CICA handbook – accounting revisions release no. 48 February 2008

ACCOUNTING STANDARDS

Financial statement concepts, Section 1000

Deleted paragraph 1000.26 and amended paragraph 1000.46 to remove a reference to recognition of items as assets and liabilities solely on the basis of matching of net income elements.

Added paragraph 1000.31A to clarify the relationship between incurring expenditures and creating assets.

Amended paragraph 1000.45 to clarify application of the future economic benefit criterion necessary for recognition of an asset.

Amended paragraphs 1000.50-.52 and added paragraphs 1000.51A-.51B to clarify the timing of expense recognition.

Income statement, paragraph 1520.03(j) and (k)

Deleted as a result of the withdrawal of Section 3450. Paragraph 1520.03(j) and (k) formerly read as follows:

(j) *The amount charged for amortization of deferred charges. The amount charged for amortization of deferred development costs should be separately disclosed. Disclosure should be made of the basis of amortization* (see DISCLOSURE OF ACCOUNTING POLICIES, Section 1505, and RESEARCH AND DEVELOPMENT COSTS, Section 3450). [OCT. 2006]

(k) *The amount of research and development costs charged to expense for the period. The amount charged for amortization of deferred development costs should be separately disclosed* (see RESEARCH AND DEVELOPMENT COSTS, Section 3450). [AUG. 1978]

Business combinations, paragraphs 1581.56-.57

Amended as a result of issuing new Section 3064 to replace "other intangible assets" with "intangible assets".

Consolidated financial statements, paragraph 1600.17

Amended to provide a reference to new Section 3064.

Foreign currency translation, Section 1651

The list of examples of non-monetary items to be translated at historical rates has been amended to replace "other intangible assets (including deferred charges)" with "intangible assets".

Interim financial statements, paragraph 1751.B33(f)

Deleted as a result of the withdrawal of Section 3450.

Goodwill and other intangible assets, Section 3062

This Section has been re-filed under Superseded Accounting Recommendations and a Supplement added setting out the previous wording of paragraphs in other Handbook material that has been amended substantially as a consequence of approving new Section 3064.

The following italicized paragraphs formerly appeared in Section 3062:

.06 ♦ *An intangible asset that is acquired either individually or with a group of other assets should be initially recognized and measured at cost. An intangible asset is not written down or written off in the period of acquisition, unless it becomes impaired during this period.* [JAN. 2002]

.10 ♦ *A recognized intangible asset should be amortized over its useful life to an enterprise, unless the life is determined to be indefinite. When an intangible asset is determined to have an indefinite useful life, it should not be amortized until its life is determined to be no longer indefinite.* [JAN. 2002]

.11 ♦ *The amortization method and estimate of the useful life of an intangible asset should be reviewed annually.* [JAN. 2002]

.18 ♦ *An intangible asset that is subject to amortization should be tested for impairment in accordance with the provisions of IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063.* [JAN. 2002 *]

.19 ♦ *An intangible asset that is not subject to amortization should be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test should consist of a comparison of the fair value of the intangible asset with its carrying amount. When the carrying amount of the intangible asset exceeds its fair value, an impairment loss should be recognized in an amount equal to the excess.* [JAN. 2002]

.21 ♦ *An impairment loss for an intangible asset should not be reversed if the fair value subsequently increases.* [JAN. 2002]

.22 ♦ *Goodwill should be recognized on an enterprise's balance sheet at the amount initially recognized, less any write-down for impairment.* [JAN. 2002]

.25 ♦ *A goodwill impairment loss should be recognized when the carrying amount of the goodwill of a reporting unit exceeds the fair value of the goodwill. An impairment loss should not be reversed if the fair value subsequently increases.* [JAN. 2002]

.27 ♦ *A two-step impairment test should be used to identify a potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized, if any:*

- *(a) The fair value of a reporting unit should be compared with its carrying amount, including goodwill, in order to identify a potential impairment. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.*
- *(b) When the carrying amount of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill should be compared with its carrying amount to measure the amount of the impairment loss, if any. The fair value of goodwill is determined in accordance with the guidance in paragraph 3062.32. When the carrying amount of reporting unit goodwill exceeds the fair value of the goodwill, an impairment loss should be recognized in an amount equal to the excess.* [JAN. 2002]

.33 ♦ *For the purpose of testing goodwill for impairment, acquired assets and assumed liabilities should be assigned to a reporting unit, as of the date of acquisition, when:*

- *(a) the asset is employed in, or the liability relates to, the operations of a reporting unit; and*
- *(b) the asset or liability is considered in determining the fair value of the reporting unit.* [JAN. 2002]

.36 ♦ *For the purpose of testing goodwill for impairment, all goodwill acquired in a business combination should be assigned to one or more reporting units as of the date of acquisition.* [JAN. 2002]

.39 ♦ *Goodwill of a reporting unit should be tested for impairment on an annual basis, unless all of the following criteria have been met:*

- *(a) The assets and liabilities that make up the reporting unit have not changed significantly since the most recent fair value determination.*
- *(b) The most recent fair value determination resulted in an amount that exceeded the carrying amount of the reporting unit by a substantial margin.*
- *(c) Based on an analysis of events that have occurred and circumstances that have changed since the most recent fair value determination, the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is remote.* [JAN. 2002]

.42 ♦ *Goodwill of a reporting unit should be tested for impairment between annual tests when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount.* [JAN. 2002]

.44 ♦ *When a reporting unit is to be disposed of in its entirety, goodwill of that reporting unit should be included in the carrying amount of the reporting unit in determining the gain or loss on disposal.* [JAN. 2002]

.45 ♦ *When a portion of a reporting unit that constitutes a business is to be disposed of, goodwill associated with that business should be included in the carrying amount of the business in determining the gain or loss on disposal. The amount of goodwill to be included in the carrying amount should be based on the relative fair values of the business to be disposed of and the portion of the reporting unit to be retained. When only a portion of goodwill is allocated to a business to be disposed of, the goodwill remaining in the portion of the reporting unit to be retained should be tested for impairment in accordance with paragraph 3062.27.* [JAN. 2002]

.48 ♦ *The aggregate amount of goodwill should be presented as a separate line item in an enterprise's balance sheet.* [JAN. 2002]

.49 ♦ *The aggregate amount of goodwill impairment losses should be presented as a separate line item in the income statement before extraordinary items and discontinued operations, unless a goodwill impairment loss is associated with a discontinued operation. A goodwill impairment loss associated with a discontinued operation should be included on a net-of-tax basis within the results of discontinued operations.* [JAN. 2002]

.50 ♦ *Intangible assets should be aggregated and presented as a separate line item in an enterprise's balance sheet.* [JAN. 2002]

.51 ♦ *The financial statements should disclose the following information:*

- *(a) The changes in the carrying amount of goodwill during the period including:*
  - *(i) the aggregate amount of goodwill acquired;*
  - *(ii) the aggregate amount of impairment losses recognized; and*
  - *(iii) the amount of goodwill included in the gain or loss on disposal of all or a portion of a reporting unit.*

  Enterprises that report segment information in accordance with SEGMENT DISCLOSURES, Section 1701, should provide the above information about goodwill in total and for each reportable segment and should disclose any significant changes in the allocation of goodwill by reportable segment. When any portion of *goodwill has not yet been allocated to a reporting unit at the date the financial statements are issued, the unallocated amount and the reasons for not allocating that amount should be disclosed.*

(b) For intangible assets subject to amortization:

(i) the gross carrying amount and accumulated amortization in total and by major intangible asset class;

(ii) the aggregate amount of intangible assets subject to amortization that were acquired during the period;

(iii) the aggregate amortization expense for the period; and

(iv) the amortization method used, including the amortization period or rate.

(c) For intangible assets not subject to amortization:

(i) the carrying amount in total and by major intangible asset class; and

(ii) the aggregate amount of intangible assets not subject to amortization that were acquired during the period. [JAN. 2002]

.53 ♦ *For each goodwill impairment loss recognized, the following information should be disclosed in the financial statements that include the period in which the impairment loss is recognized:*

(a) a description of the facts and circumstances leading to the impairment;

(b) the amount of the impairment loss; and

(c) when a recognized impairment loss is an estimate that has not yet been finalized, that fact and the reasons therefor and, in subsequent periods, the nature and amount of any significant adjustments made to the initial estimate of the impairment loss.

When the carrying amount of a reporting unit exceeds its fair value, but the second step of the impairment test is not complete and a reasonable estimate of the goodwill impairment loss cannot be determined (see paragraph 3062.28)*, that fact and the reasons therefor should be disclosed.* [JAN. 2002]

.54 ♦ *For each impairment loss recognized related to an intangible asset, the following information should be disclosed in the financial statements that include the period in which the impairment loss is recognized:*

(a) a description of the impaired intangible asset and the facts and circumstances leading to the impairment;

(b) the amount of the impairment loss;

(c) the caption in the income statement in which the impairment loss is included; and

(d) when applicable, the segment in which the impaired intangible asset is reported under SEGMENT DISCLOSURES, Section 1701. [JAN. 2002]

.55 ♦ *An enterprise that qualifies under DIFFERENTIAL REPORTING, Section 1300, may, subject to paragraph 3062.57 below, elect to test goodwill for impairment only when an event or circumstance occurs that indicates that the fair value of a reporting unit may be less than its carrying amount, whereas goodwill would otherwise be tested for impairment on an annual basis in accordance with paragraph 3062.39.* [JAN. 2003]

.57 ♦ *Upon initial application of this Section, an enterprise that qualifies under DIFFERENTIAL REPORTING, Section 1300, and that has previously recognized goodwill in its balance sheet, may elect to apply the provision in paragraph 3062.55 to previously recognized goodwill when such goodwill would otherwise be tested for impairment as of the beginning of the fiscal year in which this Section is initially applied in accordance with paragraph 3062.72. Subsequent to the initial application of this Section, and subject to completion of the annual impairment test for the current fiscal year to any currently recognized goodwill, an enterprise may elect to apply the provision in paragraph 3062.55 in subsequent fiscal years.* [FEB. 2006]

.58 ♦ *When an enterprise elects to apply the provision in paragraph 3062.55 to existing goodwill on initial application of this Section, it should disclose the fact that the transitional impairment test otherwise required by paragraph 3062.72 has not been performed. This disclosure should be maintained in the subsequent years until an impairment test is performed. The entire amount of any impairment should be charged to income in the year the loss is recognized. The treatment set out in paragraph 3062.74 is not applicable.* [JAN. 2003]

.59 ♦ *An enterprise that qualifies under DIFFERENTIAL REPORTING, Section 1300, may, subject to paragraph 3062.61 below, elect to test an intangible asset not subject to amortization for impairment, only when events or changes in circumstances indicate that its carrying amount may not be recoverable, whereas such an asset would otherwise be tested for impairment annually in accordance with paragraph 3062.19.* [JAN. 2003]

.61 ♦ *Upon initial application of this Section, an enterprise that qualifies under DIFFERENTIAL REPORTING, Section 1300, and that has previously recognized intangible assets deemed to have an indefinite life in its balance sheet, may elect to apply the provision in paragraph 3062.59 to those assets when they would otherwise be tested for impairment as of the beginning of the fiscal year in which this Section is initially applied in accordance with paragraph 3062.70. Subsequent to the initial application of this Section, and subject to completion of the annual impairment test for the current fiscal year to any currently recognized intangible assets deemed to have an indefinite life, an enterprise may elect to apply the provision in paragraph 3062.59 in subsequent fiscal years.* [FEB. 2006]

.62 ♦ *When an enterprise elects to apply the provision in paragraph 3062.59 to existing intangible assets not subject to amortization on initial application of this Section, it should disclose the fact that the transitional impairment test* *otherwise required by paragraph 3062.70 has not been performed. This disclosure should be maintained in subsequent years until an impairment test is performed. The entire amount of any impairment loss should be charged to income in the year the loss is recognized. The treatment set out in paragraph 3062.74 is not applicable.* [JAN. 2003]

.63 ♦ *This Section should be applied for fiscal years beginning on or after January 1, 2002. Co-operative enterprises should not apply this Section until interpretive guidance related to the application of the purchase method by these enterprises is issued. Enterprises other than public enterprises, co-operative enterprises, deposit-taking institutions and life insurance enterprises may defer the application of this Section, including paragraph 3062.66, until fiscal years beginning on or after January 1, 2003. Public enterprises are those enterprises that have issued debt or equity securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets), that are required to file financial statements with a securities commission, or that provide financial statements for the purpose of issuing any class of securities in a public market. Early adoption is permitted only for enterprises with a fiscal year beginning on or after April 1, 2001, provided the first interim period financial statements have not been previously issued. In all cases, this Section should be initially applied at the beginning of a fiscal year. Retroactive application is not permitted.* [JAN. 2002]

.64 ♦ *Goodwill acquired in a business combination for which the acquisition date is after June 30, 2001 should not be amortized. Intangible assets other than goodwill acquired in a business combination or other transaction for which the acquisition date is after June 30, 2001 should be amortized or not amortized in accordance with paragraphs 3062.10-.17.* [JAN. 2002]

.66 ♦ *Upon initial application of this Section, goodwill and other intangible assets arising from transactions for which the acquisition date is before July 1, 2001 (previously recognized goodwill and intangible assets) should be accounted for in accordance with the provisions of this Section.* [JAN. 2002]

.70 ♦ *Previously recognized intangible assets that are deemed to have indefinite useful lives should be tested for impairment, in accordance with paragraph 3062.19, as of the beginning of the fiscal year in which this Section is initially applied.* [JAN. 2002]

.72 ♦ *Goodwill in each reporting unit should be tested for impairment, in accordance with paragraph 3062.27, as of the beginning of the fiscal year in which this Section is initially applied.* [JAN. 2002]

.76 ♦ *Upon completion of the first step of the transitional impairment test, the reportable segment or segments in which an impairment loss might have to be recognized and the period in which that potential loss will be measured should be disclosed in interim financial statements.* [JAN. 2002]

.77 ♦ *In the period of adoption and thereafter until all periods presented are accounted for in accordance with this Section, the following information should be disclosed:*

(a) Income before extraordinary items and net income for all periods presented, adjusted to exclude amortization expense (including any related tax effects) recognized in those periods related to goodwill, intangible assets that will no longer be amortized, any deferred credit related to an excess over cost, and equity method goodwill.

(b) A reconciliation of reported net income to the adjusted net income.

(c) Adjusted earnings per share amounts for all periods presented, which may be presented either on the face of the income statement or in the notes to the financial statements. [JAN. 2002]

Impairment of long-lived assets, paragraph 3063.02(d) and (e)

Deleted as a result of the withdrawal of Section 3450.

Goodwill and intangible assets, Section 3064

Replaces Section 3062. The new Section adopts relevant parts of International Financial Reporting Standard IAS 38, "Intangible Assets."

Former paragraphs 3062.10-.62 renumbered as 3064.55-.107.

Deleted transitional provisions in former paragraphs 3062.63-.77.

Leases, paragraph 3065.56

Amended to change reference to deferring costs to recognizing an asset.

Research and development costs, Section 3450

Replaced by Section 3064. This Section has been re-filed under Superseded Accounting Recommendations.

The following italicized paragraphs formerly appeared in Section 3450:

.13 ♦ *Research and development costs should include:*

(a) the cost of materials and services consumed in research and development activities;

(b) the salaries, wages and other related costs of personnel directly engaged in research and development activities;

(c) the depreciation of equipment and facilities to the extent that they are used for research and development activities;

(d) a reasonable allocation of overhead; and

(e) *the amortization of intangibles to the extent that they are related to research and development activities.* [AUG. 1978]

.16 ♦ *Research costs should be charged as an expense of the period in which they are incurred.* [AUG. 1978]

.19 ♦ *Development costs should be charged as an expense of the period in which they are incurred except in the circumstances set out in paragraph 3450.21.* [AUG. 1978]

.21 ♦ *Development costs should be deferred to future periods if all of the following criteria are satisfied:*

(a) *the product or process is clearly defined and the costs attributable thereto can be identified;*

(b) *the technical feasibility of the product or process has been established;*

(c) *the management of the enterprise has indicated its intention to produce and market, or use, the product or process;*

(d) *the future market for the product or process is clearly defined or, if it is to be used internally rather than sold, its usefulness to the enterprise has been established; and*

(e) *adequate resources exist, or are expected to be available, to complete the project.* [AUG. 1978]

.23 ♦ *When a development project meets the criteria for deferment, as set out in paragraph 3450.21, the development costs should be deferred to the extent that their recovery can reasonably be regarded as assured.* [AUG. 1978]

.25 ♦ *Development costs charged as expense in prior years should not be reinstated even though the uncertainties that had led to their being written off no longer apply.* [AUG. 1978]

.28 ♦ *Amortization of development costs deferred to future periods should commence with commercial production or use of the product or process and should be charged as an expense on a systematic and rational basis by reference, where possible, to the sale or use of the product or process.* [AUG. 1978]

.32 ♦ *The deferred development costs of a project should be reviewed at the end of each accounting period. When the criteria that previously justified the deferral of costs are no longer met, the unamortized balance should be written off as a charge to income of the period. When the criteria for deferment continue to be met but the amount of deferred development costs that can reasonably be regarded as assured of recovery through related future revenues, less relevant costs, is exceeded by the unamortized balance of such costs, the excess should be written off as a charge to income of the period.* [JAN. 1990]

.33 ♦ *When the periodic review of the unamortized deferred costs of a project indicates that the basis of amortization requires modification, the change should be applied prospectively* (see ACCOUNTING CHANGES, Section 1506). [AUG. 1978]

.34 ♦ *The financial statements should disclose the amounts of:*

(a) *unamortized deferred development costs;*

(b) *development costs deferred during the period;*

(c) *research and development costs charged to expense for the period; and*

(d) *amortization of deferred development costs charged to expense for the period.* [AUG. 1978 *]

.35 ♦ *The description of the basis of valuation of deferred development costs should disclose the fact that amortization has been deducted in arriving at the carrying value and the basis on which that amortization has been calculated* (see DISCLOSURE OF ACCOUNTING POLICIES, Section 1505). A description of the general nature of the projects on which development costs are deferred may provide useful information. [AUG. 1978 *]

Introduction to not-for-profit organizations

The chart outlining the applicability of Sections to not-for-profit organizations has been amended to reflect the replacement of Section 3062 with Section 3064 and the withdrawal of Section 3450.

A footnote has been added to indicate that in the event of a conflict between Section 1000, as amended, and Sections 4410 and 4430, the latter Sections apply.

ACCOUNTING GUIDELINE

Enterprises in the development stage (AcG-11)

Amended paragraph 9 to delete a reference to deferring costs.

Amended paragraph 10 to replace guidance on deferral of development costs, formerly in Section 3450, with guidance on recognition of intangible assets in new Section 3064.

Added paragraph 10A to explain the criteria for recognition of development costs as intangible assets as required by new Section 3064.

Amended paragraph 11 to replace guidance on deferral of pre-operating costs with guidance on costs qualifying for recognition as intangible assets.

Added paragraph 11A to explain that research costs do not qualify for recognition as intangible assets.

Amended paragraph 12 to clarify when development costs recognized as intangible assets are impaired.

Deleted paragraphs 13 and 14 to remove guidance on deferring costs.

Amended paragraphs 17-19 to remove references to deferring costs.

Deleted paragraph 21 to remove guidance on treatment of incidental revenues earned during the development period.

Amended paragraphs 36 and 37 to replace previous guidance on transition with guidance on application of the amendments.

Deleted paragraph 38 to remove guidance on application of previous transitional provisions.

Amended Appendix to remove references to deferring costs and recognizing incidental revenues as a component of a development cost intangible asset.

EIC ABSTRACTS

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

Status amended on February 1, 2008 to note that it is not applicable to entities that have adopted Section 3064.

Accounting for corporate transaction costs (EIC-94)

Amended on February 1, 2008 as a consequence of the withdrawal of Section 3070.

Determining whether a contract is routinely denominated in a single currency (EIC-169)

Issued on January 8, 2008.
