

CICA handbook – accounting, part II highlight summary no. II.1 December 2009

Restructuring of the Handbook

The Handbook has been restructured as follows to implement the strategy of the Accounting Standards Board (AcSB) of adopting different sets of standards for different categories of entities:

- Part I – International Financial Reporting Standards;
- Part II – Accounting Standards for Private Enterprises;
- Part III – Accounting Standards for Not-for-Profit Organizations;
- Part IV – Accounting Standards for Pension Plans; and
- Part V – pre-changeover accounting standards. These standards will cease to be Canadian generally accepted accounting principles for private enterprises for fiscal years beginning in 2011.

Preface to the CICA Handbook – Accounting

The Preface to the Handbook provides an overview of the structure of the Handbook and the applicability of the different sets of standards it contains.

Accounting Standards for Private Enterprises

This Part II of the Handbook includes an Introduction and the accounting standards for private enterprises approved by the AcSB for annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted. Private enterprises may adopt Part I, International Financial Reporting Standards, instead of the standards in Part II.

The AcSB developed the accounting standards for private enterprises based closely on the standards in Part V. The few changes to recognition and measurement requirements in those standards address key issues for which the AcSB determined that existing standards do not meet a cost-benefit test for private enterprises. Disclosure requirements in Part II are significantly reduced from the standards in Part V. Sections that include substantive differences from the corresponding Sections in Part V are as follows:

- GOODWILL AND INTANGIBLE ASSETS, Section 3064, incorporates a simplified method of measuring the amount of a goodwill impairment loss.
- ASSET RETIREMENT OBLIGATIONS, Section 3110, incorporates a simplified method of measuring the amount of an asset retirement obligation.
- EMPLOYEE FUTURE BENEFITS, Section 3461, permits a private enterprise to use a funding valuation in accounting for a defined benefit plan. If this option is used, all expenses related to the plan are recognized in income in the period in which they occur.
- STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870, permits a private enterprise to use an industry index to estimate volatility but does not permit it to use the minimum value method.
- FINANCIAL INSTRUMENTS, Section 3856, simplifies the accounting for financial instruments by providing a single accounting standard that applies to all financial assets and liabilities, replacing nine Sections and two Accounting Guidelines in the existing standards in Part V. The key features of Section 3856 are as follows:
 - All financial instruments are measured at cost (or amortized cost) except for investments in equity securities quoted in an active market and freestanding derivative instruments. However, a private enterprise may measure any other financial instrument at fair value if it chooses and makes that choice when the instrument is first recognized.
 - Embedded derivatives in non-financial contracts are not accounted for as financial instruments.
 - A single impairment process applies to all financial assets. Impairment write-downs are based on the difference between the current carrying amount of the asset and the amount the enterprise could expect to receive in the most favourable outcome.
 - Hedge accounting can be used only when the critical terms of the hedging instrument match those of the hedged instrument.
 - Retractable preferred shares issued in tax planning arrangements will be classified as equity until the holder requires redemption of the shares.

FIRST-TIME ADOPTION, Section 1500, prescribes how a private enterprise changes its accounting basis when applying the standards in Part II for the first time, whether by changing from the standards in Part V or by initially adopting generally accepted accounting principles.

Part II carries forward differential reporting options available in Part V. Sections and Accounting Guidelines in Part V that are not applicable to private enterprises have not been included in Part II. The Abstracts of Issue Discussed by the Emerging Issues Committee have not been carried forward but certain key pieces of guidance have been integrated into the relevant Sections in Part II, as have a number of consequential amendments and editorial changes.

The AcSB plans to issue a Background Information and Basis for Conclusions document in early 2010 that will provide more detail about changes made to standards in Part V in developing the accounting standards for private enterprises.

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