

CICA handbook accounting and auditing revisions release no. 73

March 1992

ACCOUNTING RECOMMENDATIONS

Introduction to Accounting Recommendations

The Terms of Reference of the Accounting Standards Committee were amended by the CICA Board of Governors. Effective October 1, 1991, the Accounting Standards Committee was replaced by the Accounting Standards Board.

Reporting the effects of changing prices, Section 4510

Withdrawn. This Section contained material dealing with reporting certain effects of changing prices on an entity.

The following recommendations formerly appeared in Section 4510:

- .12 ♦ *Supplementary information about the effects of changing prices should be disclosed by enterprises whose debt or equity securities are traded in a public market and that have either:*
 - (a) *inventories and property, plant and equipment (before deducting accumulated depreciation, depletion and amortization) totalling \$50 million or more; or*
 - (b) *total assets (after deducting accumulated depreciation, depletion and amortization) of \$350 million or more; at the beginning of the fiscal year for which financial statements are being prepared.* The amounts would be those reported in the historical cost financial statements (consolidated, when applicable) of the enterprise. [JAN. 1983]
- .14 ♦ *The Recommendations do not apply to income producing real estate assets and banks, trust companies and insurance companies.* [JAN. 1983]
- .16 ♦ *Supplementary information about the effects of changing prices should be included in the annual report that contains an enterprise's historical cost financial statements.* [JAN. 1983]
- .17 ♦ *Supplementary information about the effects of changing prices should disclose the following items:*
 - (a) *the current cost amounts of cost of goods sold and of depreciation, depletion and amortization of property, plant and equipment or the amounts of the current cost adjustments for those items;*
 - (b) *the current and deferred amounts of income tax expense; and*
 - (c) *income before discontinued operations and extraordinary items, after reflecting the above items.* (This amount is hereinafter referred to as income on a current cost basis.) [JAN. 1990]
- .18 ♦ *Supplementary information about the effects of changing prices should also disclose at least the following items:*
 - (a) *the amount of the changes during the reporting period in the current cost amounts of inventory and property, plant and equipment, identifying the reduction from current cost to lower recoverable amount;*
 - (b) *the carrying value of:*
 - (i) *inventory; and*
 - (ii) *property, plant and equipment**on a current cost basis at the end of the reporting period, identifying the reduction from current cost to lower recoverable amount; and*
 - (c) *net assets after restating inventory and property, plant and equipment on a current cost basis at the end of the reporting period.* [JAN. 1983]
- .21 ♦ *Supplementary information about the effects of changing prices should disclose the amount of the financing adjustment, separately identifying the amount that would result if the financing adjustment were based on current cost adjustments made to income for the period.* [JAN. 1983]
- .22 ♦ *When income attributable to common shareholders on a current cost basis under an operating capability concept of capital is disclosed, income on a current cost basis should be adjusted by dividends on non-participating preferred shares and the financing adjustment. If an enterprise decides to exclude unrealized changes in current cost from income attributable to common shareholders, the amount of the financing adjustment would be based on the current cost adjustments made to income for the period.* [JAN. 1983]
- .24 ♦ *Supplementary information about the effects of changing prices should disclose the following items:*
 - (a) *the amount of the changes during the reporting period in the current cost amounts of inventory and property, plant and equipment that is attributable to the effects of general inflation; and*

(b) the amount of the gain or loss in general purchasing power that results from holding net monetary items during the reporting period. [JAN. 1983]

- .25 ♦ When income attributable to common shareholders on a current cost basis under a financial concept of capital measured in constant dollars is disclosed, income on a current cost basis should be adjusted by dividends on non-participating preferred shares, the amount of changes during the reporting period in the current cost amounts of inventory and property, plant and equipment and the amounts required to be disclosed under paragraph 4510.24. [JAN. 1983]
- .26 ♦ Supplementary information about the effects of changing prices should include an explanation of the information disclosed, a description of the bases and methods used in its preparation and a narrative discussion of its significance. It is also desirable that management provide any further information that it believes to be necessary to assist users of financial statements in understanding the effects of changing prices on enterprise activities. For example, it may be useful for management to identify and comment on significant items that have not been adjusted, such as interest and income taxes, and to explain how the supplementary financial data can be used as a basis for assessing maintenance of operating capability financed by common shareholders (see paragraphs 4510A.18 to A.23) and maintenance of the general purchasing power of capital (see paragraphs 4510A.31 to A.36). [JAN. 1983]
- .28 ♦ Supplementary information about the effects of changing prices should be prepared on a comparative basis, showing the amounts for the corresponding preceding period restated for the change in the general purchasing power of the dollar. The comparative information would be restated in terms of either the average or the year-end level of the general purchasing power index for the current period with each item of the preceding period being measured on a basis consistent with that used in measuring the corresponding item for the current period. For example, income statement items for the current and preceding period would usually be reported in approximately average constant dollars for the current period whereas balance sheet items, such as inventory and property, plant and equipment, would be reported in end-of-period constant dollars for the current period. [JAN. 1983]
- .29 ♦ For the first year in which these Recommendations apply to an enterprise, disclosure of the corresponding amounts for the preceding period is not required. It is desirable, however, that such amounts for the preceding period be presented in the first year an enterprise is required to present the supplementary information. [JAN. 1983]
- .30 ♦ The accounting principles and methods used in computing income on a current cost basis should be consistent with the principles and methods used in computing income on a historical cost basis, except where expressly provided otherwise in this Section. [JAN. 1983]
- .31 ♦ When items in addition to those recommended are presented on a current cost basis, the bases and methods used in preparing such additional information should be described in accordance with the requirements of paragraph 4510.26. [JAN. 1983]
- .38 ♦ In determining income on a current cost basis, cost of goods sold and depreciation, depletion and amortization expense should be measured as follows:
- cost of goods sold at the lower of current cost and recoverable amount at the date of sale or at the date on which resources are committed to or used on a specific contract; and
 - depreciation, depletion and amortization expense of property, plant and equipment on the basis of the average current cost or lower recoverable amount of the assets' service potential during the reporting period. [JAN. 1983]
- .40 ♦ The amount of income tax expense in computations of income on a current cost basis should be the same as the amount of income tax expense charged against income before discontinued operations and extraordinary items in the historical cost financial statements. [JAN. 1990]
- .42 ♦ Inventory and property, plant and equipment on a current cost basis should be measured as follows:
- inventory at the lower of current cost and recoverable amount at the balance sheet date;
 - property, plant and equipment at the lower of current cost and recoverable amount of the assets' remaining service potential at the balance sheet date; and
 - resources used on partly completed contracts at the lower of current cost and recoverable amount at the date of use on or commitment to the contracts. [JAN. 1983]
- .48 ♦ The financing adjustment should be calculated by reference to the amount of changes during the reporting period in the current cost amounts of inventory and property, plant and equipment. [JAN. 1983]
- .49 ♦ The index used for the purpose of constant dollar restatements should be either the Consumer Price Index for Canada or the Gross National Expenditure Implicit Price Deflator, published by Statistics Canada, except when the historical cost financial statements of the reporting enterprise are presented in a currency other than the Canadian dollar. The index used for the constant dollar restatements in this situation should be the applicable foreign general inflation index corresponding to the Consumer Price Index for Canada or the Gross National Expenditure Implicit Price Deflator. Information presented on a constant dollar basis may be stated either in average for the period constant dollars or in end-of-period constant dollars. [JAN. 1983]

- .56 ♦ *Supplementary information about the effects of changing prices for enterprises that have interests in mineral reserves, other than oil and gas, should include, except in the situation outlined in paragraph 4510.67, the following additional information:*
- (a) *quantities of mineral reserves as at the beginning and the end of the period or as at disclosed dates as close to the beginning and the end of the period as is practicable. Mineral reserves should be computed on a proved basis, or a proved and probable basis, consistent with the basis used for cost amortization purposes;*
 - (b) *quantities, expressed in physical units or in percentages of reserves, of each significant mineral product contained in the reserves included under subparagraph (a);*
 - (c) *changes in the quantities of mineral reserves during the reporting period, separately disclosing changes attributable to each of the following factors:*
 - (i) *revisions of previous estimates;*
 - (ii) *discoveries;*
 - (iii) *purchases of reserves in place;*
 - (iv) *sales of reserves in place; and*
 - (v) *reserves used in production;*
 - (d) *quantities of each significant mineral product produced during the period; and*
 - (e) *the amount of each of the following types of costs for the current period, whether such costs are capitalized or charged to expense at the time incurred:*
 - (i) *cost of acquiring mineral rights; and*
 - (ii) *exploration costs.* [JAN. 1983]
- .59 ♦ *Supplementary information about the effects of changing prices for enterprises that have interests in oil and gas reserves should include, except in the situation outlined in paragraph 4510.67, the following information about those reserves:*
- (a) *quantities, net of royalties, of reserves of:*
 - (i) *crude oil (including condensates and natural gas liquids); and*
 - (ii) *natural gas;**as at the beginning and the end of the reporting period; and*
 - (b) *changes in the quantities, net of royalties, of reserves of crude oil and of natural gas during the reporting period, separately disclosing changes attributable to each of the following factors:*
 - (i) *revisions of previous estimates;*
 - (ii) *improved recovery;*
 - (iii) *purchases of reserves in place;*
 - (iv) *extensions, discoveries and other additions;*
 - (v) *production; and*
 - (vi) *sales of reserves in place.*
- .65 ♦ *Supplementary information about the effects of changing prices for enterprises that own interests in oil and gas reserves should disclose, except in the situation outlined in paragraph 4510.67, the amount of the current period's exploration costs, including costs of acquiring oil and gas rights, whether those costs are capitalized or charged to expense at the time they are incurred. Exploration costs include depreciation of support equipment and facilities used in that activity and do not include the expenditures to acquire such assets.* [JAN. 1983]
- .66 ♦ *The quantity disclosures for mining and oil and gas reserves should include reserve quantities for all investees consolidated in the financial statements of the reporting enterprise and reserve quantities of investees accounted for on the equity basis.* [JAN. 1983]
- .67 ♦ *The reserve quantity and cost information required by paragraphs 4510.56, .59 and .65 need not be disclosed in those rare circumstances when, in the opinion of management, such disclosures would be harmful to the enterprise.* [JAN. 1983]

EIC ABSTRACTS

Mandatorily redeemable preferred stock (EIC-4)

Superseded by EIC-13. Withdrawn October 16, 1991.

Extended-term debt with the prepayment of interest (EIC-22)

Amended on July 29, 1991.

Accounting for assets contributed to a joint venture (EIC-28)

Issued on July 29, 1991.

Dilution gains and losses in oil and gas companies using the full cost method of accounting (EIC-29)

Issued on July 29, 1991.

Transfer of ownership of leased property (EIC-30)

Issued on October 16, 1991.

Fully diluted earnings per share with convertible debentures classified with shareholders' equity (EIC-31)

Issued on November 20, 1991.

Gold loans (EIC-32)

Issued on November 20, 1991.

Distribution costs of mutual funds paid by special purpose entities (EIC-33)

Issued on November 20, 1991.

Presentation of cash flow per share information (EIC-34)

Issued on November 20, 1991.

AUDITING AND RELATED SERVICES RECOMMENDATIONS

Introduction to Auditing and Related Services Recommendations

The Terms of Reference of the Auditing Standards Committee were amended by the CICA Board of Governors. Effective October 1, 1991, the Auditing Standards Committee was renamed the Auditing Standards Board and membership was reduced from sixteen to eleven voting members. Also the Board assumed from its Steering Committee the responsibility to publish Auditing and Related Services Guidelines.

Audit of financial statements — an introduction, Section 5000

Amended paragraph 5000.02 to reflect the terminology and Recommendations in revised Sections 5200 to 5220 on internal control in the context of an audit.

Amended paragraphs 5000.01-.02 to change the references to "entity" from "enterprise."

Generally accepted auditing standards, Section 5100 [OCT. 1992 *]

Previous examination standard (ii) in paragraph 5100.02 has been revised to reflect the terminology and Recommendations in revised Sections 5200 to 5220.

Amended paragraphs 5100.01, .05 and .06 to change the references to "his or her" from "his."

The Recommendation in the previous examination standard (ii) of paragraph 5100.02 was as follows:

- (ii) *There should be an appropriately organized study and evaluation of those internal controls on which the auditor subsequently relies in determining the nature, extent and timing of auditing procedures.* [SEPT. 1975 *]

Materiality and audit risk in conducting an audit, Section 5130

Amended paragraphs 5130.10, .11, .14, .17 and .19 and deleted paragraph 5130.20 to reflect the terminology and Recommendations in revised Sections 5200 to 5220.

Auditor's responsibility to detect and communicate misstatements, Section 5135

Amended the Appendix to reflect the terminology and Recommendations in the revised Sections 5200 to 5220.

Knowledge of the client's business, Section 5140

Amended paragraphs 5140.02-.04 to reflect the terminology and Recommendations in revised Sections 5200 to 5220.

Amended paragraphs 5140.01-.04 and 5140.06 to change the references to "his or her" from "his," to "entity" from "enterprise," to "audit" from "examination," to "the auditor" from "he" and other similar references.

Amended the italicized paragraph 5140.07 to change the references to "his or her" from "his," to "him or her" from "him" and to "the audit" from "his examination."

Documentation, Section 5145

Amended paragraphs 5145.04-.05 to reflect the terminology and Recommendations in revised Sections 5200 to 5220.

Amended paragraphs 5145.01-.03, .05, .07 and .08 to change the references to "his or her" from "his," to "he or she" from "he," to "audit" from "examination," to "the auditor" from "he" and other similar references.

Amended the italicized paragraph 5145.06 to change the references to "his or her" from "his."

Planning and supervision, Section 5150

Amended paragraph 5150.06 to reflect the terminology and Recommendations in revised Sections 5200 to 5220.

Amended paragraphs 5150.01 and 5150.03, .04, .06 and .07 to change the references to "his or her" from "his," to "he or she" from "he," to "audit" from "examination" and to "the audit" from "his examination."

An Appendix has been added to Section 5150 to expand on the Recommendations in UNDERSTANDING INTERNAL CONTROL FOR AUDIT PLANNING PURPOSES, Section 5205.

Internal control in the context of an audit, Sections 5200 to 5220

Revises and replaces material formerly located in INTERNAL CONTROL, Sections 5200 to 5220.

Internal control in the context of an audit — understanding internal control for audit planning purposes, Section 5205 [OCT. 1992 *]

Revises and replaces material formerly located in Sections 5200 to 5220.

Internal control in the context of an audit — assessing control risk, Section 5210 [OCT. 1992 *]

Revises and replaces material formerly located in Sections 5200 to 5220.

Previous paragraphs 5210.07-.08 have been relocated as paragraphs 5220.01-.02.

Internal control in the context of an audit reliance on the internal auditor, Section 5215

Previous paragraphs 5215.17-.21 have been relocated as paragraphs 5215.01-.05. Paragraphs 5215.01-.02 have been amended to reflect the terminology and Recommendations in revised Sections 5200 to 5220. Paragraphs 5215.03-.04 have been amended to change the references to "his or her" from "his," to "he or she" from "he," to "the" from "his" and to "the internal auditor's" from "his."

The following Recommendation that appeared as previous paragraph 5215.05 has been amended:

- .05 ◆ *In designing a tentative audit strategy, the auditor should enquire as to the existence of internal control systems on which he would intend to rely in determining the nature, extent and timing of substantive auditing procedures. [JULY 1977]*

Internal control in the context of an audit — internal control letter, Section 5220

Previous paragraphs 5210.07-.08 have been relocated as paragraphs 5220.01-.02. Paragraph 5220.01 has been amended to reflect the terminology and Recommendations in revised Sections 5200 to 5220. Paragraphs 5220.01-.02 have been amended to change the references to "the" from "his."

The following Recommendations that appeared as previous Section 5220 have been amended:

- .06 ◆ *The auditor should review those internal control systems on which he intends to rely. [JULY 1977]*
- .10 ◆ *The auditor should make a preliminary evaluation of the internal control systems he has reviewed to determine:*
(a) *whether he still intends to rely on each system of internal control on which his tentative audit strategy was based;*
(b) *which internal controls within each system he intends to rely on, and the appropriate compliance procedures;*
(c) *substantive auditing procedures necessitated by an identified weakness or absence of internal controls within each system. [JULY 1977]*
- .12 ◆ *The auditor should conduct compliance procedures in respect of those internal controls on which, following his preliminary evaluation, he still intends to rely in determining the nature, extent and timing of substantive auditing procedures. [JULY 1977]*
- .17 ◆ *The auditor should conduct compliance procedures necessary to gain a sufficient degree of assurance as to whether the internal controls on which he intends to rely:*
(a) *in fact operate in the manner identified by him in his review; and*
(b) *have functioned effectively throughout the period of intended reliance. [JULY 1977]*
- .23 ◆ *The auditor should evaluate the internal controls to which he has applied compliance procedures to decide the reliance he will place on such controls in determining the nature, extent and timing of substantive auditing procedures. [JULY 1977]*

Audit evidence, Section 5300

Amended paragraphs 5300.03-.07, .10, .24-.26, .33, .36 and .37 to reflect the terminology and Recommendations in revised Sections 5200 to 5220. Specifically, amended the paragraphs that address the need to direct substantive procedures to financial statement assertions relating to significant account balances or classes of transactions to conform to Sections 5200 to 5220.

Deleted paragraphs .05, .16 and .18.

Amended paragraphs 5300.02-.03, .09-.11, .13-.15, .17, .19-.20, .24, .26, .28, .31, .33, .36-.37 and .42 to change the references to "he or she" from "he," to "entity" from "enterprise," to "the" from "his," to "audit" from "examination," to "will provide" from "will give him" and other similar references.

Amended the italicized paragraph 5300.08 to reflect the terminology and Recommendations in revised Sections 5200 to 5220.

The Recommendation in the previous paragraph 5300.08 was as follows:

- .08 ◆ *The auditor should perform substantive auditing procedures. This is so even when the internal control system is well-designed and compliance procedures indicate that the controls within it have operated effectively throughout the period of reliance. [JAN. 1978]*

The italicized paragraph 5300.21 has been amended to change the references to "he or she" from "he" and to "the auditor" from "he."

The italicized paragraph 5300.38 has been amended to change the references to "procedures" from "auditing procedures."

The italicized paragraph 5300.41 has been amended to change the references to "his or her" from "his" and to "the" from "his."

AUDITING AND RELATED SERVICES GUIDELINES

Introduction to Auditing and Related Services Guidelines

Amended to reflect that, effective October 1, 1991, the Auditing Standards Committee has been renamed the Auditing Standards Board and that the Board has assumed from its Steering Committee the responsibility to publish Auditing and Related Services Guidelines.

Auditor involvement with supplementary information about the effects of changing prices (December 1982)

The Guideline has been withdrawn to reflect the withdrawal of REPORTING THE EFFECTS OF CHANGING PRICES, Section 4510.

Auditor's report on pension fund financial statements filed with a regulator (March 1992)

Issued.

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