CICA handbook – accounting highlight summary no. 11 September 2001

HIGHLIGHT SUMMARY

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

International Accounting Standards, Section 1501

The Appendix that compares International Accounting Standards with corresponding Handbook pronouncements has been updated.

Superseded Accounting Recommendations

Included with this release are BUSINESS COMBINATIONS, Section 1581, PROPERTY, PLANT AND EQUIPMENT, Section 3061, and GOODWILL AND OTHER INTANGIBLE ASSETS, Section 3062, which supersede BUSINESS COMBINATIONS, Section 1580, and CAPITAL ASSETS, Section 3060.

To give Handbook readers continued access to the superseded Sections until such time as all enterprises have adopted all of the Recommendations of Sections 1581, 3061 and 3062, Sections 1580 and 3060 are re-filed with Superseded Accounting Recommendations. A Supplement has been appended to Section 1580, setting out the previous wording of paragraphs in other Sections that have been amended substantially as a result of approving the new Sections. The superseded Sections will be withdrawn from the Handbook when they are no longer effective.

Business combinations, Section 1581

This new Section, which replaces BUSINESS COMBINATIONS, Section 1580, establishes standards for the recognition, measurement and disclosure of business combinations.

The main features of the new Section are:

- A business combination occurs when an enterprise acquires net assets that constitute a business, or acquires equity interests of one or more other enterprises and obtains control over that enterprise or enterprises.
- Enterprises are required to use the purchase method of accounting for all business combinations. Use of the pooling of interests method is prohibited.
- The cost of the purchase to the acquirer is determined by the fair value of the consideration given or the acquirer's share of the fair value of the net assets or equity interests acquired, whichever is more reliably measurable. It includes the direct costs of the business combination.
- The cost of the purchase is allocated as follows:
  - all assets acquired and liabilities assumed in a business combination are assigned a portion of the total cost of the purchase based on their fair values at the date of acquisition; and
  - the excess of the cost of the purchase over the net of the amounts assigned to assets acquired and liabilities assumed is recognized as an asset referred to as goodwill.
- An intangible asset acquired in a business combination is recognized apart from goodwill when it satisfies certain conditions, otherwise it should be included in the amount recognized as goodwill.
- When the net of assets acquired and liabilities assumed exceeds the cost of the purchase, the excess (negative goodwill) is allocated to reduce certain assets and any remaining excess is treated as an extraordinary gain.
- Extensive disclosure requirements are required for each business combination and aggregate data for individually immaterial combinations.
- The Section is effective for business combinations initiated on or after July 1, 2001. The Section also applies to business combinations accounted for by the purchase method with a date of acquisition on or after July 1, 2001. The only exception is for combinations between two or more co-operative enterprises, for which the Section is not effective until interpretive guidance related to the application of the purchase method to those transactions is issued.

Property, plant and equipment, Section 3061

This new Section replaces CAPITAL ASSETS, Section 3060, carrying forward the content of that Section as it pertains to tangible capital assets.

Goodwill and other intangible assets, Section 3062

This new Section, which replaces portions of BUSINESS COMBINATIONS, Section 1580, and CAPITAL ASSETS, Section 3060, establishes standards for the recognition, measurement, presentation and disclosure of goodwill and other intangible assets by profit oriented enterprises.

The main features of the new Section are:

- Goodwill is carried at the amount initially recognized less any write-down for impairment. It is not amortized.
- Goodwill is tested for impairment. An impairment loss is recognized when the fair value of the goodwill of a reporting unit is less than its carrying amount. Impairment losses are not reversed if the fair value of goodwill increases subsequently.
- A two-step impairment test is used to determine whether a goodwill impairment loss should be recognized. In the first step, an enterprise compares the fair value of a reporting unit, including goodwill, with its carrying amount. If the carrying amount exceeds the fair value, the second step is to compare the fair value of goodwill, determined in the same manner as on its acquisition, with its carrying amount, and measure any impairment loss.
- Goodwill of a reporting unit is tested for impairment annually, unless certain criteria are satisfied. Goodwill is tested for impairment between annual tests when an event occurs or circumstance arises that, more likely than not, reduces the fair value of a reporting unit below its carrying amount.
- The aggregate amount of goodwill is presented as a separate line item in an enterprise's balance sheet. The aggregate amount of goodwill impairment losses is presented as a separate line item in the income statement, before extraordinary items and discontinued operations, unless a goodwill impairment loss is associated with a discontinued operation.
- An intangible asset acquired either individually or with a group of other assets is recognized and measured initially at cost. An intangible asset is not written off in the period of acquisition unless it becomes impaired.
- A recognized intangible asset is amortized over its useful life to an enterprise, unless that life is determined to be indefinite. When an intangible asset is determined to have an indefinite useful life, it is not amortized until its life is no longer indefinite. The amortization method and estimate of the useful life of an intangible asset is reviewed annually.
- An intangible asset that is subject to amortization is reviewed for impairment in accordance with the write-down provisions of PROPERTY, PLANT AND EQUIPMENT, Section 3061.
- An intangible asset that is not subject to amortization is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. When the carrying amount exceeds the fair value, an impairment loss equal to the difference is recognized.
- Intangible assets are aggregated and presented as a separate line item in an enterprise's balance sheet.
- Extensive disclosures are required concerning goodwill and other intangible assets and any related impairment losses.
- The Section is applied for fiscal years beginning on or after January 1, 2002, except that:
    - — co-operative enterprises will not apply the requirements until interpretive guidance for applying the purchase method is issued;
    - — enterprises other than public enterprises, co-operative enterprises, deposit-taking institutions and life insurance enterprises may defer application until years beginning on or after January 1, 2003; and
    - — goodwill and other intangible assets acquired in a transaction completed on or after July 1, 2001 are not amortized.
- Early adoption is permitted for enterprises with a fiscal year beginning on or after April 1, 2001 provided that the first interim period financial statements have not previously been issued. In all cases, the Section is adopted at the beginning of a fiscal year. Retroactive application is not permitted.
- Enterprises perform an initial impairment test on goodwill and intangible assets with indefinite useful lives at the beginning of the year in which the Section is first applied.

EIC Abstracts

New

- The date of acquisition in a business combination (EIC-119)
- CICA 3465 — future income taxes related to intangible assets acquired in a business combination (EIC-120)

Withdrawn

- Pension surplus recognition (EIC-1)
- Post retirement benefits other than pensions (EIC-5)
- Special termination benefits (EIC-23)
- Post retirement benefits other than pensions — transitional balance (EIC-49)

- Accounting for the costs of modifying internal use computer software for Year 2000 compliance (EIC-80)
- CICA 3460 — discount rate change for pension obligations prior to adoption of CICA 3461 (EIC-112)
