

CICA handbook accounting and auditing revisions release no. 94

December 1997

ACCOUNTING RECOMMENDATIONS

Current assets and current liabilities, paragraphs 1510.01-.03, .07

Amended to conform with terminology adopted in new Section 3465. The former wording of these paragraphs was:

- .01 ♦ *As a balance sheet classification, current assets should include those assets ordinarily realizable within one year from the date of the balance sheet or within the normal operating cycle, where that is longer than a year. The current asset classification should also include current accumulated tax allocation debits* (see CORPORATE INCOME TAXES, Statement presentation, Section 3470). [JAN. 1970]
- .02 ♦ *Current assets should be segregated as between the main classes, e.g., cash, temporary investments, accounts and notes receivable, inventories, prepaid expenses and deferred income taxes.* In normal circumstances, it is desirable that the total of the current assets be shown. [JAN. 1970]
- .03 ♦ *As a balance sheet classification, current liabilities should include amounts payable within one year from the date of the balance sheet or within the normal operating cycle, where this is longer than a year (the normal operating cycle should correspond with that used for current assets). The current liability classification should also include current accumulated tax allocation credits* (see CORPORATE INCOME TAXES, Statement presentation, Section 3470). [JAN. 1970]
- .07 ♦ *Current liabilities should be segregated as between the main classes, e.g., bank loans, trade creditors and accrued liabilities, loans payable, taxes payable, dividends payable, deferred revenues, current payments on long-term debt and deferred income taxes. Amounts owing on loans from directors, officers and shareholders, and amounts owing to parent and other affiliated companies, whether on account of a loan or otherwise, should be shown separately.* In normal circumstances, it is desirable that the total of the current liabilities be shown. [JAN. 1992]

Income statement, paragraph 1520.03(m)

Amended to clarify that income tax expense should be presented on the face of the income statement.

Business combinations, Section 1580

Amended paragraph 1580.47 to indicate that, under new Section 3465, the values placed on assets and liabilities acquired in a business combination should be determined without reference to their values for tax purposes.

Amended paragraph 1580.48 since, under new Section 3465, future income tax liabilities and assets related to a business combination are to be determined at the time of the business combination.

Deleted paragraphs 1580.49 and 1580.50 since the matters they dealt with are now covered by new Section 3465. The former wording of paragraph 1580.50 was:

- .50 ♦ *An acquiring company should recognize as an asset the potential tax benefits of any loss carry-forwards of an acquired company only if there is reasonable assurance of realization of such benefits. In other cases, the tax benefit should be recognized only when it is actually realized.* [JAN. 1990]

Consolidated financial statements, Section 1600

Amended paragraph 1600.20 to be consistent with terminology adopted in new Section 3465 and to add a cross-reference to new Section 3465.

Amended paragraph 1600.27 to be consistent with terminology adopted in new Section 3465.

Deleted paragraphs 1600.55 and 1600.56 since these matters are now covered in new Section 3465. The former wording of paragraph 1600.56 was:

- .56 ♦ *When a subsidiary's income is included in consolidated income, provision should be made for related taxes (including withholding taxes) on the portion of such income as it is reasonable to assume will be transferred to the parent company.* [APRIL 1975]

Comprehensive revaluations of assets and liabilities, Section 1625

Amended paragraphs 1625.42, .55, .56 and the Appendix to be consistent with the principles set out in new Section 3465. The former wording of paragraph 1625.55 was:

- .55 ♦ *Income tax benefits that arose prior to the date of a comprehensive revaluation and that were not recognized in the comprehensive revaluation should be shown in the income statement in the period of realization.* [JAN. 1993]

Foreign currency translation, Section 1650

Amended the definition of monetary items in paragraph 1650.03 to include future income tax liabilities and assets. Amended paragraph 1650.68 to indicate that future income tax liabilities and assets would be translated at the current rate, consistent with their definition as monetary items.

Amended Appendix B to remove deferred tax items from the examples of non-monetary items.

Interim financial reporting to shareholders, Section 1750

Amended paragraph 1750.06(a) to conform with terminology adopted in new Section 3465.

Amended paragraph 1750.18(b) to reflect the fact that future income tax assets and related benefits are to be recognized when they are more likely than not to be realized.

Deleted paragraph 1750.19(c) and amended paragraph 1750.21 (ii) since the recognition of tax loss carry-overs is covered in new Section 3465.

Deleted paragraph 1750.22(e) since the determination of current and future income taxes is covered in new Section 3465.

Unincorporated businesses, Section 1800

Amended paragraph 1800.10 to conform with terminology adopted in new Section 3465. The former wording of paragraph 1800.10 was:

- .10 ♦ *No provision for income taxes should be made in the financial statements of unincorporated businesses.* Amended paragraph 1800.11 to reflect the fact that the disclosure of the fact that income is taxed directly to the owners of a business is now covered in new Section 3465. The former wording of paragraph 1800.11 was:
- .11 ♦ *To avoid possible misunderstanding, such omission should be noted specifically, either by a note to the financial statements or by expanding the description of the net income or loss in the income statement to indicate that this amount is without provision for income taxes.*

Capital assets, Section 3060

Amended paragraph 3060.19 to indicate that the cost of a capital asset includes the future income taxes recognized on initial acquisition of the asset.

Amended paragraphs 3060.42, .45, .48 and .54 to conform with terminology adopted in new Section 3465. The former wording of paragraph 3060.42 was:

- .42 ♦ *When the net carrying amount of a capital asset, less related accumulated provision for future removal and site restoration costs and deferred income taxes, exceeds the net recoverable amount, the excess should be charged to income.* [DEC. 1990]

Leases, Section 3065

Amended paragraphs 3065.38, 3065.53 and Appendix B to conform with terminology adopted in new Section 3465.

Deferred charges, paragraphs 3070.01 and .02

Amended to be consistent with the fact that future income tax assets are no longer considered to be deferred charges. The former wording of these paragraphs was:

- .01 ♦ *Deferred charges (as distinct from prepaid expenses) should not be classified as current assets.* For the treatment of non-current accumulated tax allocation debits, see CORPORATE INCOME TAXES, Statement presentation, Section 3470.
- .02 ♦ *Major items among the deferred charges should be shown separately, e.g., debt discount and expense, deferred foreign exchange losses, organization expense, deferred development costs and deferred income taxes.* [JULY 1983]

Income taxes, Section 3465 [JAN. 2000]

New.

Corporate income taxes, Section 3470

This Section has been re-filed under superseded Accounting Recommendations, and a Supplement added which sets out the previous wording of paragraphs in other Sections that have been amended substantially as a consequence of approving Section 3465.

Corporate income taxes — additional areas, Section 3471

This Section has been re-filed under superseded Accounting Recommendations.

Extraordinary items, paragraph 3480.04(f)

Added changes in income tax rates or laws as events that do not result in extraordinary items.

Capital transactions, paragraph 3610.02(g)

Amended terminology to conform with that adopted in new Section 3465.

Related party transactions, Section 3840

Amended Appendix C to be consistent with the principles adopted in new Section 3465.

Financial instruments — disclosure and presentation, paragraph 3860.96

Modified so that entities other than public enterprises, co-operative organizations, deposit-taking institutions and life insurance enterprises may defer application of the Recommendations in paragraphs 3860.18, .24, .31 and .78 until fiscal years beginning on or after January 1, 2000. The former wording of paragraph 3860.96 was:

- .96 ♦ *All entities except life insurance enterprises should apply the Recommendations in this Section for fiscal years beginning on or after January 1, 1996. However, co-operative organizations and enterprises that are not public enterprises may defer application of the Recommendations in paragraphs 3860.18, 3860.24 and 3860.31 until fiscal years beginning on or after January 1, 1997. Public enterprises are those enterprises that have issued debt or equity securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets), that are required to file financial statements with a securities commission or that provide financial statements for the purpose of issuing any class of securities in a public market. The Recommendations in this Section should be applied retroactively. [JAN. 1996 *]*

Prospectuses, paragraph 4000.08

Deleted since accounting for loss carryovers is dealt with in new Section 3465. The former wording of this paragraph was:

- .08 ♦ *Where income taxes in a particular year included in the statement of earnings have been reduced by a loss carry-over credit, the provision for taxes in the year should be shown as it would have been but for the loss carry-over credit and the loss carry-over credit should be shown separately. The tax credit arising from the application of a loss carry-back should be reflected in the year in which the loss occurred. The tax credit arising from the application of a loss carry-forward should be reflected either in the year of loss or in the year of realization depending upon which treatment had been followed in the accounts as originally issued. (See CORPORATE INCOME TAXES, Accounting treatment of losses and loss carry-overs, Section 3470.) [JAN. 1990]*

ACCOUNTING GUIDELINES

ACCOUNTING GUIDELINES previously filed in Volume I are moved to Volume II.

Introduction to Accounting Guidelines

Revised to indicate that changes in existing Guidelines will be identified in the HANDBOOK REVISIONS RELEASE.

Financial reporting by property and casualty insurance companies (AcG-3)

Amended terminology in paragraph 19 to conform with that adopted in new Section 3465.

Actuarial liabilities of life insurance enterprises — disclosure (AcG-8)

Amended paragraph 36 to conform with terminology adopted in new Section 3465.

Financial reporting by life insurance enterprises (AcG-9)

Deleted paragraphs 24 and 30 and amended paragraphs 23 and 25 to 29 to be consistent with new Section 3465.

Paragraphs re-numbered accordingly.

EIC ABSTRACTS

Financial instruments that may be settled at the issuer's option in cash or its own equity instruments (EIC-71)

Revised on September 26, 1997.

Gain recognition in arm's-length and related party transactions when the consideration received includes a claim on the assets sold (EIC-79)

Revised on September 26, 1997.

Identification of related party transactions in the normal course of operations (EIC-83)

Issued September 26, 1997.

ASSURANCE RECOMMENDATIONS

Reservations in the auditor's report, Section 5510

Amended Appendices A, B & O to conform to terminology adopted in new Section 3465.

Reliance on another auditor, Section 6930

Amended paragraph 6930.01 to recognize its applicability to reporting for controlled and related entities by not-for-profit organizations, as described in Section 4450, REPORTING CONTROLLED AND RELATED ENTITIES BY NOT-FOR-PROFIT ORGANIZATIONS.

Amended references in paragraphs 6930.08, .10, .14, .16, .18, .20, .22 and elsewhere in the Section to update certain terminology. The changes include substituting "audit" for "examination", "entity" for "company", and making the text gender-neutral.

Amended paragraph 6930.24 to clarify that an auditor needs to reconsider his or her position as primary auditor when the auditor concludes that he or she cannot obtain the necessary level of audit assurance because he or she is not, and cannot become, sufficiently involved in the audit of an entity's components.

Footnotes

* Amended December 1996 in respect of co-operative organizations and March 1997 in respect of enterprises that are not public enterprises.

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