

## SPECIFIC ITEMS

### SECTION 3260

#### reserves

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##### PURPOSE AND SCOPE

- .01 This Section establishes recognition and presentation standards in respect of accounting for reserves.
- .02 *The use of the term "reserve" shall be limited to an amount that, though not required to meet a liability or contingency known or admitted or a decline in value that has already occurred as at the balance sheet date, has been appropriated from retained earnings or other surplus:*
  - (a) *at the discretion of management (for example, reserve for future decline in inventory values, reserve for general contingencies, reserve for future plant extension); or*
  - (b) *pursuant to the requirements of a statute, the instrument of incorporation or by-laws of a company or a trust indenture, or other agreement (for example, sinking fund reserve, general reserve, preferred stock redemption reserve).*

##### RECOGNITION

- .03 *Reserves shall be created or increased only by appropriations of retained earnings or other surplus. They shall not be set up or increased by charges made in arriving at net income for the period.*
- .04 *Regardless of how a reserve was originally created, all reductions in reserves shall be returned to retained earnings or other surplus and no charges shall be made against the reserves that would relieve the income account of charges that shall properly be taken into account in determining the net income for the period.*

##### PRESENTATION

- .05 *Reserves shall be shown as part of shareholders' equity and the source from which they were created (i.e., retained earnings or contributed surplus) indicated.*
- .06 *Changes in reserves during the period shall be presented separately in the financial statements.*

##### EFFECTIVE DATE

- .07 This Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.