

SPECIFIC ITEMS

SECTION 3251

equity

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PURPOSE AND SCOPE

.01 This Section establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements of this Section are in addition to those in SHARE CAPITAL, Section 3240, and RESERVES, Section 3260.

.02 This Section need not be applied by open-ended investment companies. (Open-ended investment companies are described in ACCOUNTING GUIDELINE AcG-18, Investment Companies.)

DEFINITIONS

.03 The following terms are used in this Section with the meanings specified:

- (a) **Equity** is the residual interest in the assets of the enterprise after deducting all of its liabilities.
- (b) **Contributed surplus** comprises amounts paid in by equityholders. Contributed surplus in the form of surplus paid in by equityholders includes premiums on shares issued, any portion of the proceeds of issue of shares without par value not allocated to share capital, gain on forfeited shares, proceeds arising from shares donated by equityholders, credits resulting from redemption or conversion of shares at less than the amount set up as share capital, and any other contribution by equityholders in excess of amounts allocated to share capital.
- (c) **Retained earnings** comprises the accumulated balance of income less losses arising from the operation of the business, after taking into account dividends, refundable taxes and other amounts that may properly be charged or credited thereto. When the accumulation is a negative figure, the single word "deficit" is a suitable designation.
- (d) **Non-controlling interest** is the equity in a subsidiary not attributable, directly or indirectly, to a parent (see NON-CONTROLLING INTERESTS, Section 1602).

PRESENTATION

.04 *An enterprise shall present separately changes in equity for the period arising from each of the following:*

- (a) *net income, showing separately the total amounts attributable to owners of the parent and to non-controlling interests* (see NON-CONTROLLING INTERESTS, Section 1602);
- (b) *other changes in retained earnings;*
- (c) *changes in contributed surplus;*
- (d) *changes in share capital* (see SHARE CAPITAL, Section 3240);
- (e) *changes in reserves* (see RESERVES, Section 3260); and
- (f) *other changes in equity.*

.05 *An enterprise shall present separately the following components of equity:*

- (a) *retained earnings;*
- (b) *contributed surplus;*
- (c) *share capital* (see SHARE CAPITAL, Section 3240);
- (d) *reserves* (see RESERVES, Section 3260);
- (e) *non-controlling interests* (see NON-CONTROLLING INTERESTS, Section 1602); and
- (f) *other components of equity.*

- .06 It is important to understand the nature and amounts of those different types of gains and losses that are included directly in equity. Therefore, this Section requires an enterprise to present a separate component of equity for each category of equity that is of a different nature. For example, this would result in balances arising from the translation of the financial statements of a self-sustaining foreign operation (see FOREIGN CURRENCY TRANSLATION, Section 1651) being classified separately from balances arising from a revaluation adjustment upon applying push-down accounting (see COMPREHENSIVE REVALUATION OF ASSETS AND LIABILITIES, Section 1625).
- .06A *A charge to equity is reported for those retractable or mandatorily redeemable shares issued in a tax planning arrangement that are classified as a financial liability (see FINANCIAL INSTRUMENTS, paragraphs 3856.23 and 3856.23G). Any such charges are treated as a capital transaction and are excluded from the determination of net income in accordance with CAPITAL TRANSACTIONS, Section 3610. An enterprise may choose to present the charge to equity either in retained earnings or as a separate component of equity.*
- .06B For example, if retractable or mandatorily redeemable shares issued by an enterprise in a tax planning arrangement are issued in exchange for common shares of the same enterprise, and some or all of the retractable or mandatorily redeemable shares are classified as a financial liability, the amount of the excess of the redemption amount of the shares over the carrying value of the common shares exchanged is recognized as a charge to equity.
- .06C *When some or all of the retractable or mandatorily redeemable shares issued in a tax planning arrangement are called for redemption, the appropriate proportion of any amount recognized in a separate component of equity is charged to retained earnings at the date redemption is requested.*
- .06D *Any excess of the redemption amount of the retractable or mandatorily redeemable shares issued in a tax planning arrangement over the carrying value of the common shares exchanged is not charged against any existing balance in contributed surplus.*
- .07 *Compliance with statutory requirements as to special designations of certain items of equity shall not distort the basic classification.*
- .08 *When statutory designations deviate from accepted usage in financial statements or are otherwise inadequate, appropriate description or explanation shall be added.*
- .09 *Charges against contributed surplus shall be restricted to instances when that disposition is clearly warranted by the circumstances, such as:*
 - (a) *a charge that is the direct opposite of a credit previously carried to contributed surplus (for example, see SHARE CAPITAL, Section 3240, regarding redemption or cancellation of shares and resale of acquired shares); or*
 - (b) *the elimination or reduction of a deficit, when made with the approval of the shareholders.*
- .10 *Share purchase loans receivable shall be presented as deductions from shareholders' equity unless there is substantial evidence that the borrower, not the enterprise, is at risk for any decline in the price of the shares and there is reasonable assurance that the enterprise will collect the full amount of the loan in cash.*

DISCLOSURE

- .11 *If any deficit has been eliminated by reduction of share capital, reduction of contributed surplus, or other financial rearrangement, the description of retained earnings in the fiscal period in which the deficit has been eliminated and the following fiscal period shall indicate the date of the rearrangement.*
- .12 *When there is a condition restricting or affecting the distribution of retained earnings, the nature and extent thereof shall be disclosed.*
- .12A *When a separate component of equity is presented as a result of the issuance of retractable or mandatorily redeemable shares in a tax planning arrangement classified as a financial liability (see paragraph 3251.06A), an enterprise shall disclose that the balance of the separate component of equity will be charged to retained earnings as the shares issued are called for redemption.*
- .12B *When an enterprise chooses to present the charge to equity arising from the issuance of retractable or mandatorily redeemable shares in a tax planning arrangement classified as a financial liability in retained earnings (see paragraph 3251.06A), an enterprise shall disclose on the face of the balance sheet the amount charged for all classes of such shares.*

EFFECTIVE DATE AND TRANSITION

- .13 Except as specified in paragraph 3251.14, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.
 - .14 New paragraphs 3251.06A-.06D and 3251.12A-.12B, issued in December 2018, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.
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