CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

Financial Reporting Alert

ASPE

DECEMBER 2017

2017 Annual Improvements to Accounting Standards for Private Enterprises

In July 2017, the Accounting Standards Board (AcSB) released the 2017 annual improvements to accounting standards for private enterprises (ASPE) in Part II of the *CPA Canada Handbook — Accounting*.

This CPA Canada *Financial Reporting Alert* highlights the changes and related implications for each affected section.

Why Do the 2017 Annual Improvements to ASPE Matter to Me?

Understanding the 2017 Annual Improvements to ASPE is important to ensure compliance with ASPE as the standards are updated.

These amendments should be reviewed by the following entities to determine whether they are affected:

- Private enterprises that apply Part II of the *CPA Canada Handbook — Accounting*
- Not-for-Profit Organizations (NFPOs) using the standards in Part III. Note that Part III directs NFPOs to Part II for guidance, unless there is a separate standard in Part III. Therefore, the amendments summarized above are generally applicable to NFPOs. The presentation of the balance sheet is addressed in Part III, Section 4400, *Financial Statement Presentation by Not-for-Profit Organizations.* It is the primary source; Section 1521 and the amendments are also relevant.

What Are Annual Improvements?

ASPE are changed periodically through either major improvements or annual improvements. The purpose of annual improvements is to clarify wording or correct relatively minor unintended consequences, oversights or conflicts. These amendments are "bundled" together and released once a year to reduce the number of individual announcements of changes to the standards. Major improvement projects may result in significant changes to a specific standard and are released individually by standard.

This *Alert* addresses the 2017 annual improvements.

When Are These Amendments Effective?

- for annual financial statements beginning on or after January 1, 2018
- earlier application is permitted.

What Are the Key Changes?

Section 1505, *Disclosure of Accounting Policies*

- This amendment requires the disclosure of accounting policies "in one of the first notes" rather than as the first note to the financial statements.
- This amendment ends the debate that had arisen in practice on the placement of the disclosure of accounting policies. The amendment reiterates the importance of this disclosure by making sure the accounting policies are disclosed "in one of the first notes" rather than as the first note. However, the amendment also allows some flexibility in terms of the location of the disclosure.
- Financial statements must provide relevant information to the users of that information. This amendment allows for the possibility that under some circumstances other notes should appear in the financial statements before the accounting policies note (e.g., when there is significant doubt about the entity's ability to continue as a going concern or there is a subsequent event, such as a change in ownership, that is significant).
- This amendment also allows disclosure of the nature of the business in the first note, as is consistent with current practice, since such disclosure is important to the understanding of the financial statements.

Section 1506, *Accounting Changes*

- This amendment makes sure any adjustments to prior periods presented, (normally the previous year) are disclosed and the disclosure of the effect of the accounting policy change for each of the prior periods presented provides more useful information to users of the financial statements.

Section 1521, *Balance Sheet*

- This amendment clarifies which line items are *required to be separately presented* on the face of the balance sheet (see 1521.04 and 1521.05) and which line items may be presented separately *either on the face of the balance sheet or the notes to the financial statements* (see new 1521.04A for assets and new 1521.05A for liabilities).
- In addition, Section 1521 is a compilation of the requirements of other standards; yet, it does not include presentation and disclosure requirements related to assets under capital leases. Accordingly, new paragraph 1521.04A requires that assets under capital lease must be either separately presented on the face of the balance sheet or disclosed in the notes to the financial statements or supporting schedules (see 1520.04A(d)).

Section 1651, *Foreign Currency Translation*

- This amendment removes an inconsistency with the requirements in Section 3031, *Inventories* by deleting paragraph 1651.53 and further clarifying the example included in paragraph 1651.51.
- Paragraph 1651.53 was deleted to remove the requirement that precluded previously recorded write-downs of inventory from being reversed in the translated financial statements of an integrated foreign operation. Section 3031, *Inventories* requires previous write-downs of inventory to be reversed when the circumstances that previously caused the inventories to be written down no longer exist or there is clear evidence of an increase in the net realizable value that reflects changes in economic circumstances. Paragraph 1651.53 contradicted this requirement in Section 3031 and has therefore been deleted.
- The example in paragraph 1651.51 has been clarified and addresses the foreign exchange component in the measurement of an asset measured at lower of cost or market. It provides an example for the measurement of a write-down of inventory when the impairment is related to exchange rate fluctuations.

Section 3065, *Leases*

- Prior to this amendment, paragraph 3065.81 required disclosure of the carrying amount of impaired operating lease receivables and the amount of any related allowance for impairment. The amendment to paragraph 3065.81 clarifies that only the amount of the allowance for impairment must be disclosed and not the carrying amount of impaired operating lease receivables.
- This amendment to paragraph 3065.81 results in consistent disclosure requirements for operating lease receivables with the impairment disclosures for current trade receivables.

What Are the Transitional Requirements?

Since no particular transitional guidance is specified in these amendments, retrospective application is required in accordance with Section 1506, *Accounting Changes.*

What Are the Audit Implications?

The auditor may need to discuss the following items with management as a result of the 2017 Annual Improvement amendments:

- the placement of the significant policy disclosures
- the disclosure related to any accounting policy changes and adjustments
- the items disclosed on the face of the balance sheet versus the notes to the financial statements or supporting schedules for compliance with amended Section 1521
- financial statement presentation and disclosure of the amount of any impairment loss for operating lease receivables
- the measurement, presentation and disclosure of any changes related to any impairments, and any reversals of impairments of inventory in an integrated foreign operation
- the disclosure requirements for any allowance for impairment for operating lease receivables.

Some other possible audit implications include the following:

- Since many of the amendments are related to presentation and disclosures, a discussion of the requirements in Section 1400, *General Standards of Financial Statement Presentation* may be beneficial. A reminder to management that fair presentation in accordance with generally accepted accounting principles is achieved by the following:
  - applying the standards
  - providing sufficient information about transactions or events having an effect on the entity's financial position, results of operations and cash flows for the periods presented that are of such size, nature and incidence that their disclosure is necessary to understand that effect
  - providing information in a manner that is clear and understandable (see 1400.04).
- In complying with the requirements in CAS 300, *Planning an Audit of Financial Statements* to establish the overall audit strategy, the auditor must consider whether there have been significant changes in the financial reporting framework. Although the annual improvements do not result in significant changes to ASPE, the auditor may need to take into account their effect on the overall audit strategy.
- In identifying and assessing risks of material misstatement (ROMM) in accordance with CAS 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* the

auditor may identify the amendments as creating a risk that needs to be addressed. If there are ROMM arising from the amendments, the auditor may need to amend the nature, timing and extent of audit procedures to develop an appropriate response, as required by CAS 330, *The Auditor's Responses to Assessed Risks.*

- The auditor may consider the implications of any retrospective application of the amended accounting standards. The auditor may need to perform additional procedures and may have additional audit reporting responsibilities with respect to comparative information as described in CAS 710, *Comparative Information—Corresponding and Comparative Financial Statements.*

What Resources Are Available to Help Me?

CPA Canada

- Practitioner's Pulse Webinar (October 10, 2017 (EN) or October 12, 2017 (FR))

Accounting Standards Board

- 2017 Annual Improvements to Accounting Standards for Private Enterprises: Background Information and Basis for Conclusions

Comments on this *Financial Reporting Alert*, and suggestions for future Financial Reporting Alerts should be sent to:

Mike Massoud, CPA, CA, CPA (IL)
Principal
Research, Guidance and Support
Chartered Professional Accountants of Canada
277 Wellington Street West
Toronto ON M5V 3H2
email: mmassoud@cpacanada.ca