requirement related to impairment in Section 3856 requires disclosure of the carrying amount of any impaired financial assets and the amount of any related allowance for impairment. Many entities calculate an allowance for doubtful trade accounts receivable on a portfolio basis rather than by identifying individual receivables as impaired. As a result, the Committee plans to recommend to

the AcSB the amendment of Section 3856 to restrict the application of the impairment disclosure requirement to all financial assets other than trade accounts receivable. They also agreed to propose to the AcSB that a separate disclosure requirement should be added for accounts receivable that would require disclosure of the allowance for doubtful accounts.

For more information on the Committee, go to the Financial Reporting & Assurance Standards Canada Web site.

Not-for-profit Organizations (Part III)

Many of the topics covered in section "Private Enterprises (Part II)" may also be relevant for NFPO that apply Part III of the *CPA Handbook*.

Reporting Employee Future Benefits by Not-for-profit Organizations (Section 3463)

In December 2013, the AcSB issued Section 3463 in Part III. Section 3463 replaces Section 3461, Employee Future Benefits, in Part II of the *CPA Handbook*. Section 3463 requires NFPO to follow Section 3462, Employee Future Benefits, in ASPE[1], except for the recognition and presentation of remeasurements and other items[2] related to defined benefit plans. Since the needs of NFPO financial statement users differ from those of private enterprise users, remeasurements and other items are:

- recognized directly in net assets in the statement of financial position, rather than in the statement of operations;
- presented as a separately identified item in the statement of changes in net assets; and
- not reclassified from net assets to the statement of operations in a subsequent period.

Section 3463 is applicable for annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted, but only for all of a NFPO's benefit plans. Retrospective application is required but specific guidance on transition is provided where a NFPO previously used a measurement date for its plan assets and defined benefit obligation that was prior to the year-end date.

For more information on other differences between Section 3461 currently applied by NFPO and Section 3462, refer to the article "Employee Future Benefits (Section 3462)" in the July 2013 issue of *Flash*.

[1] Section 3462 was issued in May 2013.

[2] Remeasurements and other items are comprised of items such as actuarial gains and losses, adjustments to the valuation allowance, and gains and losses arising from plan amendments, curtailments and settlements.

Publications

CPA Canada issued two *ASPE Financial Reporting Alerts* that highlight some possible implications of how changes to accounting standards issued in 2013 may affect an entity's business and discuss effects beyond accounting:

- NEW – Section 3462, Employee Future Benefits;
- AMENDED – Section 3475, Disposal of Long-Lived Assets and Discontinued Operations.

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Translation. In case of discrepancy, the French text shall prevail.