

CICA handbook – accounting revisions release no. 5

July 2000

ACCOUNTING RECOMMENDATIONS

Employee future benefits, Section 3461

Amended to eliminate possible U.S.-Canadian GAAP differences in the areas of attribution, settlements, disposal of a portion of a business segment, special termination benefits and multiemployer plans as well as to make corresponding amendments to Appendices A and B.

The amended Recommendations should be applied for fiscal years beginning on or after October 1, 2000, although earlier adoption is encouraged.

The definition of projected benefit method prorated on services in paragraph 3461.024(c)(ii) and the Glossary of Defined Terms has been amended to allow for situations in which a benefit plan does not attribute future benefits equally to each year of service.

Paragraph 3461.042 has been amended to deal separately with the attribution method for defined benefit pension plans and the attribution method for other defined benefit plans. The former wording of paragraph 3461.042 was:

- .042 ♦ *For a defined benefit plan, the obligation for employee future benefits should be attributed to each year of service in the attribution period based on the plan's benefit formula, except when the plan does not state or imply a benefit formula or when an employee's service in later years will lead to a significantly higher level of benefit than in earlier years. In those circumstances, the obligation should be attributed on a straight-line basis to each year of service in the attribution period.* [JAN. 2000]

Paragraph 3461.043 has been amended to add guidance on the attribution method for defined benefit plans in which it is difficult to attribute benefits to years of service following a plan benefit formula, and also to provide flexibility in the basis for attributing post-employment benefits and compensated absences to years of service.

Paragraph 3461.113 has been amended to clarify the treatment of participation rights acquired in a settlement.

References to a disposal of a portion of business segment in paragraphs 3461.113, .127, .136, .137, and .138 have been deleted in accordance with changes in the corresponding U.S. guidance. The former wording of these paragraphs was:

- .113 ♦ *For a defined benefit plan, an entity should recognize a settlement gain or loss in income for the period in which a settlement occurs except when a settlement is directly related to a discontinued operation (see paragraph 3461.143) or a disposal of a portion of a business segment (see paragraph 3461.144). Except as specified in paragraph 3461.114, a settlement gain or loss should comprise:*

- (a) *any gain or loss as a result of remeasuring all of the accrued benefit obligation and all of the plan assets at the date of settlement;*
- (b) *any unamortized actuarial gain or loss at the date of settlement; and*
- (c) *any unamortized transitional asset at the date of settlement.*

When an entity settles only a part of an accrued benefit obligation, the settlement gain or loss should include only a pro rata portion of each of items (a), (b) and (c) above, based on the percentage reduction in the accrued benefit obligation. [JAN. 2000]

- .127 ♦ *For a defined benefit plan, an entity should recognize a curtailment loss in income when it is probable that a curtailment will occur and the net effects are reasonably estimable, except when the curtailment is directly related to a discontinued operation (see paragraph 3461.143) or a disposal of a portion of a business segment (see paragraph 3461.144). An entity should recognize a curtailment gain in income when an event giving rise to a curtailment has occurred, except when the curtailment is directly related to a discontinued operation (see paragraph 3461.143) or a disposal of a portion of a business segment (see paragraph 3461.144). A curtailment gain or loss should comprise:*

- (a) *any unamortized past service costs and any unamortized transitional obligation associated with future years of service no longer expected to be rendered as a result of the curtailment or attributable to future years of service for which benefits have been curtailed; and*
- (b) *the increase or decrease in the accrued benefit obligation resulting directly from the curtailment event, adjusted in accordance with paragraph 3461.128.* [JAN. 2000]

- .136 ♦ *An entity that offers special termination benefits to employees for voluntary terminations should recognize a liability and an expense when employees accept the offer and the amount of the special termination benefits can be reasonably*

estimated, except when the special termination benefits are directly related to a discontinued operation (see paragraph 3461.143) or a disposal of a portion of a business segment (see paragraph 3461.144). [JAN. 2000]

- .137 ♦ *An entity that offers special termination benefits to employees for involuntary terminations should recognize a liability and an expense in the period in which:*

- (a) *management having the appropriate level of authority approves and commits the entity to a plan of termination and establishes the benefits that employees will receive upon their termination of employment;*
- (b) *the benefit arrangement is communicated to employees in sufficient detail to enable them to determine the type and amount of benefits they will receive when their employment is terminated;*
- (c) *the plan of termination specifically identifies the target level of reduction in the number of employees, the job classifications or functions and their locations; and*
- (d) *the period of time to complete the plan of termination indicates that significant changes to the plan of termination are not likely;*

except when the special termination benefits are directly related to a discontinued operation (see paragraph 3461.143) or a disposal of a portion of a business segment (see paragraph 3461.144). [JAN. 2000]

- .138 ♦ *An entity that is required by the existing terms of a benefit plan to provide contractual termination benefits to employees should recognize a liability and an expense when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated, except when the contractual termination benefits are directly related to a discontinued operation (see paragraph 3461.143) or a disposal of a portion of a business segment (see paragraph 3461.144). [JAN. 2000]*

Examples (a) and (b) that follow paragraph 3461.126 have been modified to clarify that the remeasurement includes both the accrued benefit obligation and plan assets, and that the effects of remeasurement are included in the unamortized actuarial net gain.

Paragraph 3461.141 has been amended to deal separately with special termination benefits related to defined benefit pension plans and those related to other defined benefit plans, and also to clarify the accounting treatment of changes in the accrued benefit obligation when special termination benefits arise.

Paragraph 3461.143 has been amended to make specific reference to post-employment benefits. The former wording of paragraph 3461.143 was:

- .143 ♦ *When a settlement or curtailment gain or loss or the cost of special or contractual termination benefits is directly related to a discontinued operation, it should be included with, and recognized as part of, the gain or loss associated with that discontinued operation in accordance with the Recommendations in DISCONTINUED OPERATIONS, Section 3475. [JAN. 2000]*

Former Recommendation paragraph 3461.144 has been replaced by guidance indicating that the timing of recognition of a settlement or curtailment gain or loss or the cost of special or contractual termination benefits, including post-employment benefits, when directly related to the disposal of a portion of a business segment, is not altered from that specified in the Section. The former wording of paragraph 3461.144 was:

- .144 ♦ *When a settlement or curtailment gain or loss or the cost of special or contractual termination benefits is directly related to the disposal of a portion of a business segment, it should be included with, and recognized as part of, the gain or loss associated with the disposal of that portion of a business segment. [JAN. 2000]*

Paragraph 3461.149 has been amended to clarify that defined benefit plan accounting for multiemployer plans is not permitted within a related group when the assets are not segregated.

Situations I and II in Appendix A have been corrected to eliminate the double-counting of employee contributions by deleting contributions by the employees from Exhibit IV and making consequential changes in other Exhibits.

The table showing the company's net benefit plan expense in Situation I in Appendix B has been corrected to show current service cost net of employee contributions, and also to increase contractual termination benefits to agree to the corresponding reduction in plan assets. Corresponding corrections have been made to Situation II in Appendix B.

EIC ABSTRACTS

Revenues and expenditures during the pre-operating period (EIC-27)

Amended April 18, 2000 to clarify wording.

Future income taxes in business combinations that do not involve the recognition of goodwill as an intangible asset presented separately on the balance sheet (EIC-99)

Amended the basis of application March 3, 2000 to aid harmonization with U.S. GAAP.

Application of CICA 3465 to investments accounted for by the equity method (EIC-106)

Issued on March 3, 2000.

Application of CICA 3465 to mutual fund trusts, real estate investment trusts, royalty trusts and income trusts (EIC-107)

Issued on March 3, 2000.

CICA 3465 transitional provisions (EIC-108)

Issued on March 3, 2000.

Accounting for resource allowance under CICA 3465 (EIC-109)

Issued on March 3, 2000.

Accounting for acquired future tax benefits in certain purchase transactions (EIC-110)

Issued on March 3, 2000.

Effect of the 2000 Federal budget on the application of CICA 3465 (EIC-111)

Issued on April 18, 2000.

CICA 3460 — Discount rate change for pension obligations prior to adoption of CICA 3461 (EIC-112)

Issued on April 18, 2000.

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