CICA handbook – accounting highlight summary no. 1 March 1999

HIGHLIGHT SUMMARY

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

Contingencies, Section 3290

Paragraph 3290.11 has been amended to clarify that netting of a likely contingent loss and a likely recovery from a third party is appropriate in the income statement but that FINANCIAL INSTRUMENTS — DISCLOSURE AND PRESENTATION, Offsetting, Section 3860, applies to the balance sheet presentation of a contingent financial asset or liability. For a more complete discussion of this issue, see Offsetting an Obligation by Virtue of a Claim Against a Third Party (EIC-91) included in this Release.

Superseded Accounting Recommendations

Included with this release is EMPLOYEE FUTURE BENEFITS, Section 3461, which supersedes PENSION COSTS AND OBLIGATIONS, Section 3460. The new Section is effective for fiscal years beginning on or after January 1, 2000, although early adoption of the new Section is encouraged.

To permit Handbook holders to retain superseded Section 3460, this Section can be re-filed behind the Superseded Accounting Recommendations tab. A Supplement has been appended to Section 3460, setting out the previous wording of paragraphs in other Sections that have been amended substantially as a result of approving new Section 3461. The superseded Section and the related supplement will be withdrawn from the Handbook when they are no longer effective.

Employee future benefits, Section 3461

This new Section supersedes PENSION COSTS AND OBLIGATIONS, Section 3460. It modifies the requirements of Section 3460 for pension costs and obligations and applies these requirements to non-pension benefits. Specifically, new Section 3461 establishes standards for the recognition, measurement, and disclosure of the costs of employee future benefits that include pension and other retirement benefits, post-employment benefits, compensated absences and termination benefits.

For defined contribution plans, entities are required to recognize an expense comprising the current service cost, the interest cost on contributions, amortization of past service costs and reduction for interest income on any unallocated plan surplus. For defined benefit plans, entities are required to recognize:

- a liability and an expense for employee future benefits, other than post-employment benefits and compensated absences that do not vest or accumulate, in the period in which employees render services to the entity in return for benefits.
- a liability and an expense for post-employment benefits and compensated absences that do not vest or accumulate, when the event that obligates the entity occurs.

The principal measurement requirements for defined benefit plans are:

- The discount rate used to determine the accrued benefit obligation should be an interest rate determined by reference to market interest rates or the interest rate inherent in the amount at which the accrued benefit obligation could be settled.
- The cost of benefits is normally attributed over an employee's credited service period up to the date on which the employee becomes entitled to receive all of the benefits expected to be earned, which is not necessarily the expected retirement date.
- Plan assets should be measured at fair value, although either fair value or market-related value is used for the calculation of the expected return on plan assets and the determination of net actuarial gains and losses.
- Past service costs from a plan initiation or amendment are amortized by assigning an equal amount to each remaining service period up to employees' full eligibility date.
- Actuarial gains and losses are recognized on a systematic and consistent basis, subject to a minimum required amortization based on a "corridor" approach. The "corridor" is 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value, or market related value, of plan assets at the beginning of the year. When amortization is required, the excess over the corridor amount should be amortized over a period no longer than the employees' average remaining service period.

- An entity with an accrued benefit asset performs a limit test on the carrying amount of that asset to determine whether a valuation allowance is required.
- The Section provides definitions and guidance on accounting for settlements, insurance contracts and arrangements, and curtailments.

In addition, the Section includes measurement and recognition standards for both special and contractual termination benefits, as well as measurement and recognition standards when settlements, curtailments or termination benefits are directly related to a discontinued operation or disposal of a portion of a business segment.

Section 3461 requires expanded disclosures about employee benefit plans. Disclosure requirements are more extensive for public enterprises, co-operative organizations, deposit-taking institutions and life insurance enterprises than for other entities.

Section 3461 includes a glossary of defined terms and three appendices illustrating the requirements of this Section.

The Recommendations should be applied for fiscal years beginning on or after January 1, 2000, although earlier adoption is encouraged. The Recommendations should be applied either prospectively or retroactively, with disclosure of the method chosen.

No change has been made to PENSION PLANS, Section 4100, as a consequence of issuing Section 3461. The two Sections are applied independently of each other, since Section 3461 deals with accounting by employers and Section 4100 deals with accounting by pension plans.

EIC Abstracts

New

- Accounting for the costs of a business process reengineering project (EIC-86)
- Balance sheet classification of share capital issued by a split share corporation (EIC-87)
- Debtor's accounting for a modification or exchange of debt instruments (EIC-88)
- Exchanges of ownership interests between entities under common control — wholly and partially-owned subsidiaries (EIC-89)
- Future income tax assets and liabilities of an intergrated foreign operation — accounting for unrealized translation gains and losses (EIC-90)
- Offsetting an obligation by virtue of a claim against a third party (EIC-91)
