

2021 Annual Improvements to Accounting Standards for Private Enterprises and Accounting Standards for Not-for-Profit Organizations

– Background Information and Basis for Conclusions

Foreword

In April 2021, the Accounting Standards Board (AcSB) released the 2021 annual improvements to accounting standards for private enterprises and accounting standards for not-for-profit organizations in Parts II and III 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 and GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR NOT-FOR-PROFIT ORGANIZATIONS, Section 1101 in Part III of the Handbook. These documents are intended to help readers understand how the Board 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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TABLE OF CONTENTS

	Paragraph
Introduction	1-3
Background	4-8
Part II – Accounting standards for private enterprises	9-21
First-time adoption	9-10
Current assets and current liabilities	11-13
Cash flow statement	14-15
Financial instruments	16-19
Part III – Accounting standards for not-for-profit organizations	20-21
First-time adoption by not-for-profit organizations	20-21
Effective date	22

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 2021 annual improvements to accounting standards for private enterprises and accounting standards for not-for-profit organizations.
- 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 Board's intent with respect to their interpretation and application.

- 3 In developing the proposals, the AcSB sought the advice of its Private Enterprise Advisory Committee (the Advisory Committee). The Advisory Committee includes financial statement users, auditors and preparers with a range of backgrounds and experience from across Canada. Members include representatives from organizations of differing sizes and a variety of industries.

BACKGROUND

- 4 Accounting standards for private enterprises and accounting standards for not-for-profit organizations are changed periodically through different processes, ranging from major improvements to narrow-scope improvements. Major improvements result in significant changes to accounting standards for private enterprises and accounting standards for not-for-profit organizations, and narrow-scope improvements are for the purposes of implementation and maintenance of the standards. The annual improvements process is one type of narrow-scope improvement.
- 5 The purpose of the annual improvements process is to amend accounting standards for private enterprises and accounting standards for not-for-profit organizations to clarify the wording in a standard or correct relatively minor unintended consequences, oversights or conflicts. These amendments are bundled together to reduce the number of individual changes to the standards.
- 6 The AcSB released the Exposure Draft, "2021 Annual Improvements to Accounting Standards for Private Enterprises and Accounting Standards for Not-for-Profit Organizations" (the Exposure Draft), in October 2020. The Exposure Draft proposed amendments to five Sections as discussed in this document. The proposed amendments were in response to issues submitted to the Board by stakeholders.
- 7 Responses received were primarily from public accounting firms. Respondents generally expressed agreement with the proposals as set out in the Exposure Draft. However, several respondents disagreed with the proposed changes to FINANCIAL INSTRUMENTS, Section 3856.
- 8 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.

PART II – ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES

FIRST-TIME ADOPTION

- 9 FIRST-TIME ADOPTION, Section 1500, applies to an enterprise's first set of financial statements prepared in accordance with accounting standards for private enterprises. Some stakeholders thought it was unclear whether enterprises that had applied accounting standards for private enterprises in a previous reporting period, but whose most recent annual financial statements were not prepared in accordance with accounting standards for private enterprises, can apply Section 1500 again. Accordingly, the Exposure Draft clarified that such enterprises could apply Section 1500 or apply accounting standards for private enterprises retrospectively in accordance with ACCOUNTING CHANGES, Section 1506. The proposals in the Exposure Draft also included additional disclosure requirements in this regard.
- 10 Most respondents agreed with the proposals in the Exposure Draft. One respondent raised a concern about the risk of the repeated use of the exemption in paragraph 1500.12, which allows an entity to measure an item of property, plant and equipment at fair value at the date of transition to accounting standards for private enterprises. This respondent suggested limiting the use of this paragraph to first-time adoption of Section 1500. The AcSB discussed this and thinks that the disclosure requirements in paragraphs 1500.37A-37B will mitigate this risk and meets users' needs. Accordingly, the Board agreed to finalize this proposal as exposed.

CURRENT ASSETS AND CURRENT LIABILITIES

- 11 Prior to being amended, CURRENT ASSETS AND CURRENT LIABILITIES, Section 1510, required an enterprise to present amounts owing on loans from directors, officers and shareholders, and amounts owing to parent and other affiliated companies, whether on account of a loan or otherwise, separately on the balance sheet. Some stakeholders have noted that presenting these items in aggregate and disclosing these amounts in the notes to the financial statements meets users' needs. Accordingly, the Exposure Draft proposed an option to present them separately on the balance sheet or present them in aggregate with the amounts disclosed separately in the notes to the financial statements or supporting schedules.
- 12 Most respondents agreed with the proposed amendments to Section 1510. However, a respondent noted that the proposal should allow for disclosure alone as an option as this would meet the needs of users. Another respondent disagreed with the way paragraph 1510.11A was drafted and noted that the intent was unclear. The AcSB discussed these comments and thinks it would be prudent to present these balances on the balance sheet. The Board thinks the intent is clear in the proposals and, therefore, decided to issue the amendments to Section 1510 as exposed.
- 13 A respondent also noted that BALANCE SHEET, Section 1521, was not modified to reflect the new proposed paragraph 1510.11A. The AcSB agreed with this and the final amendments include a consequential amendment to Section 1521.

CASH FLOW STATEMENT

- 14 Prior to being amended, CASH FLOW STATEMENT, Section 1540, required an enterprise to disclose in aggregate, in respect of both business combinations and disposals of business units during the period, the total assets, other than cash or cash equivalents, and total liabilities acquired or disposed of. Some stakeholders thought that decision-useful

information in this regard is available due to disclosure requirements in other Sections. Accordingly, the Exposure Draft proposed to remove this disclosure requirement from paragraph 1540.47(d).

- 15 Respondents agreed with the proposals. Accordingly, the AcSB approved the amendments as exposed.

FINANCIAL INSTRUMENTS

- 16 Illustrative Example 3 in FINANCIAL INSTRUMENTS, Section 3856, illustrates the initial measurement of common shares and a note receivable issued between related parties in exchange for land and a trade receivable. Prior to being amended, Illustrative Example 3 measured the common shares issued by Company G (the Buyer) at the assigned value of \$25,000 in both Situations I and II, when the transaction is measured at the carrying amount or exchange amount of land, respectively.
- 17 Some stakeholders noted that Illustrative Example 3 in Section 3856 is inconsistent with Illustrative Example 3 in RELATED PARTY TRANSACTIONS, Section 3840, which measures common shares issued by Company B (the Buyer) at different values in the exchange and carrying amount scenarios. Consequently, the Exposure Draft proposed to clarify that Company G (the Buyer) assigned the same value of \$25,000 regardless of whether the transaction was measured at the carrying amount or the exchange amount of the land.
- 18 Several respondents disagreed with the proposal. These respondents questioned the assigned value of \$25,000 in the case facts and noted that an assigned value of \$45,000 would be more realistic from an economic standpoint as it corresponds to the difference between the value of the assets acquired and the consideration given up. The AcSB discussed these comments and decided to amend the proposals to use an assigned value of \$45,000 in the case facts. Consequently, in Situation II, the journal entry has been amended to measure the common shares at the assigned value of \$45,000.
- 19 The AcSB also discussed the measurement of the common shares issued in Situation I when the transaction is measured at carrying amount. The Board decided to amend the journal entry in Situation I to measure the common shares at the new assigned value of \$45,000 with the difference of \$20,000 recognized in equity. However, the Board recognizes that there is no specific guidance within accounting standards for private enterprises regarding the measurement of share capital issued in a related party transaction and is aware that there is diversity in practice in terms of their measurement. While the common shares have been measured at the assigned value of \$45,000 with the difference of \$20,000 recognized in equity in this transaction, the Board is aware of alternative approaches that are being used in practice to measure common shares issued in a related party transaction. One approach that is being used is analogizing the measurement bases used in Illustrative Example 3 in Section 3840. Alternatively, another approach may be to analogize to the measurement of investments within the scope of Section 3856, which are measured at the consideration transferred or received in accordance with paragraph 3856.08A(b). As such, the use of an assigned value to measure the common shares in this Illustrative Example is not intended to suggest that other measurement bases are not permissible.

PART III – ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

FIRST-TIME ADOPTION BY NOT-FOR-PROFIT ORGANIZATIONS

- 20 FIRST-TIME ADOPTION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 1501, applies to an organization's first set of financial statements prepared in accordance with accounting standards for not-for-profit organizations. The Exposure Draft proposed amendments to Section 1501 to be consistent with the proposed amendments to Section 1500 in Part II of the Handbook. The Exposure Draft clarified that an organization that had applied accounting standards for not-for-profit organizations in a previous reporting period, but whose most recent annual financial statements were not prepared in accordance with accounting standards for not-for-profit organizations, can apply Section 1501 again or can apply the standards retrospectively in accordance with ACCOUNTING CHANGES, Section 1506 in Part II of the Handbook. In addition, the Exposure Draft proposed additional disclosure requirements in this regard.
- 21 Respondents agreed with the proposals; however, one respondent raised the same concern noted above regarding the proposals to Section 1500 in Part II of the Handbook. Consistent with the proposals to Section 1500 in Part II of the Handbook, the AcSB approved the amendments as exposed.

EFFECTIVE DATE

- 22 The Exposure Draft proposed that the amendments be effective for annual financial statements beginning on or after January 1, 2022, with earlier application permitted. Respondents did not comment on this proposal and, accordingly, the AcSB finalized the effective date as proposed.

