

## CPA Canada handbook – accounting, part II highlight summary no. II.11 September 2014

(Note: Any changes to previously issued standards are identified in the effective date guidance in each affected standard.)

### Section 1591, Subsidiaries

This new Section, which replaces SUBSIDIARIES, Section 1590, and ACCOUNTING GUIDELINE AcG-15, Consolidation of Variable Interest Entities, requires the use of judgment to determine when control is obtained through means other than equity interests. The guidance from Section 1590 on accounting for subsidiaries controlled through equity interests has been retained.

Section 1591 includes the following additional guidance:

- Explanations of how to apply the existing definitions of a subsidiary and control of an enterprise when the rights of equity interests may not be the dominant factor in determining who controls an enterprise.
- Descriptions of the types of contractual arrangements that may give one enterprise control over another.
- Other facts and circumstances to consider when assessing whether an enterprise has control over another enterprise.
- Guidance to distinguish rights that are designed to protect the interest of the enterprise holding those rights without giving it control from rights that do confer control.

Enterprises choosing to prepare non-consolidated financial statements continue to be permitted to account for subsidiaries controlled through voting interests, potential voting interests, or a combination thereof, using the cost or equity method. Subsidiaries controlled through contractual arrangements or in combination with voting interests, potential voting interests, or a combination thereof, are accounted for according to the nature of the contractual arrangements in accordance with the applicable Section.

Significant consequential amendments include changes to:

- FIRST-TIME ADOPTION, Section 1500, to permit a first-time adopter to apply the transitional provisions in new Section 1591 if it chooses to consolidate its subsidiaries for the first time.
- CONSOLIDATED FINANCIAL STATEMENTS, Section 1601, to move guidance from Section 1590 so that all guidance on how to consolidate is contained in one Section.

Section 1591 is effective for annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

### Section 3051, Investments

This Section has been amended to:

- clarify that the scope includes investments subject to significant influence and certain other non-financial instrument investments (such as works of art and other tangible assets held for investment purposes), but does not include other investments (such as subsidiaries and interests in joint arrangements); and
- add guidance on contributions and other transactions between an investor and an equity-accounted investee that is consistent with the guidance in INTERESTS IN JOINT ARRANGEMENTS, Section 3056.

Significant consequential amendments include changes to:

- FIRST-TIME ADOPTION, Section 1500, to permit a first-time adopter to apply the transitional provisions in amended Section 3051; and
- NON-MONETARY TRANSACTIONS, Section 3831, to refer to guidance in INVESTMENTS, Section 3051, on the accounting for gains or losses from non-monetary transactions.

The amendments are effective for annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted. If paragraphs 3051.14.-17 are applied before January 1, 2016, Section 3056 must be applied at the same time.

### Section 3056, Interests in Joint Arrangements

This new Section, which replaces INTERESTS IN JOINT VENTURES, Section 3055, specifies the accounting by an investor for an interest in a joint arrangement according to whether it is an interest in jointly controlled operations or jointly controlled assets, or a jointly controlled enterprise. The option to account for all types of joint arrangements using the proportionate consolidation method, cost method or equity method is eliminated. Definitions of jointly

controlled operations, jointly controlled assets and jointly controlled enterprises, guidance on contributions and transactions for jointly controlled operations and jointly controlled assets, and presentation and disclosure requirements have been carried forward from Section 3055.

The main changes from Section 3055 are as follows:

- The term "joint venture" has been replaced with "joint arrangement".
- The term "venturer" has been replaced with "investor in a joint arrangement".
- An investor in a jointly controlled operation or a jointly controlled asset accounts for its interest in the joint arrangement by recognizing its share of assets controlled, liabilities incurred, revenues and expenses.
- An investor in a jointly controlled enterprise has an accounting policy choice to:
  - account for all interests using the equity method;
  - account for all interests using the cost method; or
  - perform an analysis of each interest to determine whether it is an interest in the individual assets and liabilities rather than an interest in the net assets and, if so, account for those individual assets and liabilities. Application guidance has been added for investors choosing to perform this analysis.
- For contributions to a joint arrangement, the requirement to defer and amortize the portion of a gain that does not relate to the amount of cash received or fair value of other assets received that do not represent a claim on the assets of the joint arrangement has been removed.
- Specific transitional proposals are provided for changes from the proportionate consolidation method to the cost or equity method and for changes from the cost or equity method to accounting for the investor's interests in the individual assets and liabilities of a joint arrangement.

Significant consequential amendments include changes to:

- FIRST-TIME ADOPTION, Section 1500, to permit a first-time adopter to apply the transitional provisions in new Section 3056;
- ACCOUNTING CHANGES, Section 1506, to exempt the accounting policy choice related to jointly controlled enterprises from meeting the relevance and reliability criteria;
- INCOME STATEMENT, Section 1520, to require that income from investments in joint arrangements accounted for using the cost or equity method be presented separately on the face of the income statement; and
- BALANCE SHEET, Section 1521, to require that investments in joint arrangements accounted for using the cost or equity method be presented separately on the balance sheet.

Section 3056 is effective for annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted, but only if INVESTMENTS, paragraphs 3051.14-17, are applied at the same time.

#### **Archived Pronouncements**

To give Handbook readers continued access to superseded Sections and paragraphs in other Sections, the Archived Pronouncements set out the wording of those Sections and paragraphs. The archived material will be withdrawn from the Handbook when it is no longer effective.

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