CICA handbook – accounting highlight summary no. 21 March 2003

HIGHLIGHT SUMMARY

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

Impaired loans, Section 3025

This Section has been amended so that long-lived assets held for sale that are acquired through foreclosure are accounted for in accordance with DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475.

The amendments require:

- a foreclosed long-lived asset to be classified as held for use unless it meets the criteria to be classified as held for sale;
- a foreclosed long-lived asset held for sale to be measured at fair value less cost to sell, at the date of foreclosure and subsequently;
- estimated operating losses during the holding period not reduce the carrying amount; and
- the initial carrying amount of other foreclosed assets to be fair value at the date of foreclosure.

The amendments to Section 3025 are effective for all asset foreclosures on or after May 1, 2003.

Asset retirement obligations, Section 3110

This new Section establishes standards for the recognition, measurement and disclosure of asset retirement obligations and the related asset retirement costs. It replaces requirements in PROPERTY, PLANT AND EQUIPMENT, Section 3061, and CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4430, concerning future removal and site restoration costs.

The main features of the new Section are:

- The Section applies to obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets.
- The Section requires the recognition of all legal obligations associated with the retirement of a tangible long-lived asset. Retirement includes the sale, abandonment, recycling or other disposal of an asset but not its temporary idling.
- A liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. If a reasonable estimate of fair value cannot be made at the time an obligation is incurred, the liability is recognized when a reasonable estimate of fair value can be made.
- The fair value of an asset retirement obligation is the present value of the future cash flows that marketplace participants would use in their estimates of fair value. The cash flow amounts are determined on a basis that accounts for any uncertainties in the amount or timing of cash flows (i.e., an expected value taking into consideration the probabilities of various possible outcomes). The cash flows are discounted at a credit-adjusted risk-free rate of interest that takes into account the credit standing of the entity.
- Upon initial recognition of a liability for an asset retirement obligation, a corresponding asset retirement cost is added to the carrying amount of the related asset. The cost is amortized into income subsequently on a systematic and rational basis.
- Following the initial recognition of an asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for revisions to the amount or timing of the underlying cash flows needed to settle the obligation.
- An entity is required to disclose:
    - — a general description of asset retirement obligations and related assets;
    - — the fair value of assets legally restricted for the purpose of settling asset retirement obligations;
    - — a reconciliation of the beginning and ending balances, when any of the reconciling items is significant; and
    - — the key assumptions on which the carrying amount of the liability is based.

The Section is effective for fiscal years beginning on or after January 1, 2004. Earlier application is encouraged. The Section is applied on a retroactive basis with restatement of prior periods, but based on the fair value of asset retirement obligations at the beginning of the fiscal year in which the requirements are first applied.

Superseded Accounting Recommendations

To give Handbook readers continued access to the superseded paragraphs until such time as all entities have adopted new or revised Handbook Sections, supplements have been added in Superseded Accounting Recommendations setting out the former wording of those paragraphs. The supplements will be withdrawn from the Handbook when the paragraphs are no longer effective.
