

# 2014 Improvements to Accounting Standards for Private Enterprises

## — Background Information and Basis for Conclusions

### Foreword

In October 2014, the Accounting Standards Board (AcSB) released the 2014 annual improvements to accounting standards for private enterprises in Part II of the CPA Canada Handbook – Accounting. The AcSB has approved for publication the contents of this document setting out its rationale for making these improvements.

Background Information and Basis for Conclusions documents are sources of generally accepted accounting principles, as described in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100 in Part II of the Handbook. These documents are intended to help readers understand how the AcSB reached its conclusions, but they do not include explanations of requirements or guidance on the application of the relevant Section or Accounting Guideline.

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### INTRODUCTION

- 1 This document summarizes considerations that were deemed significant by members of the Accounting Standards Board (AcSB) in reaching their conclusions in approving the 2014 annual improvements to accounting standards for private enterprises. It sets out the reasons the AcSB undertook the project to improve the standards, the process of research and deliberation, the key decisions made, and the principal reasons for adopting the positions taken and rejecting others. Individual AcSB members gave greater weight to some factors than to others.
- 2 Nothing in this document is to be taken as overriding the requirements of the CPA Canada Handbook – Accounting. However, the discussion may help readers to understand how the AcSB reached its conclusions in developing the standards and the AcSB's intent with respect to their interpretation and application.

### BACKGROUND

- 3 Accounting standards for private enterprises are changed periodically through two processes: major improvements and annual improvements. Major improvements result in significant changes to accounting standards for private enterprises and are not included in the annual improvements process.
- 4 The purpose of the annual improvements process is to amend accounting standards for private enterprises to clarify guidance or wording and to correct for unintended consequences, conflicts or oversights. These changes are "bundled" together to reduce the number of individual changes to the standards.
- 5 The AcSB released an Exposure Draft, "2014 Improvements to Accounting Standards for Private Enterprises," in March 2014. The Exposure Draft proposed amendments to two Sections as discussed in this document. The proposed amendments were in response to issues submitted to the AcSB by stakeholders. In deliberating the individual issues, the AcSB considered input from its Private Enterprise Advisory Committee.
- 6 Responses received were primarily from public accounting firms. Respondents generally expressed agreement with the proposals set out in the Exposure Draft.

- 7 The specific issues addressed in this improvements project, including substantive comments received on the Exposure Draft and any changes made in response to those comments, are as follows.

#### **FINANCIAL INSTRUMENTS – ACCOUNTING FOR A HEDGING ITEM**

- 8 The AcSB was informed that some stakeholders thought that FINANCIAL INSTRUMENTS, Section 3856, is unclear on how to account for a hedging item designated as a hedge of an anticipated transaction if a reporting period ends between the date the hedged transaction occurs and the date the hedging item matures. The Exposure Draft proposed to address this issue by clarifying that the hedging item is remeasured at the balance sheet date using the spot rate in effect at that date, with any gain or loss included in net income.
- 9 All respondents agreed with the clarification to Section 3856; however, a few respondents suggested that additional guidance or examples should be added. The AcSB discussed this issue and noted that the proposed amendments are not more complex than the existing guidance in paragraph 3856.33 and also noted that Section 3856 does not contain any illustrative examples. In addition, the AcSB noted that the post-implementation review of Section 3856 includes considering whether there is an appropriate level of guidance in Section 3856. As a result, the AcSB decided not to include additional guidance or illustrative examples for this issue at this time.
- 10 Other respondents suggested changing the proposed wording in paragraph 3856.33(c) to clarify that the remeasurement applies to a reporting period that ends "after the date the hedged transaction occurs but before the hedging item matures." The AcSB decided that the words proposed in the Exposure Draft are clear when read in the context of the paragraph as a whole and concluded that the additional words were not necessary.
- 11 One respondent suggested revising the term "spot rate" as proposed in the amendments to paragraph 3856.33(c) to be consistent with the first part of paragraph 3856.33(c) that uses the phrase "spot price or rate in effect". The AcSB agreed to make this revision. Accordingly, the AcSB approved the amendments as exposed, subject to the drafting revision described above.

#### **FINANCIAL INSTRUMENTS – DISCLOSURE OF ALLOWANCE FOR TRADE RECEIVABLES**

- 12 Prior to being amended, Section 3856 required an entity to disclose the carrying amount of impaired financial assets by type of asset, and the amount of any related allowance for impairment. For certain financial assets, such as accounts receivable, impairment may be assessed on a group basis. Some stakeholders had questioned whether, in that case, the carrying amount of impaired financial assets is required to be disclosed since the allowance does not relate to specific items. The Exposure Draft proposed an amendment to clarify that when impairment has been determined on a group basis, only the amount of allowance for impairment of financial assets is required to be disclosed and not the carrying amount of the impaired assets.
- 13 Respondents generally agreed that a change should be made to the impairment disclosure requirements in Section 3856, for the reasons stated in the Exposure Draft. However, several respondents questioned the benefit to users of providing separate information on impairments determined on an individual basis and impairments determined on a group basis. Those respondents thought that, in practice, the difficulty in providing the existing disclosure requirement related to current trade receivables and not to other financial assets. As a result they thought that the disclosure requirement for the allowance for current trade receivables should be the allowance in total.
- 14 The Private Enterprise Advisory Committee considered the comments received from respondents. The Committee noted that the disclosure requirements under pre-changeover standards in Part V of the Handbook had not required the carrying amount of impaired current trade receivables to be disclosed separately. Financial statement users on the Committee observed that the disclosure of the total allowance for current trade receivables provides sufficient information to meet their needs. Changes in the overall allowance identify significant fluctuations in the collectability of current trade receivables that may require more detailed information and analysis, often including a review of the aged receivables. The amount of the total allowance also provides support for more detailed information on current trade receivables received from the enterprise. As a result, the Committee recommended to the AcSB that the existing disclosure requirements for impaired assets be modified so that, for current trade receivables, only the total allowance is required to be disclosed, and that no change be made in respect of other financial assets. The AcSB discussed this issue and agreed with the Committee's recommendation.
- 15 Some respondents proposed that the carrying amount of impaired financial assets required to be disclosed be clarified as either the gross or net amount of the financial asset. The Committee noted that some entities disclose receivables in the form of "gross less impairment = net carrying amount", while others simply state that the carrying amount as reflected on the balance sheet includes an allowance of x amount. Financial statement users on the Committee noted that they are able to determine whether the carrying amount of the financial asset is gross or net based on the information provided in financial statements. The Committee recommended that no changes be made to the disclosure of carrying amount. The AcSB agreed with the Committee's recommendation.

#### **EMPLOYEE FUTURE BENEFITS – USE OF A FUNDING VALUATION**

- 16 EMPLOYEE FUTURE BENEFITS, Section 3462, permits the use of an actuarial valuation prepared for funding purposes to determine the obligation for an unfunded defined benefit plan. This option allows an entity that uses a funding valuation for funded defined benefit plans to measure all defined benefit plans on a consistent basis. The Exposure

Draft proposed to clarify that the option to use a funding valuation for unfunded defined benefit plans can only be applied by entities that have at least one funded defined benefit plan.

- 17 All respondents agreed with the proposed amendment to Section 3462 in principle. However, some respondents raised concerns about the clarity of the proposed amendment and identified additional issues not included in the Exposure Draft. While the AcSB continues to agree with the proposed amendment, in light of these concerns, the Board decided to consider the issue further and not to include it in the final 2014 annual improvements.

**EFFECTIVE DATE**

- 18 The Exposure Draft proposed that the amendments be effective for annual financial statements beginning on or after January 1, 2015, with earlier application permitted. Respondents agreed with this proposal and, accordingly, the AcSB finalized the effective date as proposed.

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