# CICA handbook – accounting revisions release no. 20 February 2003

**ACCOUNTING RECOMMENDATIONS**

**Introduction to Accounting Recommendations**

Amended to clarify the effective date of new standards.

**Business combinations, paragraph 1581.55**

Amended to provide a reference to new Guideline AcG-14.

**Foreign currency translation, paragraph 1650.42**

Deleted last sentence as a result of the revision to Section 1650 in December 2001. The revision eliminated the deferral of exchange gains and losses for periods beginning on or after January 1, 2002.

**Interim financial statements, paragraph 1751.14(h)**

Amended to include a requirement to disclose guarantees in accordance with new Guideline AcG-14. The former wording of paragraph 1751.14(h) was:

♦ *An enterprise should include at least the following information in its interim financial statements, when applicable:*

...

*(h) The interim financial statements should disclose changes in the existence, likelihood or amount of contingencies since the end of the most recently completed fiscal year* (see CONTINGENCIES, Section 3290). [JAN. 2001]

**Contractual obligations, paragraph 3280.01**

Amended to provide a reference to new Guideline AcG-14.

**Contingencies, paragraphs 3290.01 and 3290.17**

Amended to provide a reference to new Guideline AcG-14.

**Financial instruments — disclosure and presentation, paragraphs 3860.15 and 3860.A27**

Amended to conform the discussion of guarantees with the definition in new Guideline AcG-14.

**SUPERSEDED ACCOUNTING RECOMMENDATIONS**

**Interim financial reporting to shareholders, Section 1750**

Withdrawn.

The following Recommendations formerly appeared in Section 1750:

.04 ♦ *Interim financial data should be presented on a consolidated basis by companies which present their annual financial statements on a consolidated basis.* [NOV. 1971]

.06 ♦ *Interim financial reports should include at least the following:*

*(a) A summary disclosing separately*

*(i) revenue;*

*(ii) investment income;*

*(iii) amount charged for depreciation, depletion and amortization;*

*(iv) interest expense;*

*(v) income tax expense;*

*(vi) income or loss before discontinued operations and extraordinary items;*

*(vii) discontinued operations and related income taxes;*

*(viii) income or loss before extraordinary items;*

*(ix) extraordinary items and related income taxes; and*

*(x) net income or loss for the period.* [JAN. 1990 *]

*(b) Basic and fully diluted earnings per share figures, calculated and presented in accordance with EARNINGS PER SHARE, Section* 3500. [JAN. 1990]

*(c) Information as to significant cash flows*. This information will usually be provided by a cash flow statement. [JAN. 1990 **]

*(d)* *Information concerning:*

*(i)* *Changes in accounting principles or in the methods used in their application* (see ACCOUNTING CHANGES, Section 1506)*;*

*(ii)* *Discontinued operations* (see DISCONTINUED OPERATIONS, Section 3475)*;*

*(iii) Extraordinary items, if the descriptive titles of the items do not disclose their nature* (see EXTRAORDINARY ITEMS, Section 3480)*;*

*(iv)* *Subsequent events* (see SUBSEQUENT EVENTS, Section 3820)*;*

*(v)* *Other matters, not previously reported to shareholders as part of the annual financial statements, such as changes in contingencies or commitments, or issue or expiry of convertible securities, rights, warrants or options.* [JAN. 1990]

*(e)* *Information about each reportable segment determined according to SEGMENT DISCLOSURES, Section* 1701*:*

*(i)* *revenues from external customers;*

*(ii)* *intersegment revenues;*

*(iii) a measure of segment profit or loss;*

*(iv)* *total assets for which there has been a material change from the amount disclosed in the last annual financial statements;*

*(v)* *a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss; and*

*(vi)* *a reconciliation of the total of the reportable segments' measures of profit or loss to the enterprise's income or loss before discontinued operations and extraordinary items, in which significant reconciling items should be separately identified and described. However, if an enterprise allocates items such as extraordinary items to segments, the enterprise may choose to reconcile the total of the segments' measures of profit or loss to the enterprise's income after those items. Reconciliations of balance sheet amounts for reportable segments to consolidated balance sheet amounts are required only when the related balance sheet is presented.*

*Information for prior periods should be restated in accordance with SEGMENT DISCLOSURES, paragraphs 1701.36-.37, when an enterprise changes the structure of its internal organization in a manner that causes the composition of its reportable segments to change. The Recommendations in this subparagraph should be applied for interim periods in fiscal years beginning on or after January 1, 1999. Segment information for earlier years that is presented in the initial year of application should be restated to conform to the requirements of this subparagraph unless it is impracticable to do so.* [NOV. 1999]

.07 ♦ *Discontinued operations and extraordinary items should be shown separately and included in the determination of net income for the interim period in which they occur.* (See DISCONTINUED OPERATIONS, Section 3475 and EXTRAORDINARY ITEMS, Section 3480.) It is not considered appropriate to prorate extraordinary items over a full year. [JAN. 1990]

.10 ♦ *Interim financial reports should present financial information for at least the current fiscal year to date. [NOV. 1971]*

.12 ♦ *All financial summaries included should be presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The figures for the corresponding period in the preceding year should be restated where appropriate.* (See GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION, Section 1500 and ACCOUNTING CHANGES, Section 1506.) [NOV. 1971 *]

.14 ♦ *The preparation of financial data should be based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Where necessary, appropriate estimates and assumptions should be made to match costs and revenues. Where, due either to the nature of the item or the short period involved, an estimate may be subject to substantial adjustment at the year end, disclosure of this fact should be made.* [NOV. 1971]

**Corporate income taxes, Section 3470**

Withdrawn.

The following Recommendations formerly appeared in Section 3470:

.13 ♦ *When timing differences occur between accounting income and taxable income, income taxes should be accounted for on the tax allocation basis for all corporations with the exception of certain regulated and similar enterprises referred to in paragraphs 3470.59 to 3470.61 inclusive.*

.20 ♦ *The deferral method of income tax allocation should be used.*

.22 ♦ *Tax allocation amounts should not be calculated on a discounted basis.* [OCT. 1973]

.24 ♦ *Accumulated tax allocation credits and/or debits should be segregated in the balance sheet as between current and non-current according to the classification of the assets and liabilities to which they relate.* [JAN. 1970]

.26 ♦ *Current accumulated tax allocation debits or credits should be shown in current assets or current liabilities.* [JAN. 1970]

.27 ♦ *Non-current accumulated tax allocation debits or credits should be shown as a deferred charge or as a deferred credit outside shareholders' equity.* [JAN. 1970]

.29 ♦ *The amount by which the current income tax provision has been increased or decreased as a result of tax deferrals should be disclosed along the lines set out in paragraph 3470.28.*

.33 ♦ *Enterprises, the securities of which are traded in a public market or that are required to file financial statements annually with a securities commission, and all life insurance enterprises should disclose in their financial statements the components of the variation from the basic income tax rate. Significant offsetting items included in the income tax provision should be disclosed even when there is no variation from the basic income tax rate.* [JAN. 1988]

.34 ♦ *The related tax effect for discontinued operations and extraordinary items should be shown separately in the income statement with the discontinued operations or extraordinary items and not as part of the provision for income taxes included in "income before discontinued operations and extraordinary items".* (See DISCONTINUED OPERATIONS, Section 3475 and EXTRAORDINARY ITEMS, Section 3480.) [JAN. 1990]

.35 ♦ *To provide a proper matching of costs and revenues, reductions or increases in income taxes attributable to items included in retained earnings should also be included and disclosed in retained earnings.*

.40 ♦ *Where a loss for tax purposes gives rise to a recovery of income taxes of the previous period, such recovery should be reflected in the income statement for the period of the loss either before "income (loss) before discontinued operations and extraordinary items" or, if it relates to discontinued operations or an extraordinary item, as a deduction therefrom.* [JAN. 1990]

.42 ♦ *Where the recomputation of taxable income for the previous period results in an adjustment to accumulated deferred income taxes, such adjustment should be reflected in the income statement for the period of the loss.* [OCT. 1973]

.46 ♦ *Where, in the period in which the loss for tax purposes occurs, a corporation is virtually certain of realizing the tax benefit of all or a portion of the resulting loss carry-forward for tax purposes, such tax benefit should be reflected in the financial statements of that period. The tax benefit should be reflected in the income statement either before "income (loss) before discontinued operations and extraordinary items" or, if it relates to discontinued operations or an extraordinary item, as a deduction therefrom. The amount should ordinarily be disclosed separately as an asset in the balance sheet. However, any portion of the tax benefit which is recognized as a result of the assumption that the corporation will not claim certain deductions allowable for tax purposes in the carry-forward period should be reflected in the balance sheet either as a reduction of accumulated deferred income tax credits or as deferred income tax debits, as appropriate.* [JAN. 1990]

.48 ♦ *In situations where conditions relating to virtual certainty of realization are not otherwise present, the unrecorded tax benefit of the loss carry-forward should be recognized to the extent of any reductions in accumulated deferred income tax credits available in the carry-forward period by claiming less capital cost allowances than depreciation recorded or by making other adjustments of a similar effect. The amount of the reductions recognized in the period in which the loss occurs should be reflected in the income statement before "income before discontinued operations and extraordinary items" or, if it relates to discontinued operations or an extraordinary item, as a deduction therefrom. It should be reflected in the balance sheet as a reduction of accumulated deferred income tax credits.* [JAN. 1990]

.50 ♦ *Where a tax benefit of a loss carry-forward was previously recorded, and there is no longer virtual certainty of realizing the tax benefit or a portion thereof, such amount should be written off.* [JAN. 1990]

.52 ♦ *Deferred income tax debits resulting from timing differences in a loss period should not be recognized unless there is reasonable assurance that these timing differences will be reversed. In the absence of such assurance, deferred income tax debits accumulated in prior periods should be written off.* [JAN. 1990]

.54 ♦ *Where potential tax benefits resulting from business losses have not been recognized in the financial statements, the following information should be disclosed:*

*(i) the amount of the loss carry-forward(s) for tax purposes, excluding the portion which will result in a credit of a tax benefit to deferred tax accounts upon recognition;*

*(ii) the expiration date(s) of the loss carry-forward(s); and*

*(iii) any timing differences which, if recognized, would result in a deferred income tax debit.*

It is desirable to disclose similar information for capital loss carry-forwards. [OCT. 1973]

.56 ♦ *Where a tax benefit resulting from a loss carry-forward was not recorded in the period in which the loss occurred, it should be shown in the income statement(s) of the period(s) of realization.* [JAN. 1990]

.61 ♦ *Provided there is reasonable expectation that all taxes payable in future years will be:*

*(a) included in the approved rate or formula for reimbursement <u>and</u>*

*(b) recoverable from the customer at that time,*

*the taxes payable basis would be appropriate in the rare situations referred to in paragraph 3470.59. In those circumstances where tax allocation principles are not applied, the matter should be fully disclosed in the financial statements with reasons therefor as well as information relating to the nature and amount of the tax effects involved.* It should be noted that the Research Committee has specifically rejected as reasons for departure from the tax allocation principle any of the premises set out in paragraphs 3470.09 and 3470.10.

**Corporate income taxes — additional areas, Section 3471**

Withdrawn.

The following Recommendations formerly appeared in Section 3471:

.09 ♦ *Refundable taxes which may be considered to be in the nature of advance distributions to shareholders should be charged to retained earnings.* It is desirable to disclose, in the notes to the financial statements, information as to accumulated refundable taxes. [OCT. 1973]

.12 ♦ *Refundable taxes on mutual fund corporations, such as the refundable dividend tax and the refundable capital gains tax, should be recorded as an asset.* [OCT. 1973]

.13 ♦ *The recovery of refundable taxes previously charged to retained earnings should be credited to retained earnings and should be separately disclosed.* The recovery should be recorded in the accounts when the conditions prerequisite to a refund have been met, i.e., such amount should be recorded when it is known that the amount of the tax is recoverable. For example, the declaration of a qualifying dividend (whether paid or unpaid) may establish the recoverability of amounts of refundable taxes and such recoverable amounts would be an asset to be recorded at the date of declaration of the dividend. Such asset may, as appropriate, be deducted from the current tax liability. [OCT. 1973]

.15 ♦ *Refundable taxes charged to retained earnings should be accrued with respect to all related elements of income recognized in the period, whether the taxes exigible with respect to such amounts are payable currently or at an ascertainable future date.* [OCT. 1973]

.19 ♦ *The tax which may be payable by a company on purchase or redemption of its own shares should be regarded as part of the total expenditure for such shares and accounted for as outlined in* SHARE CAPITAL, Section 3240. [OCT. 1973]

.21 ♦ *Tax imposed upon a company because of change in control should be charged to retained earnings (as a capital transaction —* see CAPITAL TRANSACTIONS, Section 3610)*. Such tax should be recognized fully as a liability in the accounts for the year in which it arises, even though the tax may be payable over several years. The long-term portion should be classified as a long-term liability and should not be included in deferred income taxes.* [OCT. 1973]

.31 ♦ *In the year in which tax rate reductions are claimed, the tax provision, current and deferred, in the income statement should be the amount arrived at after taking into account such reductions. The small business deduction and earned depletion allowance should be accounted for as tax rate reductions.* [OCT. 1973]

.37 ♦ *Taxes related to distributions or future distributions to shareholders should be accounted for as capital transactions* (see CAPITAL TRANSACTIONS, Section 3610). [OCT. 1973]

**ACCOUNTING GUIDELINE**

**Disclosure of guarantees (AcG-14)**

Issued.

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