
Exposure Draft
Accounting Standards Board
Proposed Accounting Standards for Private Enterprises

**2015 Annual Improvements to
Accounting Standards for Private
Enterprises**

February 2015

**COMMENTS TO THE AcSB MUST BE RECEIVED BY
MAY 26, 2015**

A PDF [response form](#) has been posted with this document to assist you in submitting your comments to the AcSB. Alternatively, you may send comments via email (in Word format), to: ed.accounting@cpacanada.ca addressed to:

Rebecca Villmann, CPA, CA,
CPA (Illinois)
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

This Exposure Draft reflects proposals made by the Accounting Standards Board (AcSB).

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AcSB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

Highlights

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to amend accounting standards for private enterprises in Part II of the CPA Canada Handbook – Accounting as set out in this Exposure Draft. These amendments would also apply to not-for-profit organizations using the standards in Part III.

Background

The AcSB has adopted an annual improvements process that will amend accounting standards for private enterprises to clarify guidance or wording and to correct for unintended consequences, conflicts or oversights. Major improvements to the standards, such as the issuance of a new standard, are not included in the annual improvements process.

Main features of the proposals

The following summarizes the proposed amendments:

Business Combinations, Section 1582

- The disclosure requirements for a business combination are set out in paragraphs 1582.61-.65. Paragraph 1582.62A requires additional information to be disclosed by the entity when the subsidiary is consolidated. However, it is unclear whether these disclosures apply to a business combination achieved through the acquisition of an asset or group of assets. The AcSB noted that, in each case, the assets acquired and the liabilities assumed in a business combination are recognized in the acquirer's balance sheet. Consequently, the AcSB proposes to clarify that disclosure of the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed should also be required when a business combination is achieved through the acquisition of an asset or group of assets. The AcSB noted that the other disclosure requirement in paragraph 1582.62A (i.e., the amount of the non-controlling interest in the acquiree at the acquisition date and the measurement basis for that amount) is only relevant when a business combination involves the acquisition of a subsidiary.

Investments, Section 3051, and Leases, Section 3065

- Sections 3051 and 3065 contain requirements for recognizing an impairment loss and the reversal of a previously recognized impairment loss. However, neither Section requires disclosure of such amounts. The proposed amendments clarify that disclosure of the amount of any impairment loss or reversal of a previously recognized impairment loss is required, consistent with the disclosure requirement for items of income in FINANCIAL INSTRUMENTS, paragraph 3856.52(e). The

proposed amendment to Section 3051 will apply to joint arrangements accounted for using the cost or equity method, in accordance with INTERESTS IN JOINT ARRANGEMENTS, paragraph 3056.41.

Employee Future Benefits, Section 3462

- Existing paragraph 3462.031 permits the use of a funding valuation to determine the obligation for an unfunded defined benefit plan. The Exposure Draft, “[2014 Improvements to Accounting Standards for Private Enterprises](#),” included a proposal to clarify that the option to use a funding valuation can only be applied by entities that have at least one funded defined benefit plan. Stakeholders agreed in principle with this proposal, although concerns were raised about its clarity. As a result, the AcSB did not include this proposed amendment in the final 2014 improvements. The proposed 2015 improvements include a revised proposal. While the 2015 proposal is consistent with the 2014 proposal, existing paragraphs 3462.029-.031 have been redrafted to make them easier to understand and a decision tree has been added to the Section. The 2015 proposal also clarifies that an actuarial valuation for funding purposes is one that is required to be prepared in order to comply with pension legislation or regulation.

Timing of adoption and transitional provisions

The AcSB expects to issue the final amendments in the fourth quarter of 2015. The amendments will be effective for years beginning on or after January 1, 2016. Earlier application is permitted. The AcSB intends that the amendments be applied retrospectively.

Comments requested

While the AcSB welcomes comments on all changes proposed in this Exposure Draft, it particularly welcomes comments on the questions listed below. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

1. Do you agree with the proposed amendments to BUSINESS COMBINATIONS, paragraph 1582.62A, to clarify the requirement to disclose the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed when a business is acquired through the acquisition of an asset or group of assets?
2. Do you agree with the proposed amendments to INVESTMENTS, paragraph 3051.38, and LEASES, paragraphs 3065.79 and 3065.81, to require disclosure of the amount of any impairment loss or reversal of a previously recognized impairment loss?

-
3. Do you agree with the proposed amendments to EMPLOYEE FUTURE BENEFITS, paragraphs 3462.029-.031, to clarify when an entity can use a funding valuation to determine the obligation for a defined benefit plan?
 4. Do you agree that the proposed decision tree in Section 3462 is helpful in illustrating the requirements for determining the measurement of the obligation for a defined benefit plan?

For your convenience, a PDF [response form](#) has been posted with this document. You can save the form, both during and after its completion, for future reference.

Alternatively, written comments may be submitted by email (Word format preferred) to: ed.accounting@cpacanada.ca.

2015 Annual Improvements to Accounting Standards for Private Enterprises

PROPOSAL

Accounting standards for private enterprises would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough. Paragraphs that do not contain changes have been omitted, except where necessary to provide context for the proposed changes.

BUSINESS COMBINATIONS, Section 1582

- .61 *The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either:*
- (a) during the current reporting period; or*
 - (b) after the end of the reporting period but before the financial statements are completed.*
- .62 To meet the objective in paragraph 1582.61, the acquirer shall disclose the following information for each material business combination:
- (a) the name and a description of the acquiree;
 - (b) the acquisition date;
 - (c) the percentage of voting equity interests acquired;
 - (d) the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
 - (i) cash;
 - (ii) liabilities incurred (for example, a liability for contingent consideration);
and
 - (iii) equity interests of the acquirer, including the number of instruments or interests issued or issuable;
 - (e) a description of the arrangement and the basis for determining the amount of the payment for contingent consideration arrangements and indemnification assets;
 - (f) (deleted)
 - (g) the amount of any gain recognized in a bargain purchase, in accordance with paragraph 1582.36, and the line item in the income statement in which the gain is recognized; and

(h) (deleted)

(i) in a business combination achieved in stages:

- (i) the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and
- (ii) the amount of any gain or loss recognized as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination (see paragraph 1582.44) and the line item in the income statement in which that gain or loss is recognized.

.62A In addition to the information listed in paragraph 1582.62, an entity shall disclose the following information ~~when the subsidiary is consolidated:~~

(a) when a material business combination consists of the acquisition of an asset or group of assets that constitutes a business, the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed; and

(b) when a material business combination consists of a subsidiary that is consolidated:

- (i) a condensed balance sheet showing the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed; and
- (ii) the amount of the non-controlling interest in the acquiree recognized at the acquisition date and the measurement basis for that amount.

.63 For individually immaterial business combinations occurring during the reporting period that are material collectively, the acquirer shall disclose the following information:

(a) the number of ~~enterprises~~ businesses acquired and a brief description of those ~~enterprises~~ businesses;

(b) the acquisition-date fair value of the total consideration transferred;

(c) the number of equity instruments or interests of the acquirer issued or issuable; and

(d) a description of the arrangement and the basis for determining the amount of the payment for contingent consideration arrangements and indemnification assets.

...

.66 Except as specified in paragraphs 1582.67-.7472, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

...

.72 Amendments to paragraph 1582.62A, issued in [Month] 2015, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

INVESTMENTS, Section 3051

.38 *An investor shall disclose:*

(a) the carrying amount of impaired assets, by type of asset, and the amount of related allowance for impairment; and

(b) the amount of any impairment loss or reversal of a previously recognized impairment loss that is included in net income.

.39 Except as specified in paragraphs 3051.40-.4442, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

...

.42 Amendments to paragraph 3051.38, issued in [Month] 2015, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

LEASES, Section 3065

Direct financing or sales-type lease — lessor

.78 *The lessor's net investment in direct financing and sales-type leases shall be disclosed along with the interest rates implicit in the leases.*

.79 *An entity shall disclose:*

(a) the carrying amount of impaired direct financing and sales-type leases and the amount of any related allowance for impairment; and

(b) the amount of any impairment loss or reversal of a previously recognized impairment loss that is included in net income.

Operating lease — lessor

.80 *Disclosure shall be made of the cost of property, plant and equipment held for leasing purposes and the amount of accumulated amortization.*

- .81 An entity shall disclose:
- (a) the carrying amount of impaired operating lease receivables and the amount of any related allowance for impairment; and-
 - (b) the amount of any impairment loss or reversal of a previously recognized impairment loss that is included in net income.
- .82 Except as specified in paragraph 3065.83, tThis Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.
- .83 Amendments to paragraphs 3065.79 and 3065.81, issued in [Month] 2015, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

EMPLOYEE FUTURE BENEFITS, Section 3462

- .029 An entity shall measure the defined benefit obligation for each of its defined benefit plans as of the balance sheet date using ~~either:~~
- ~~(a) the most recently completed actuarial valuation prepared for funding purposes (but not one prepared using a solvency, wind-up, or similar valuation basis) for plans for which such a valuation has been prepared; or~~
 - ~~(b) a separate an actuarial valuation prepared for accounting purposes as described in paragraphs 3462.035-.061; or-~~
- ~~For defined benefit plans for which a funding valuation as described in (a) has been prepared, the entity shall make an accounting policy choice to measure its defined benefit plan obligation using that funding valuation or a separate actuarial valuation prepared for accounting purposes. The entity applies that same choice to all of those plans. In making this choice, the entity need not meet the criterion in ACCOUNTING CHANGES, paragraph 1506.06(b). For plans for which no such funding valuation has been prepared, the entity shall measure the defined benefit obligation using an actuarial valuation prepared for accounting purposes in accordance with (b).~~
- (b) an actuarial valuation prepared for funding purposes, provided the criteria in paragraphs 3462.029B or 3462.029C, and paragraph 3462.029D are met.
- ~~.030~~
- .029A An actuarial valuation prepared for ~~funding~~ accounting purposes (an accounting valuation) has a different objective than an actuarial valuation prepared for ~~accounting~~ funding purposes (a funding valuation), and may use different actuarial assumptions resulting in different obligation and cost numbers. ~~Funding valuations are prepared in accordance with pension legislation and regulations, generally to determine required cash contributions to the plan.~~

Accounting valuations are prepared in accordance with generally accepted accounting principles using management's best estimates and the discount rate required by paragraph 3462.047. Funding valuations are prepared in accordance with pension legislation and regulations, generally to determine required cash contributions to the plan.

.029B For certain defined benefit plans, an actuarial valuation for funding purposes is required to be prepared in order to comply with pension legislation or regulation. For these plans, the entity shall make an accounting policy choice to measure the defined benefit obligation as of the balance sheet date using:

(a) an accounting valuation; or

(b) the most recently completed funding valuation.

The entity applies that same choice to each plan for which a funding valuation is required to be prepared in order to comply with pension legislation or regulation.

.029C For some defined benefit plans, there is no requirement in pension legislation or regulation to prepare an actuarial valuation for funding purposes. For these plans, the entity shall make an accounting policy choice to measure the defined benefit obligation as of the balance sheet date using:

(a) an accounting valuation; or

(b) a funding valuation, provided that the entity also has at least one plan for which a funding valuation is required to be prepared in order to comply with pension legislation or regulation and for which the defined benefit obligation has been measured using a funding valuation.

For a plan for which there is no requirement in pension legislation or regulation to prepare an actuarial valuation for funding purposes, the funding valuation is an actuarial valuation prepared on a basis consistent with that used for those plans for which a funding valuation is required to be prepared in order to comply with pension legislation or regulation. The entity applies this choice on a plan-by-plan basis for those plans that do not require a funding valuation to be prepared in order to comply with pension legislation or regulation.

.029D For purposes of paragraphs 3462.029B-.029C, a funding valuation does not include a valuation prepared using a solvency, wind-up or similar valuation basis. In making the accounting policy choices in those paragraphs, the entity need not meet the criterion in ACCOUNTING CHANGES, paragraph 1506.06(b).

...

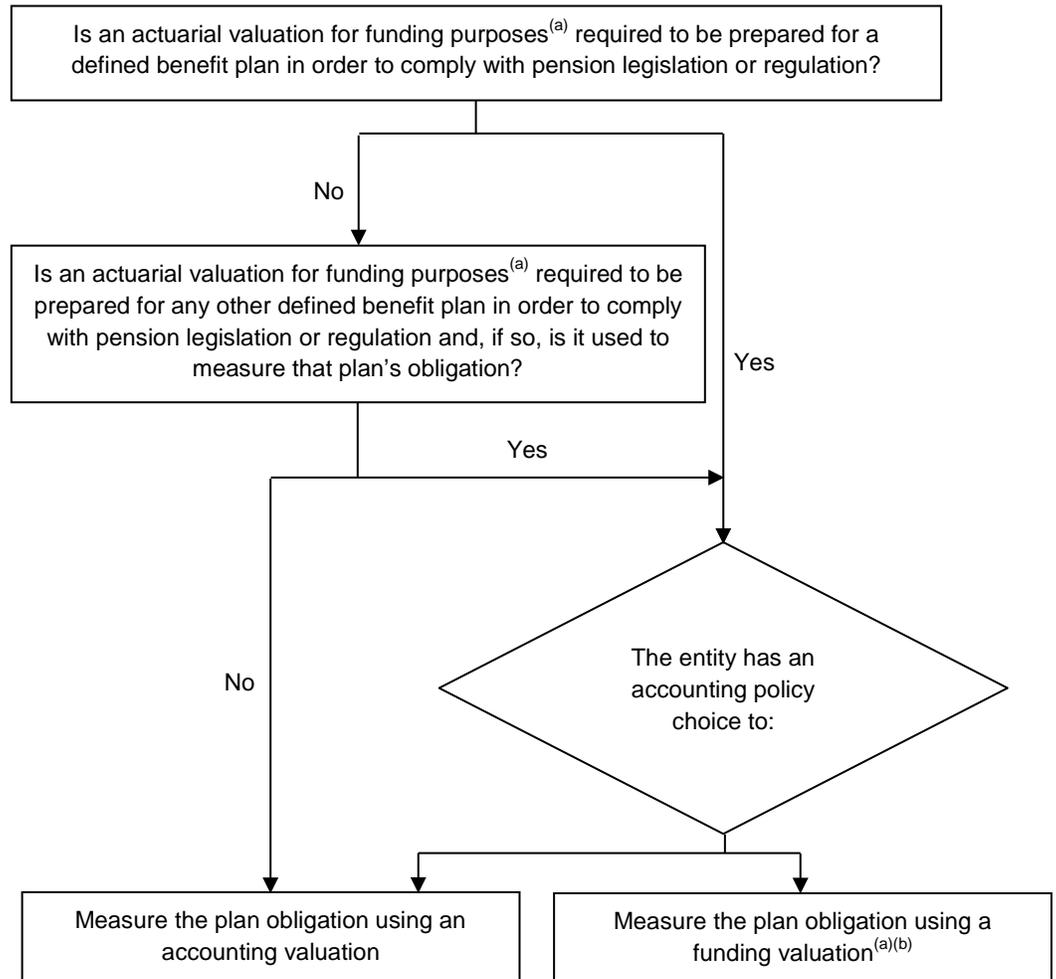
~~.031 An entity may prepare an actuarial valuation for an unfunded plan on a basis consistent with that described in paragraph 3462.029(a) (i.e., a funding~~

~~valuation). In accordance with paragraph 3462.029, the entity applies the same accounting choice to that unfunded plan as to its funded plans.~~

- .032 An entity may change its accounting policy on measurement of the defined benefit obligation. For example, it may change between an actuarial valuation for funding purposes and an actuarial valuation for accounting purposes, or it may change the actuarial cost method. When an entity makes such a change in accounting policy, it shall apply that change retrospectively in accordance with ACCOUNTING CHANGES, Section 1506, except as noted in paragraph 3462.033.
- .033 An entity that includes employee benefit costs in the carrying amount of assets, such as inventories or property, plant and equipment, need not restate the carrying amount of those assets when making a change in accounting policy in accordance with paragraph 3462.032.
- ...
- .119 Except as specified in paragraph 3462.125, aAn entity applies this Section for annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted, but only for all of an entity's benefit plans.
- .120 An entity applies this Section retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506, except as specified in paragraphs 3462.121-.124.
- ...
- .125 Amendments to paragraph 3462.029, and new paragraphs 3462.029A-.029D, issued in [Month] 2015, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted, but only for all of an entity's benefit plans.

DECISION TREE — MEASUREMENT OF THE OBLIGATION FOR A DEFINED BENEFIT PLAN [New]

This decision tree is illustrative only. It shows the assessment an entity follows to determine the measurement of the obligation for a defined benefit plan as described in paragraphs 3462.029-.033.



(a) Excludes funding valuations prepared using a solvency, wind-up, or similar valuation basis.

(b) Determined in accordance with paragraph 3462.029B or 3462.029C, and paragraph 3462.029D, as appropriate.

CONSEQUENTIAL AMENDMENTS

The following significant consequential amendments have been identified. Additional text is denoted by underlining and deleted text by strikethrough.

INCOME STATEMENT, Section 1520

- .04 *The following items shall either be presented separately on the face of the income statement or disclosed in the notes to the financial statements with the income statement caption that contains the item identified:*
- (a) ...
 - (k) *The following amounts in respect of financial instruments:*
 - (i) *net gains or losses recognized;*
 - (ii) *total interest income;*
 - (iii) *total interest expense on current financial liabilities;*
 - (iv) *interest expense on long-term financial liabilities, separately identifying amortization of premiums, discounts and financing fees; and*
 - (v) *the amount of any impairment loss or reversal of a previously recognized impairment loss.*
- (See FINANCIAL INSTRUMENTS, Section 3856).
- (l) ...
 - (u) *The amount of any impairment loss or reversal of a previously recognized impairment loss that is included in net income on investments and interests in joint arrangements accounted for using the cost method or equity method (see INVESTMENTS, Section 3051, and INTERESTS IN JOINT ARRANGEMENTS, Section 3056).*
 - (v) *The amount of any impairment loss or reversal of a previously recognized impairment loss that is included in net income on a lease asset, or group of similar lease assets (see LEASES, Section 3065).*
- .05 Except as specified in paragraphs 1520.06-~~09~~10, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.
- ...
- .10 New paragraphs 1520.04(u)-(v), issued in [Month] 2015, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

FINANCIAL INSTRUMENTS, Section 3856

Items of income

.52 *An entity shall disclose the following items of income, expense, gains or losses either on the face of the statements or in the notes to the financial statements:*

- (a) net gains or net losses recognized on financial instruments;*
- (b) total interest income;*
- (c) total interest expense on current financial liabilities;*
- (d) interest expense on long-term financial liabilities, separately identifying amortization of premiums, discounts and financing fees; and*
- (e) the amount of any impairment loss or reversal of a previously recognized impairment loss.*

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