

CICA handbook – accounting highlight summary no. 24 July 2003

HIGHLIGHT SUMMARY

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

Generally accepted accounting principles, Section 1100

This new Section establishes standards for financial reporting in accordance with generally accepted accounting principles (GAAP). It describes what constitutes Canadian GAAP and its sources, replacing FINANCIAL STATEMENT CONCEPTS, paragraphs 1000.59-.61.

The main features of the new Section are:

- An entity applies every primary source of GAAP, as defined.
- When a matter is not dealt with explicitly in the primary sources of GAAP, an entity adopts accounting policies and disclosures that are:
 - consistent with the primary sources of GAAP; and
 - developed through the exercise of professional judgment and the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section 1000.
- The Section clarifies that if the basis of accounting used to prepare financial statements in accordance with regulatory, legislative or contractual requirements conflicts with the requirements of the Section, that basis cannot be described as being in accordance with GAAP.
- The Section clarifies that Recommendations and non-italicized paragraphs in Accounting Handbook Sections have equal authority.
- The Section identifies some of the other sources that an entity might consult to assist in selecting accounting policies and disclosures when a matter is not dealt with explicitly in the primary sources of GAAP.

The Section is effective for fiscal years beginning on or after October 1, 2003. Earlier application is encouraged. Entities are required to adopt the new Section prospectively to events and transactions occurring after the date of adoption and to any outstanding related balances existing at the date of adoption.

Pending completion of a separate project on rate-regulated operations, an entity is not required to apply the new Section to the recognition and measurement of assets and liabilities arising from rate regulation. These entities are required to comply with all disclosure requirements of GAAP and to disclose the nature of the differences between their accounting policies affected by rate regulation and those required by the primary sources of GAAP.

General standards of financial statement presentation, Section 1400

This Section revises and replaces GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION, Section 1500. It clarifies what constitutes "fair presentation in accordance with generally accepted accounting principles". The deletion of FINANCIAL STATEMENT CONCEPTS, paragraph 1000.61, and GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION, paragraph 1500.06, removes the ability for an entity to depart from a Handbook Recommendation when following that Recommendation would result in misleading financial statements. These deletions also eliminate the related disclosure requirements.

The main features of the Section are:

- The Section requires that financial statements should present fairly in accordance with Canadian generally accepted accounting principles the financial position, results of operations and cash flows of an entity;
- The Section explains that a fair presentation in accordance with generally accepted accounting principles involves, not only applying GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100, but also providing sufficient information about certain transactions or events of such size, nature and incidence that their disclosure is necessary to understand an entity's financial statements, and providing information in a manner that is clear and understandable;
- The Section clarifies the original intent of Section 1500 as it requires that financial statements include all information required for a fair presentation in accordance with generally accepted accounting principles.
- The Section clarifies the circumstances in which financial statements are prepared on a comparative basis.

The new Section is effective for fiscal years beginning on or after October 1, 2003.

Superseded Accounting Recommendations

Included with this release is GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION, Section 1400, which supersedes GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION, Section 1500. The new Section is effective for fiscal years beginning on or after October 1, 2003.

A Supplement has been provided to set out the previous wording in FINANCIAL STATEMENT CONCEPTS, paragraphs 1000.59-.61, as a result of issuing GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100. The superseded Sections and the related Supplement will be withdrawn from the Handbook when they are no longer effective.

EIC Abstracts

- Income tax considerations in applying the goodwill impairment test in CICA 3062 (EIC-136)
- Recognition of customer relationship intangible assets acquired in a business combination (EIC-137)

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