

## **CICA handbook – accounting highlight summary no. 12 December 2001**

### **HIGHLIGHT SUMMARY**

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

#### **Foreign currency translation, Section 1650**

This Section has been amended to eliminate the requirement to defer and amortize unrealized translation gains and losses on foreign currency denominated monetary items that have a fixed or ascertainable life extending beyond the end of the fiscal year following the current reporting period. The amended Section also requires entities to disclose their exchange gains and losses.

The amended requirements should be applied in fiscal years beginning on or after January 1, 2002, although earlier adoption is encouraged. Any change in accounting necessary to apply the new requirements is recognized retroactively and disclosed as a change in accounting policy.

#### **Stock-based compensation and other stock-based payments, Section 3870**

This new Section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. It applies to transactions in which an enterprise grants shares of common stock, stock options, or other equity instruments, or incurs liabilities based on the price of common stock or other equity instruments.

The recognition and measurement requirements of this Section apply to all transactions with non-employees, and to employee awards that are direct awards of stock, or call for settlement in cash or other assets. These requirements also apply to stock appreciation rights that call for settlement by the granting of equity instruments, which should be presented as equity, and measured either at the fair value of the equity instruments granted, or on a basis similar to the measurement of awards that call for settlement in cash or other assets.

The main features of the new Section are:

- Reciprocal transactions in which an enterprise acquires goods and services by granting equity instruments, or by incurring liabilities, to non-employees in amounts based on the price of the enterprise's stock are accounted for based on the fair value of the consideration received, or the fair value of the equity instruments, or liabilities incurred, whichever is more reliably measurable.
- The Section encourages, but does not require, that enterprises recognize and measure all awards based on equity instruments awarded to employees and the cost of the services received as consideration based on the fair value of the equity instruments. The objective of the measurement process is to estimate the fair value, based on the stock price at the award date, of stock options or other equity instruments to which employees become entitled when they have rendered the requisite service and satisfied any other conditions necessary to earn the right to benefit from the instruments.
- Compensation cost for awards to employees that call for settlement in cash or other assets is measured as the amount by which the quoted market value of the shares of the enterprise's stock covered by the award exceeds the option price or value specified, subject to any appreciation limitations under the plan.
- An enterprise that has not applied the fair value based method of accounting for transactions with employees discloses the pro forma net income and, if earnings per share is presented, pro forma earnings per share, as if the fair value based accounting method had been used. In the first year in which the Section is applied, comparative disclosures of pro forma earnings information need not be provided for prior years.
- An enterprise provides a description of stock-based employee plans, including the general terms of the awards under the plans. Information about awards for non-employee services are provided to the extent that disclosure is important for those transactions.
- The Section is to be adopted for fiscal years beginning on or after January 1, 2002 and applied to awards made on or after the date of adoption. Enterprises other than public enterprises, co-operative enterprises, deposit-taking institutions and life insurance enterprises may defer the application of the Section until fiscal years beginning on or after January 1, 2003. Earlier adoption is encouraged.

- The recognition and measurement requirements of the Section are applied to awards outstanding at the date of its adoption when those awards call for settlement in cash or other assets, and to stock appreciation rights that call for settlement by the issuance of equity instruments. Amounts that would have been recognized in prior years had the Section been applied, less any amount previously recognized, are charged to opening retained earnings for the fiscal year in which the Section is initially applied, without restatement of prior periods.

#### **Life insurance enterprises — specific items, Section 4210**

This Section has been amended to conform the terminology and language with that recently adopted by the Canadian Institute of Actuaries in respect of the recognition and measurement of actuarial liabilities.

#### **Accounting Guidelines**

New

- Hedging relationships (AcG-13)

Amended

- Financial reporting by life insurance enterprises (AcG-9)

#### **EIC Abstracts**

New

- Accounting for wash sales (EIC-121)
- Balance sheet classification of callable debt obligations and debt obligations expected to be refinanced (EIC-122)

Withdrawn

- Fair value of shares issued as a consideration in a purchase business combination (EIC-76)
- Accounting for wash sales (EIC-93)

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