CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

Financial Reporting Alert

ASPE

MARCH 2016

2015 Annual Improvements to Accounting Standards for Private Enterprises

In October 2015, the Accounting Standards Board (AcSB) released the 2015 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 2015 annual improvements to ASPE matter to me?

In brief, the following changes have been introduced:

- Section 1582, *Business Combinations* has been amended to clarify the disclosure requirements in the event of a business combination effected via the acquisition of an asset or group of assets.
- Section 3051, *Investments* and Section 3065, *Leases* have each been amended to require disclosure in the current period of both the amount of any impairment loss and the reversal of a previously recognized impairment loss that has been included in net income.
- Section 3061, *Property, Plant and Equipment* has been amended to remove the phrase "an item of" from the disclosure requirements for amortization and the net carrying amount of any property, plant and equipment that is not being amortized.

- Section 3462, *Employee Future Benefits* has been amended to include specific guidance regarding the conditions under which a defined benefit obligation may be measured using an actuarial valuation for funding purposes.

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*; and
- 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, for example, amendments to Section 3061, *Property, Plant and Equipment* would not be applicable to NFPOs.

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.

When are these amendments effective?

- For annual financial statements beginning on or after January 1, 2016.
- Earlier application is permitted.

What are the key changes?

Section 1582, Business Combinations—Disclosures

- This amendment applies to disclosures made when a business combination consists of the acquisition of an asset or group of assets that constitutes a business, rather than the acquisition of a company.
- The term “an asset” is included to acknowledge the possibility that a business may consist of a single asset (e.g., in the mining or real estate sector).
- Disclosure is required of the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed (paragraph 1582.62A(a)).

Section 3051, Investments, Section 3065, Leases and Section 1520, Income Statement—Disclosures

- Disclosure of the amount of any impairment loss or reversal of a previously recognized impairment loss included in net income is required for both investments and leases. This amendment aligns the disclosure requirements for investments and leases with that for financial instruments.

- For investments, the disclosure is required by "type of asset", which is consistent with the existing disclosure for the carrying amount of impaired investment assets and any related allowance for impairment (paragraph 3051.38(b)).

- For leases, this requirement is applicable to direct financing leases, sales-type leases, and impaired operating-lease receivables (paragraphs 3065.79(b) and .81(b)).

- Subsidiaries and joint arrangements accounted for using either the cost or equity method continue to apply the guidance in Section 3051, and hence are also subject to this amendment (paragraph 3051.02).

- Section 1520, *Income Statement* has been amended to require either line item or note disclosure of any impairment loss or reversal for investments and leases, which is consistent with the amendments to Sections 3051 and 3065 (paragraphs 1520.04(u) and (v)).

Section 3061, Property, Plant and Equipment—Disclosures

- The disclosure requirements for:
  1. amortization
  2. the net carrying amount of any property, plant and equipment that is not being amortized

  were previously expressed as "for an item of property, plant and equipment"; the term "an item" has been removed from the disclosure requirements (paragraphs 3061.25 and .26).
- It was never intended that separate disclosure be provided for each item. The amended wording now reflects the manner in which this disclosure requirement is being applied in practice.

Section 3462, Employee Future Benefits—Clarification of Circumstances under Which an Actuarial Valuation for Funding Purposes May Be Used to Measure a Defined Benefit Obligation

- Each defined benefit obligation is required to be measured using either an actuarial valuation for accounting purposes (i.e., an accounting valuation) or, if certain criteria are met, an actuarial valuation for funding purposes (i.e., a funding valuation) (paragraph 3462.029). This provision is included for cost/benefit purposes, and is designed to enable entities to avoid the costs associated with preparing two valuations for a given defined benefit obligation. The amendments clarify when a funding valuation can be used.

- If a funding valuation is required in order to comply with legislative, regulatory or contractual requirements, then an accounting policy choice is made for *all* such plans to use either the most recently completed funding valuation or an accounting valuation (i.e., a second valuation would have to be prepared in addition to the funding valuation) (paragraph 3462.029B).

- If there is no legislative, regulatory or contractual requirement to prepare a funding valuation, the entity will, on a *plan-by-plan* basis, either:
  - measure the defined benefit obligation using an accounting valuation

    or
  - measure the defined benefit obligation using a funding valuation if the entity has at least one defined benefit plan that requires a funding valuation, and that is measured accordingly. In that event, the measurement of the plan for which no funding valuation is required must be consistent with that for the plan which does require a funding valuation (paragraph 3462.029C).

- A valuation prepared using a solvency, wind-up or similar valuation basis does not qualify as a funding valuation for purposes of making this accounting choice (paragraph 3462.029D).

- The policy choices detailed above are at the discretion of the entity and do not need to meet the conditions specified in Section 1506, *Accounting Changes*, which states that changes should be made only if they provide more reliable and relevant information (paragraph 3462.029D). However, any change in policy must be treated retrospectively, in accordance with Section 1506 (paragraph 3462.032). Practically speaking, the AcSB felt that accounting policy changes would be infrequent, given the costs which would likely be associated with both retrospective restatement and obtaining a new actuarial valuation.

- A Decision Tree detailing the decision process to follow in determining whether or not a funding valuation is allowable has been added to Section 3462, and has been included as Appendix A to this Alert. Note that the Decision Tree is an aid only, and is to be read and applied in conjunction with the standard.

- NFPOs reporting under Part III are directed to Section 3462, and hence are also subject to this amendment (paragraph 3463.01).

What are the transitional requirements?

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 amendments:

- financial statement presentation and disclosure of a business combination effected through the acquisition of an asset or group of assets
- retrospective restatement and related disclosure of any change in accounting policy for measurement of a defined benefit obligation

- financial statement presentation and disclosure of the amount of any impairment loss or reversal of a previously recognized impairment loss included in net income for the following:
  - subsidiaries and joint arrangements accounted for using either the cost or equity method
  - direct financing leases
  - sales-type leases
  - impaired operating lease receivables
  - investments (by type of asset)

Some other possible audit implications include the following:

- When the entity measures its defined benefit obligation using a funding valuation (and there is no legislative, regulatory or contractual requirement to prepare an actuarial valuation for funding purposes), the auditor may need to assess whether the entity also has a funded defined benefit plan (see paragraph 3462.029C). If the entity does not have at least one defined benefit plan for which a funding valuation is required to be prepared, the entity is required to use an accounting valuation.

- 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*.

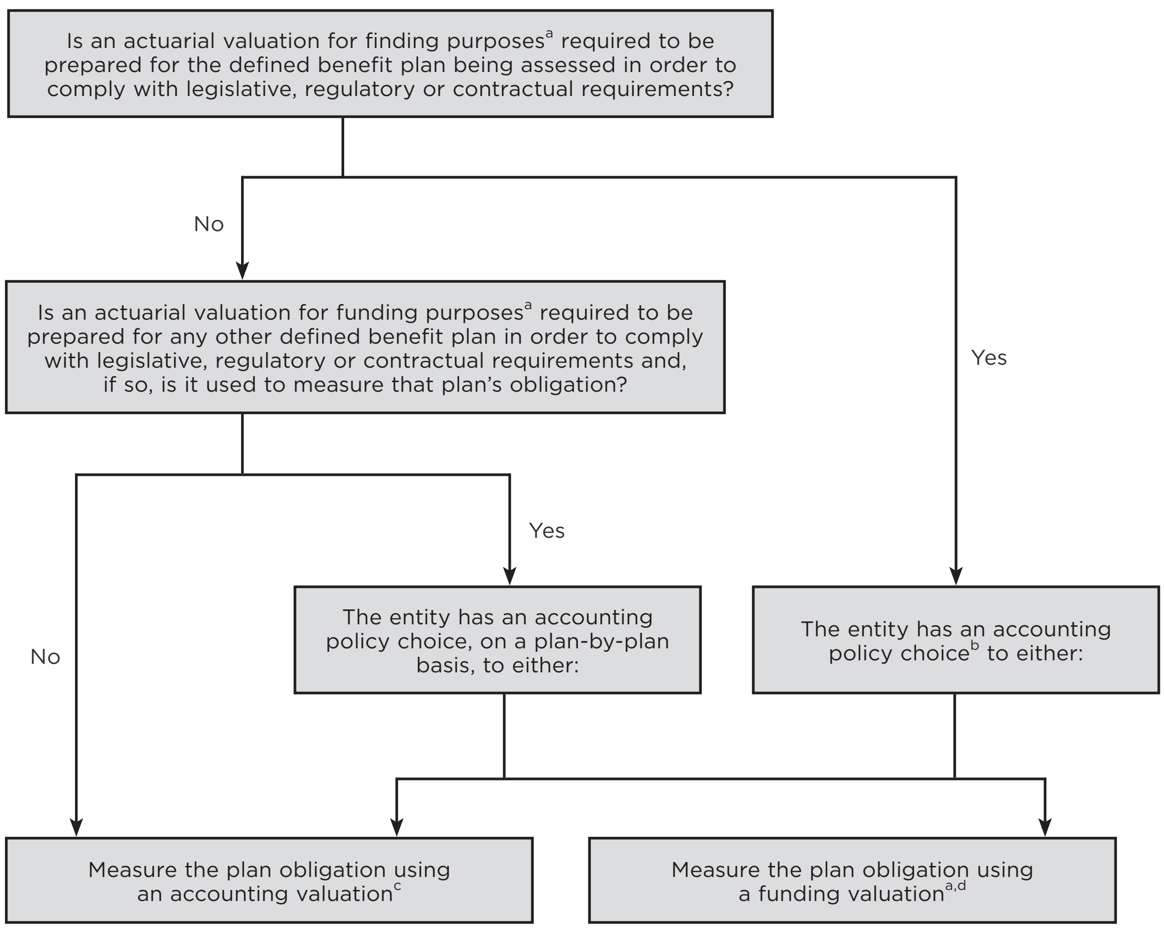
- The auditor may consider the implications of any retrospective application of the amended accounting standards. The auditor may need to perform additional procedures and may have additional audit reporting responsibilities with respect to comparative information as described in CAS 710, *Comparative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

APPENDIX A
Excerpt from Section 3462, Employee Future Benefits

DECISION TREE—DETERMINING ELIGIBILITY FOR USING A FUNDING VALUATION TO MEASURE THE DEFINED BENEFIT OBLIGATION FOR A DEFINED BENEFIT PLAN

This material is illustrative only.

This decision tree illustrates the assessment an entity makes to determine when it is eligible to apply an accounting policy choice to measure the defined benefit obligation for a defined benefit plan using a funding valuation as described in paragraphs 3462.029-.033.



a. Excludes funding valuations prepared using a solvency, wind-up, or similar valuation basis.
b. The same accounting policy choice must be applied to each defined benefit plan for which funding valuation is required to be prepared in order to compy with legislative, regulatory or contractual requirements.
c. Determined in accordance with paragraph 3462.035-.061.
d. Determined in accordance with paragraph 34620.029B or 3462.029C, and paragraph 3462.029D, as appropriate.

What resources are available to help me?

CPA Canada

- Practitioner's Pulse Webinar (March 2016)

Accounting Standards Board

- 2015 Annual Improvements to Accounting Standards for Private Enterprises: Background Information and Basis for Conclusions
- FYI Article—Annual Improvements: Revised Timing

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

Taryn Abate, CPA, CA, CPA (IL)
Principal
Research, Guidance and Support
Chartered Professional Accountants of Canada
277 Wellington Street West
Toronto ON M5V 3H2
Email: tabate@cpacanada.ca