

## CICA handbook accounting and auditing highlight summary no. 81 October 1994

### HIGHLIGHT SUMMARY

(Note: New Handbook material or changes in existing material are identified in each HANDBOOK REVISIONS RELEASE.)

#### Interests in joint ventures, Section 3055

This Section will replace Section 3055, INVESTMENTS IN CORPORATE AND UNINCORPORATED JOINT VENTURES for fiscal years beginning on or after January 1, 1995. The main features of revised Section 3055 are:

- Venturers should use the proportionate consolidation method to account for their interests in joint ventures.
- Gains or losses arising from assets exchanged for a joint venture interest and from sales of assets to a joint venture in the normal course of operations should be recognized in the venturer's financial statements to the extent of the interests of non-related venturers. There are specific requirements to deal with situations when transactions provide evidence of a decline in value and when gains arise.
- When a venturer purchases assets from a joint venture in the normal course of operations, the venturer does not recognize its share of the gain or loss until the assets are sold to a third party. When the transaction provides evidence of a decline in the value, or a reduction in the net realizable value the venturer recognizes its share of the loss in income immediately.
- Disclosure should be made of the total amounts and the major components of assets, liabilities, revenues, expenses and net income and cash flows relating to a venturer's interests in joint ventures, and of a venturer's share of contingencies and commitments.
- The Recommendations should be applied retroactively except for those Recommendations relating to the recognition of gains or losses.

#### EIC Abstracts

- Special warrants convertible into common shares
- Accounting by the recipient for debenture payments to be financed by government funding
- Lessee's accounting on re-negotiation of an operating lease
- Lessee's accounting for costs of leased property no longer of use to the lessee
- Transfers of receivables — definition of recourse

#### Using the work of internal audit, Section 5230

New Section 5230 revises and replaces material formerly in Section 5215.

This Section is written in the broad context of assurance engagements, as described in paragraph 5230.01. It includes guidance on these matters:

- the relationship between internal and external auditors;
- assessing the internal audit function if the auditor plans to use the work of internal audit;
- evaluating and corroborating specific internal audit work that the auditor intends to use in the audit;
- evaluating the knowledge, competence and independence of internal audit staff members when they are providing direct assistance to the auditor; and
- the circumstances in which it is inappropriate for the auditor to refer in his or her report to the use of internal audit work.

The new Recommendations are effective for financial statements and reports for periods commencing on or after November 1, 1994.

This guidance is also being issued as a Public Sector Auditing Statement.

#### Auditor's report on non-consolidated financial statements prepared in accordance with paragraphs 3050.39-49 of LONG-TERM INVESTMENTS, Section 5520

Paragraphs 5520.01, .03, .06, .07, .09 and .10 have been revised to reflect changes in LONG-TERM INVESTMENTS, Non-consolidated financial statements, paragraphs 3050.39 to 3050.49.

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