

## CPA Canada handbook – accounting, part II

### highlight summary no. II.18

### December 2018

(Note: Any changes to previously issued standards are identified in the effective date guidance in each affected standard.)

#### **Section 1591, Subsidiaries**

This Section has been amended to add guidance on substantive rights to evaluate its effect on control assessments.

#### **Section 3251, Equity**

This Section has been amended for retractable or mandatorily redeemable shares issued in a tax planning arrangement to:

- add guidance on recording in either retained earnings or a separate component of equity the effect of classifying the shares as a financial liability; and
- add disclosure requirements for the shares.

#### **Section 3856, Financial Instruments**

This Section has been amended to revise the guidance on the classification of retractable or mandatorily redeemable shares issued in a tax planning arrangement. It has also been amended to provide new guidance on the accounting for financial instruments in a related party transaction by private enterprises and not-for-profit organizations and to update the disclosure requirements about risks.

##### *Retractable or Mandatorily Redeemable Shares Issued in a Tax Planning Arrangement*

This Section has been amended in respect of these types of shares to:

- require classification as equity or a financial liability based on three conditions;
- provide an option to present the shares as a financial liability;
- require reassessment of the equity classification of the shares if an event or transaction occurs which indicates one of the conditions for equity classification is no longer met;
- provide guidance that the shares classified as a financial liability cannot subsequently be reclassified as equity;
- require measurement at the redemption amount when the shares are classified as a financial liability; and
- add disclosure requirements for the nature of the:
  - o tax planning arrangement resulting in the issuance of the shares; and
  - o separate component of equity or the amount charged to retained earnings (as applicable).

##### *Financial Instruments in a Related Party Transaction, Risk Disclosures and Other Amendments*

The Section has been amended to:

- require financial instruments in a related party transaction be measured at cost, except for equity or debt quoted in an active market, debt instruments when the inputs significant to the determination of the fair value of the instrument are observable or derivative contracts, that are initially measured at fair value;
- determine cost based on whether an instrument has repayment terms or not;
- align the subsequent measurement requirements of a financial instrument with the instrument's initial measurement;
- require a financial asset transferred in a related party transaction be assessed for impairment before an enterprise recognizes the forgiveness of the asset;
- provide guidance on how to measure an impairment of a debt and equity instrument in a related party transaction measured at cost;
- require a private enterprise recognize the forgiveness of a related party financial asset in equity or net income;
- require a not-for-profit organization to recognize forgiveness of a related party financial asset in the statement of operations; and
- require enterprises to prepare their financial instrument disclosures using enterprise-specific information.

Significant consequential amendments include changes to:

- FIRST-TIME ADOPTION, Section 1500, to permit a first-time adopter to apply certain transitional provisions in Section 3856;

- CURRENT ASSETS AND CURRENT LIABILITIES, Section 1510, and BALANCE SHEET, Section 1521, to clarify the presentation requirements for retractable or mandatorily redeemable shares issued in a tax planning arrangement; and
- RELATED PARTY TRANSACTIONS, Section 3840, to clarify that the Section does not apply to related party financial instruments.

The amendments are effective for annual financial statements relating to fiscal years beginning on or after January 1, 2020. Earlier application is permitted.

**Archived Pronouncements**

To give Handbook readers continued access to superseded Sections and paragraphs in other Sections, the Archived Pronouncements set out the wording of those Sections and paragraphs. The archived material will be withdrawn from the Handbook when it is no longer effective.

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