

2017 Annual Improvements to Accounting Standards for Private Enterprises

— Background Information and Basis for Conclusions

Foreword

In July 2017, the Accounting Standards Board (AcSB) released the 2017 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.

July 2017

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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 2017 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 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 different processes, ranging from major improvements to narrow-scope improvements. Major improvements result in significant changes to accounting standards for private enterprises 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.
- 4 The purpose of the annual improvements process is to amend accounting standards for private enterprises 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.

- 5 The AcSB released an Exposure Draft, "2017 Annual Improvements to Accounting Standards for Private Enterprises," in September 2016. The Exposure Draft proposed amendments to five 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 Board considered input from its Private Enterprise Advisory Committee (the "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.

DISCLOSURE OF ACCOUNTING POLICIES

- 8 Prior to being amended, DISCLOSURE OF ACCOUNTING POLICIES, Section 1505, required the disclosure of accounting policies to be provided "as the first note" to the financial statements. Some stakeholders thought that this was too prescriptive. Consequently, the Exposure Draft proposed an amendment to paragraph 1505.08, requiring the disclosure of accounting policies should be provided "in one of the first notes," rather than as the first note, to the financial statements.
- 9 The Advisory Committee discussed this issue and noted that respondents to the "AcSB's Strategic Initiative," in 2014, highlighted that requiring the disclosure of accounting policies as the first note contradicts the need for flexibility in matters of format and location. The Advisory Committee agreed with the stakeholders and recommended to the AcSB that the disclosure of accounting policies should be provided "in one of the first notes," rather than as the first note.
- 10 Most respondents agreed with the proposed amendments to Section 1505. However, some respondents disagreed with the change and thought that disclosure of accounting policies should be provided as the first note to the financial statements. A respondent highlighted that this note is critical to understanding the financial statements and the business operations of the enterprise. Another respondent noted that the proposed amendments are more prescriptive than the recent amendments to IAS 1 *Presentation of Financial Statements* in Part I of the CPA Canada Handbook. The amendments to IAS 1 clarify that entities should use professional judgment when determining what order information is presented in the financial statements. On this issue, the user members of the Advisory Committee advised that, for accounting standards for private enterprises, users prefer this note be presented as "one of the first notes" to the financial statements for consistency and ease of reference. The AcSB agreed with the Advisory Committee's advice, and approved the amendments as exposed.

ACCOUNTING CHANGES – DISCLOSURES

- 11 Prior to being amended, ACCOUNTING CHANGES, Section 1506, required an enterprise to disclose the amount of an adjustment related to an accounting policy change "for the current period" and not for each of the prior period(s) presented. Some stakeholders thought that disclosing the adjustment related to the prior period(s), rather than the current period, meets the users' needs. Consequently, the Exposure Draft proposed to delete the requirement to disclose the amount of an adjustment related to an accounting policy change for the current period and instead require disclosure "for each of the prior period(s) presented."
- 12 All respondents agreed with the amendments to Section 1506. Some respondents noted that retrospective application of an accounting policy change is not always required, pursuant to the transitional guidance of a new or amended standard. As a result of the amendments, an enterprise is not required to disclose the amount of an adjustment related to an accounting policy change when the change is applied prospectively given that there is no effect on prior period(s) presented. The AcSB noted that in some situations, users may want visibility to the effect of an accounting policy change on the current period when the change is applied prospectively. Accordingly, the Board will consider the need to disclose the amount of an adjustment related to an accounting policy change for the current period within the transitional guidance of new or amended accounting standards when the change is to be applied prospectively.
- 13 Some respondents questioned the benefits of the amendments. The Advisory Committee discussed the benefits and noted that this change better reflects current practice. Furthermore, the Advisory Committee thought that the change would align with the underlying simplification and principles of accounting standards for private enterprises for financial statement users and preparers. The AcSB agreed with the Advisory Committee's advice, and approved the amendments as exposed.

BALANCE SHEET – PRESENTATION

- 14 BALANCE SHEET, Section 1521, establishes the line items to be separately presented in the balance sheet and is a compilation of the requirements of other Sections. Some stakeholders thought that Section 1521 does not clearly indicate which items are required to be presented separately on the face of the balance sheet rather than being disclosed in the notes to the financial statements. The Exposure Draft proposed to clarify the requirements of Section 1521, as they relate to the presentation and disclosure requirements of other standards in Part II of the Handbook.
- 15 Some stakeholders also noted that Section 1521 does not include presentation and disclosure requirements related to assets under capital leases as required in LEASES, paragraph 3065.21. Accordingly, the Exposure Draft proposed to clarify the existing presentation and disclosure requirements related to assets under capital leases in Section 1521. Respondents agreed with the proposed amendment to clarify the presentation and disclosure requirements related to assets under capital leases. Accordingly, the AcSB agreed to finalize this proposal as exposed.

- 16 Most respondents agreed with clarifying the presentation requirements of Section 1521. However, some respondents suggested amending presentation requirements in other Sections of the Handbook prior to amending Section 1521. Some Advisory Committee members agreed with these respondents and further thought that clarifying the compilation of presentation requirements in Section 1521 may lead to a change in practice. The AcSB noted that the objective of the amendments to Section 1521 was to clarify the compilation of existing requirements, not to reconsider those requirements in the other Sections. Accordingly, the Board decided not to pursue these suggestions at this time to focus on higher priority issues. The Board may decide whether, and how, to address the suggestions in its future work.
- 17 Some stakeholders thought that the proposed amendments to paragraph 1521.04 were more stringent than the requirements in CURRENT ASSETS AND CURRENT LIABILITIES, Section 1510. The specific issue related to the presentation of current assets. Section 1510 states that current assets should be segregated between main classes of current assets and suggests examples of current assets an enterprise should separately present on the face of the balance sheet. Some respondents interpreted the proposals to require that these suggested examples should always be presented on the face of the balance sheet. The AcSB discussed this issue and noted that the intention of the annual improvement is to not inadvertently change practice, but further clarify the requirements of presenting current assets on the balance sheet. The AcSB decided to remove the suggested examples in Section 1521 and to refer enterprises to paragraph 1510.04.
- 18 Some respondents noted that the amendments to Section 1521 requiring investments to be disaggregated on the face of the balance sheet were overly prescriptive and inconsistent with other Sections in accounting standards for private enterprises. The AcSB acknowledges that the cause of the confusion is because investments are not defined in the accounting standards for private enterprises in Part II of the Handbook. Following the objective of the amendments to clarify the requirements in Section 1521, the AcSB decided to amend the proposals. Specifically, the AcSB decided to clarify which investments should be presented separately on the face of the balance sheet or disclosed in the notes to the financial statements.
- 19 Respondents also identified some minor editorial issues with the proposals set out in the Exposure Draft. The AcSB addressed those issues in finalizing the 2017 improvements. The AcSB approved the amendments as exposed, subject to the drafting revisions to address these issues.

FOREIGN CURRENCY TRANSLATION

- 20 Prior to being amended, FOREIGN CURRENCY TRANSLATION, paragraph 1651.53, required that previously recorded write-downs of inventory should not be reversed in the translated financial statements of an integrated foreign operation. Some stakeholders thought that this contradicts INVENTORIES, Section 3031, which requires that previous write-downs to inventory be reversed when the circumstances that previously caused inventories to be written down no longer exist or there is clear evidence of an increase in the net realizable value reflecting changes in economic circumstances. Consequently, the Exposure Draft proposed to correct this contradiction by deleting paragraph 1651.53 and further clarifying the example included in paragraph 1651.51.
- 21 Most respondents agreed with the clarification to Section 1651; however, a few respondents suggested that the example in paragraph 1651.51 should be further clarified. The AcSB agreed to further clarify the illustrative example included in paragraph 1651.51. The AcSB approved the amendments as exposed, subject to the drafting revisions to clarify paragraph 1651.51.

LEASES – DISCLOSURES

- 22 Prior to being amended, LEASES, Section 3065, required disclosure of the carrying amount of impaired operating lease receivables and the amount of any related allowance for impairment. Some stakeholders had questioned whether the carrying amount of impaired operating lease receivables is required to be disclosed. The stakeholders noted that as part of the "2014 Improvements to Accounting Standards for Private Enterprises," FINANCIAL INSTRUMENTS, Section 3856, was amended to only require the disclosure of any allowance for impairment for current trade receivables and not the carrying amount of impaired current trade receivables. Some stakeholders think that the impairment disclosure for operating lease receivables should be similar to the impairment disclosure for current trade receivables. Consequently, the Exposure Draft proposed to clarify that only the amount of the allowance for impairment requires disclosure and not the carrying amount of impaired operating lease receivables.
- 23 Most respondents agreed that a change should be made to the impairment disclosure requirements in Section 3065. One respondent disagreed with the change and indicated that information relating to the carrying amount of impaired operating lease receivables is useful in assessing the quality of the operating lease receivables carried by an enterprise.
- 24 The Advisory Committee discussed the issue and noted that the impairment disclosure for operating lease receivables should be similar to the impairment disclosure for current trade receivables. Therefore, the requirement to disclose the carrying amount of impaired operating lease receivables should be removed from Section 3065. The AcSB agreed with the Advisory Committee's advice, and approved the amendments as exposed.

OTHER ISSUES

- 25 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 whether to include them as part of the 2018 annual improvements process.

EFFECTIVE DATE

- 26 The Exposure Draft proposed that the amendments be effective for annual financial statements beginning on or after January 1, 2018, with earlier application permitted. Respondents agreed with this proposal and, accordingly, the AcSB finalized the effective date as proposed.

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