

CICA handbook accounting and auditing highlight summary no. 88

June 1996

HIGHLIGHT SUMMARY

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

EIC Abstracts

New

- Patronage allocations (EIC-68)
- Recognition and measurement of financial instruments presented as liabilities or equity under CICA 3860 (EIC-69)
- Presentation of a financial instrument when a future event or circumstance may affect the issuer's obligation (EIC-70)

Amended

- Accounting for Part VI.1 tax (EIC-2)
- Preferred shares whose redemption is outside of the control of the issuer (EIC-13)
- Fully diluted earnings per share with convertible debentures classified with shareholders' equity (EIC-31)
- Exchangeable debentures (EIC-56)

Knowledge of the entity's business, Section 5140

All material formerly in KNOWLEDGE OF THE CLIENT'S BUSINESS, Section 5140 has been withdrawn and replaced by new material. The new Section has been revised and expanded to:

- State that knowledge of the entity's business is obtained and applied throughout the audit. This process is continuous and cumulative.
- Reinforce the concept that sufficient knowledge of the entity's business should be obtained to provide a basis for planning and properly executing the audit.
- Provide a clearer link between knowledge of the entity's business and the planning and execution of the audit by briefly discussing how such knowledge relates to specific components of the audit.
- Provide significantly more information on those aspects of a business that an auditor would consider, including factors relating to the business environment in which the entity operates, the characteristics of the entity's ownership and management, and operating characteristics of the entity.
- Note that the level of knowledge to be obtained about a particular aspect of the entity's business would depend on the auditor's assessment of the significance to the audit of that aspect of the business.
- Discuss matters that an auditor should consider in identifying and using sources of information about the entity's business, including the auditor's previous experience with the entity or with other entities in the same industry, the reliability of the information that can be provided by a particular source and the need for specialized knowledge.

The effective date of the Recommendations in this revised Section is for fiscal years beginning on or after July 1, 1996.

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