

2012 Improvements to Accounting Standards for Private Enterprises

— Background Information and Basis for Conclusions

Foreword

In October 2012, the Accounting Standards Board (AcSB) released the 2012 annual improvements to accounting standards for private enterprises. 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 its conclusions in approving the 2012 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 CICA 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. Major improvements 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, "2012 Improvements to Accounting Standards for Private Enterprises," in March 2012. The Exposure Draft proposed amendments to a number of Sections as discussed in this document. The proposed

amendments were largely 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.

INCOME STATEMENT – PRESENTATION AND DISCLOSURE

- 8 The AcSB noted a number of inconsistencies between the requirements of INCOME STATEMENT, Section 1520, and other Sections in accounting standards for private enterprises. As Section 1520 establishes the line items to be separately presented in the income statement but does not set out new requirements, the Exposure Draft proposed a number of changes to Section 1520 to make the standards internally consistent.

- 9 Respondents identified a small number of editorial issues with the proposals set out in the Exposure Draft. The AcSB addressed those issues in finalizing the 2012 improvements.

- 10 Some respondents suggested deleting specific presentation requirements in other Sections. The AcSB noted that the objective of the amendments to Section 1520 was to obtain internal consistency in Part II, not to reconsider existing requirements. Accordingly, the AcSB did not pursue those suggestions.

COST OF ISSUING DEBT SECURITIES

- 11 Prior to being amended, BUSINESS COMBINATIONS, Section 1582, required acquisition-related costs to be expensed, with the exception of the costs to issue equity securities that are recognized in accordance with CAPITAL TRANSACTIONS, Section 3610. The AcSB noted that a business acquisition may be financed through the issuance of debt or equity securities. Accordingly, the Exposure Draft proposed extending the exception to the general requirement to expense acquisition costs to include the cost of issuing debt securities, requiring that those costs be recognized in accordance with FINANCIAL INSTRUMENTS, Section 3856.

- 12 None of the responses to the Exposure Draft disagreed with the proposed amendments in respect of this issue. Accordingly, the AcSB approved the amendments as exposed.

ACQUISITION COSTS AND CONTINGENT CONSIDERATION UNDER THE EQUITY AND COST METHODS

- 13 SUBSIDIARIES, Section 1590, provides an accounting policy choice that allows an entity to consolidate its subsidiaries or to account for them using either the cost or equity method. However, prior to amendment, there was no guidance on accounting for acquisition costs or contingent consideration when a subsidiary is accounted for under the cost or equity method. Several stakeholders requested clarification in respect of this issue. The AcSB decided that, in order to promote consistency and inter-company comparability, cost should be determined in the same manner, regardless of how the entity is subsequently accounted for. Accordingly, the AcSB proposed to amend Section 1590 to require accounting consistent with BUSINESS COMBINATIONS, Section 1582.

- 14 One respondent disagreed with the proposal in respect of acquisition costs, arguing that guidance in FINANCIAL INSTRUMENTS, Section 3856, should apply to subsidiaries accounted for under the cost or equity method. The AcSB did not find this argument compelling, reiterating the importance of having the same starting point in terms of "cost". Also, the Advisory Committee noted that allowing the treatment of acquisition costs to vary depending on the accounting policy choice would reduce inter-company comparability without justification based on cost / benefit factors. On this basis, the AcSB approved the amendment as exposed.

- 15 No comments were received in respect of the proposed amendments regarding the accounting for contingent consideration. Accordingly, the AcSB agreed to finalize the proposal as exposed.

FOREIGN CURRENCY TRANSLATION

- 16 The AcSB noted an inconsistency between FOREIGN CURRENCY TRANSLATION, Section 1651, and NON-CONTROLLING INTERESTS, Section 1602, in respect of when an entity's interest in a self-sustaining foreign operation changes. Prior to amendment, Section 1602 required a change in a parent's interest in a consolidated subsidiary that does not result in a loss of control to be accounted for as an equity transaction. However, Section 1651 required an appropriate part of the foreign exchange gains and losses accumulated in a separate component of shareholder's equity to be included in net income when there is a reduction in the net investment. The Exposure Draft proposed a number of changes to Section 1651 to make that Section consistent with Section 1602. The Exposure Draft also proposed several amendments to clarify the accounting for foreign exchange gains and losses accumulated in a separate component of shareholders' equity for different scenarios involving a full or partial reduction in an entity's interest in a foreign operation.

- 17 One respondent noted several minor technical issues with the wording in the Exposure Draft. The AcSB reviewed those comments and amended the proposed wording to address those issues.

DILUTION GAINS AND LOSSES

- 18 Prior to amendment, INVESTMENTS, Section 3051, did not provide guidance on the accounting for dilution gains and losses that result, for example, when an investee issues additional shares to third parties. The Exposure Draft proposed

that gains and losses resulting from the dilution of an entity's interest in an investee accounted for using the equity method should be recognized in income. The AcSB noted that the proposed accounting is consistent with the accounting for a gain or loss arising from the sale of a portion of an investment.

- 19 All the respondents that addressed this issue expressed agreement with the Exposure Draft proposals. Accordingly, the AcSB finalized the proposals as exposed.

OTHER ISSUES

- 20 Several respondents noted other issues that should be considered as possible improvements to accounting standards for private enterprises. The AcSB noted those issues and will consider them in the 2013 annual improvements project.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

- 21 The AcSB reaffirmed that the changes in the 2012 annual improvements are effective for annual financial statements beginning on or after January 1, 2013. One respondent suggested that the effective date be deferred to 2014 on the grounds that some of the changes may require significant effort. The AcSB noted this view and decided to address that issue through the transitional provisions.
- 22 No specific transitional provisions were proposed in the Exposure Draft. Barring any specific transitional provisions, application of ACCOUNTING CHANGES, Section 1506, would require retrospective application of a change in accounting policy, unless that change is "impracticable". The AcSB noted that retrospective application of the changes to FOREIGN CURRENCY TRANSLATION, Section 1651, and INVESTMENTS, Section 3051, could result in significant work effort, although for many companies these changes may not be impracticable. Financial statement users on the Advisory Committee did not believe, in general, that prospective application of the changes to Section 1651 and Section 3051 would cause problems for financial statement users. Accordingly, the AcSB decided to allow those changes to be applied prospectively.

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