

CICA handbook – accounting revisions release nos. 3 & 4 March 2000

ACCOUNTING RECOMMENDATIONS

Introduction to Accounting Recommendations

Amended to reflect restructuring of the Accounting Standards Board.

Current assets and current liabilities, paragraph 1510.09

Amended to clarify that assets and liabilities are normally segregated between current and non-current and to remove a reference to specific industries or enterprises where the segregation may not be appropriate.

Business combinations, paragraphs 1580.82 and 83

In December 1999, an Addendum was added to the Section pending the development of revised standards on business combinations, to permit the presentation of goodwill charges on a net-of-tax basis separately in the income statement for all years reported, as well as earnings per share information that excludes the goodwill charge.

Research and development costs, paragraph 3450.01

Amended to remove the exemption for enterprises in the development stage for fiscal periods beginning on or after April 1, 2000.

Prospectuses, Section 4000

Withdrawn in December 1999. (Requirements as to the financial disclosures to be provided in prospectuses, information circulars, issuer bid circulars, take-over bid circulars and similar documents are set out in securities legislation and regulatory rules and policies.)

The following Recommendations formerly appeared in Section 4000:

- .04 ♦ *Except where discussed in this Section, the form and content of the financial statements included in a prospectus should follow the recommendations contained in the other relevant Sections of this Handbook.* [JAN. 1973]
- .05 ♦ *A balance sheet included in the prospectus should be as of a date sufficiently recent so as to present a current financial position, normally not more than 120 days prior to the date of the prospectus.*
- .06 ♦ *A statement of earnings should:*
 - (a) *provide a prospective investor with the particular information needed with respect to the securities being offered;*
 - (b) *cover a sufficient number of years to permit adequate appraisal of the results of the operations of the business (normally a period of five years should suffice);*
 - (c) *show net income year by year and for the period from the end of the last completed financial year to the date of the balance sheet included in the prospectus.*
- Where the statement of earnings includes a period subsequent to the end of the last completed financial year, it is desirable to include the corresponding period for the immediately preceding year.
- .07 ♦ *Disclosure should be made of the accounting treatment accorded the income or losses of subsidiaries acquired or disposed of during the period.*
- .09 ♦ *Prior years' adjustments originally appearing in the retained earnings statement during the period covered by the statement of earnings should be reflected, where practicable, in the statement of earnings in the years to which they apply and the treatment thereof explained.*
- .10 ♦ *Where, in the period covered by the statement of earnings, there has been a change in an accounting policy without the retroactive restatement of prior years, the general effect of such change should be clearly explained in a note to the statement of earnings.* [JAN. 1981]
- .11 ♦ *The statement of earnings should show, either by segregation or by supplementary information, the income that would have been available to service the securities offered by the prospectus. In the case of debt securities, the income shown as available should be after the deduction of prior charges, including income taxes, against the income of subsidiary companies.*
- .12 ♦ *The prospectus should include a statement of retained earnings and a statement of contributed surplus for the period covered by the statements of earnings.*
- .13 ♦ *Changes in retained earnings should be set out year by year. Changes in contributed surplus may be set out for the whole period and need not be shown year by year unless required by the governing statute.*

- .15 ♦ Where a cash flow statement is included instead of or in addition to a statement of earnings, it should cover the same period as that recommended for the statement of earnings. [SEPT. 1974 *]
- .16 ♦ Where the proceeds of the securities offered by the prospectus are to be applied in whole or in part, either by purchase of assets or shares, to finance the acquisition of a business or where the acquisition of a business is to be effected through an exchange of shares, the prospectus should include the financial statements of such business.
- .17 ♦ Where the accounts of an acquired business are being included, the balance sheet of that business may be used even though it bears a date which differs from the date of the balance sheet of the issuer.
- .18 ♦ A pro-forma balance sheet should be presented where it will be of assistance to investors in understanding the nature and effect of the proposed transactions contemplated in the prospectus. There should be reasonable assurance that the company's position will, in fact, resemble that shown in the pro-forma balance sheet. This will require the existence of firm commitments from responsible parties with respect to the proposed transactions and may require the reflection of subsequent events of a material nature as referred to in paragraph 4000.26.
- .19 ♦ The pro-forma balance sheet should be clearly labelled as such and the underlying assumptions and events on which it is predicated should be clearly stated.
- .20 ♦ The pro-forma balance sheet should be based upon the balance sheet of the issuer included in the prospectus and should bear the same date.
- .21 ♦ Where a business is being acquired out of the proceeds of the security issue covered by the prospectus, a statement combining the earnings of the issuing company with those of the business being acquired should not be presented if the results could be misleading in the light of conditions that are likely to prevail following the acquisition. Where a combined statement of earnings gives a meaningful presentation, its inclusion in the prospectus is desirable.
- .22 ♦ The basis of presentation of a pro-forma combined statement of earnings must be clearly stated.
- .23 ♦ Although the acquired business may have a different financial year end from that of the issuing company, the pro-forma combined statement of earnings should cover the same general period as the statement of earnings of the issuing company.
- .24 ♦ Because, in many instances, transactions involved in a proposed acquisition may affect the future reported earnings of the combined enterprise, the effect of these transactions should be disclosed by way of a note to the pro-forma combined statements of earnings. For example, disclosure should be made of the increase in future annual interest costs where the acquisition is being financed from borrowed funds and of the increase in future annual depreciation charges where a portion, or all, of an acquisition purchase premium is being allocated to fixed assets.
- .25 ♦ Where a pro-forma combined statement of earnings is not presented, the effect of the proposed transactions on future combined earnings should be clearly disclosed elsewhere in the prospectus.
- .26 ♦ Disclosure should be made of all events between the date of the balance sheet and the date of the prospectus which may have a material effect on the financial position or net income. Such disclosure would include information regarding the securities being offered by the prospectus if any firm commitments had been made or if the company's capital structure had been altered in preparation for the issue.

ACCOUNTING GUIDELINES

Full cost accounting in the oil and gas industry (AcG-5)

In December 1999, amended paragraphs 4(g), 28, 34, 45, 52, 57, 58 and 59 to clarify the treatment of future removal and site restoration costs in the ceiling test and paragraphs 63 and 66 to add a disclosure requirement concerning recently acquired reserves exempted from a ceiling test write-down.

The year 2000 issue (AcG-10)

In December 1999, added paragraphs 19-22 and Appendix D to provide new guidance and examples on subsequent events related to the Year 2000 Issue.

Added paragraphs 23-25 to provide guidance on measurement uncertainty caused by the Year 2000 Issue.

Added paragraph 26 to identify the need for disclosure of uncertainty caused by the Year 2000 Issue in financial statements completed after January 31, 2000 and amended Appendix A to illustrate such disclosure.

Enterprises in the development stage (AcG-11)

Issued.

EIC ABSTRACTS

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

Amended on January 18, 2000 to remove the exemption for development stage enterprises.

Net of tax presentation and supplementary earnings per share figures (EIC-40)

Amended on December 6, 1999 to conform earnings per share with revisions to BUSINESS COMBINATIONS, Section 1580.

Accounting for capital assets of a condominium corporation (EIC-95)

Amended on December 6, 1999 to clarify wording.

Accounting for the early extinguishment of convertible securities through (1) early redemption or repurchase and (2) induced early conversion (EIC-96)

Issued on September 27, 1999.

Accounting for a guarantee by the lessee in connection with (1) an operating lease and (2) a sale-leaseback transaction (EIC-97)

Issued on September 27, 1999.

Stock-based compensation plans — disclosures (EIC-98)

Issued on October 26, 1999.

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)

Issued on October 26, 1999.

Accounting for guaranteed funds (EIC-100)

Issued on December 6, 1999.

Debtor's accounting for changes in line-of-credit or revolving-debt arrangements (EIC-101)

Issued on December 6, 1999.

Accounting for shares received from the demutualization of a mutual insurance enterprise (EIC-102)

Issued on December 6, 1999.

Related party transactions — meaning of substantive change and measurement of change in a transfer of ownership interests (EIC-103)

Issued on December 6, 1999.

Impact of refundable taxes on future income tax calculations (EIC-104)

Issued on January 18, 2000.

Revenue recognition of non-refundable initiation fees in not-for-profit organizations (EIC-105)

Issued on January 18, 2000.

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