



Exposure Draft

Proposed Accounting Standards

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

October 2020

**COMMENTS TO THE AcSB MUST BE RECEIVED BY
DECEMBER 14, 2020**

We value your input and look forward to your feedback on this Exposure Draft. Comment on this document by uploading your response letter via this [online form](#).

Please address your response to:

Kelly Khalilieh, CPA, CA
Director, 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 relate 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 and accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook – Accounting as set out in this Exposure Draft.

Background

The AcSB has adopted an annual improvements process that will amend accounting standards for private enterprises and accounting standards for not-for-profit organizations 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 Exposure Draft

The following summarizes the proposed amendments:

Part II – Accounting Standards for Private Enterprises

FIRST-TIME ADOPTION, Section 1500

- This Section applies to an enterprise's first set of financial statements prepared in accordance with accounting standards for private enterprises. Some stakeholders have noted that it is not clear whether enterprises who 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. The proposed amendments clarify that such enterprises can apply Section 1500 or can apply accounting standards for private enterprises retrospectively in accordance with ACCOUNTING CHANGES, Section 1506. In addition, the proposed amendments include additional disclosure requirements in this regard.

CURRENT ASSETS AND CURRENT LIABILITIES, Section 1510

- CURRENT ASSETS AND CURRENT LIABILITIES, paragraph 1510.11, requires 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, to be shown separately on the balance sheet. Some stakeholders have noted that disclosing these amounts in the notes to the financial statements meets the needs of users. The proposed amendment provides the option to present these amounts separately on the balance sheet or disclose them in the notes to the financial statements or supporting schedules.

CASH FLOW STATEMENT, Section 1540

- CASH FLOW STATEMENT, paragraph 1540.47(d), requires 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 have noted that decision-useful information in this regard is available due to disclosure requirements in other Sections. The proposed amendment removes this disclosure requirement from paragraph 1540.47.

FINANCIAL INSTRUMENTS, Section 3856

- Example 3 in 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. In this example, the common shares issued by Company G are measured at the assigned value of \$25,000 in both Situations I and II, when the transaction is measured at the carrying or exchange amount of land, respectively. Some stakeholders think that this is inconsistent with Example 3 in RELATED PARTY TRANSACTIONS, Section 3840, which measures common shares issued by Company B (Buyer) at different values in the exchange and carrying amount situations. The proposed amendment to Example 3 in Section 3856 clarifies that Company G assigned the same value of \$25,000 regardless of whether the transaction is measured at the carrying amount or the exchange amount of the land.

Part III – Accounting Standards for Not-for-Profit Organizations

FIRST-TIME ADOPTION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 1501

- This Section applies to an organization's first set of financial statements prepared in accordance with accounting standards for not-for-profit organizations. The AcSB is proposing amendments to Section 1501 to be consistent with the proposed amendments to Section 1500. The proposed amendments clarify 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 Section 1506. In addition, the proposed amendments include additional disclosure requirements in this regard.

Timing of adoption and transitional provisions

The AcSB expects to issue the final amendments in the second quarter of 2021. The amendments will be effective for years beginning on or after January 1, 2022. 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.

Part II – Accounting Standards for Private Enterprises

1. Do you agree with the proposed amendments to FIRST-TIME ADOPTION, Section 1500, to clarify that enterprises that 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 either Section 1500 or accounting standards for private enterprises retrospectively in accordance with Section 1506?
2. Do you agree with the proposed additional disclosure requirements in FIRST-TIME ADOPTION, paragraphs 1500.37A and 1500.37B?
3. Do you agree with the proposed amendments to CURRENT ASSETS AND CURRENT LIABILITIES, paragraphs 1510.11 and 1510.11A, to clarify that 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, shall be presented separately on the balance sheet or disclosed in the notes to the financial statements or supporting schedules?
4. Do you agree with the proposed amendment to CASH FLOW STATEMENT, paragraph 1540.47, to remove the requirement 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?
5. Do you agree with the proposed amendment to FINANCIAL INSTRUMENTS, Section 3856, Example 3, to clarify the measurement of the common shares issued by Company G?

Part III – Accounting Standards for Not-for-Profit Organizations

6. Do you agree with the proposed amendments to FIRST-TIME ADOPTION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 1501, to clarify that organizations that 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 either Section 1501 or accounting standards for not-for-profit organizations retrospectively in accordance with Section 1506?

7. Do you agree with the proposed additional disclosure requirements in paragraphs 1501.34A and 1501.34B?

The deadline for providing your comment letter to the AcSB is December 14, 2020. Comment on this document by uploading your response letter via this [online form](#).

PROPOSAL

Accounting standards for private enterprises and not-for-profit organizations would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

Part II – Accounting Standards for Private Enterprises

FIRST-TIME ADOPTION, Section 1500

PURPOSE AND SCOPE

...

.02A An enterprise that 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, shall apply either:

(a) this Section; or

(b) accounting standards for private enterprises retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506, as if the enterprise had never stopped applying accounting standards for private enterprises.

.02B When an enterprise chooses to apply paragraph 1500.02A(b), the enterprise shall nevertheless apply the disclosure requirements in paragraphs 1500.37A-.37B, in addition to the disclosure requirements in ACCOUNTING CHANGES, Section 1506.

...

DISCLOSURE

...

.37A An enterprise that has applied accounting standards for private enterprises in a previous period, as described in paragraph 1500.02A, shall disclose:

(a) the reason it stopped applying accounting standards for private enterprises; and

(b) the reason it is resuming the application of accounting standards for private enterprises.

.37B An enterprise shall disclose whether it has chosen to apply this Section or ACCOUNTING CHANGES, Section 1506, as specified in paragraph 1500.02A.

EFFECTIVE DATE AND TRANSITION

.38 Except as specified in paragraphs 1500.39-.4445, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

...

.45 New paragraphs 1500.02A-.02B and 1500.37A-.37B, issued in [Month] 2021, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2022. Earlier application is permitted.

CURRENT ASSETS AND CURRENT LIABILITIES, Section 1510

CURRENT LIABILITIES

...

.11 Current liabilities shall be segregated as between the main classes, such as bank loans, trade creditors and accrued liabilities, loans payable, taxes payable, dividends payable, deferred revenues, current payments on long-term debt and retractable or mandatorily redeemable shares issued in a tax planning arrangement. ~~Amounts owing on loans from director, officers and shareholders, and amounts owing to parent and other affiliated companies, whether on account of a loan or otherwise, shall be shown separately.~~

.11A 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, shall be shown separately on the

balance sheet, or presented in aggregate on the balance sheet with the amounts disclosed separately in the notes to the financial statements or supporting schedules. When amounts are disclosed in the notes to the financial statements or supporting schedules, a cross-reference is provided in the corresponding balance sheet line item.

...

EFFECTIVE DATE AND TRANSITION

.17 Except as specified in paragraphs 1510.18-~~19~~20, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

...

.20 Amendments to paragraph 1510.11 and new paragraph 1510.11A, issued in [Month] 2021, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2022. Earlier application is permitted.

CASH FLOW STATEMENT, Section 1540

DISCLOSURE

...

Business combinations and disposals of business units

.47 *An enterprise shall disclose, in aggregate, in respect of both business combinations and disposals of business units during the period:*

- (a) *the total purchase or disposal consideration;*
- (b) *the portion of the purchase or disposal consideration composed of cash and cash equivalents; and*
- (c) *the amount of cash and cash equivalents acquired or disposed of; ~~and~~*
- (d) ~~*the total assets, other than cash or cash equivalents, and total liabilities acquired or disposed of.*~~

...

EFFECTIVE DATE AND TRANSITION

.49 Except as specified in paragraphs 1540.50-~~51~~52, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

...

.52 Amendments to paragraph 1540.47, issued in [Month] 2021, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2022. Earlier application is permitted.

FINANCIAL INSTRUMENTS, Section 3856

Example 3 — Initial measurement of common shares and a note receivable issued between related parties in exchange for land and a trade receivable

...

Entries by Company G (Buyer)			
Situation I — Transaction measured at carrying amount of the land		Situation II — Transaction measured at exchange amount of the land	
Dr. Land	45,000	Dr. Land	65,000
Dr. Trade receivable	100,000	Dr. Trade receivable	100,000
Cr. Note payable	120,000	Cr. Note payable	120,000
Cr. Common shares	25,000	Cr. Common shares	25,000
		Cr. Gain	20,000
To record the purchase of the land and receipt of the trade receivable.		To record the purchase of the land and receipt of the trade receivable.	

In Situations I and II, neither the note payable or trade receivable have inputs that are significant to the determination of the fair value of the instrument that are observable. Furthermore, the trade receivable is not quoted in an active market. Both instruments have stated payment terms. Therefore, the cost of the note payable and trade receivable is determined using the undiscounted cash flows of the instrument, excluding interest and dividend payments. The land is recognized in Company G's accounts at the predecessor's carrying amount or the land's exchange amount in accordance with RELATED PARTY TRANSACTIONS, Section 3840. The common shares are measured at the value assigned by Company G. For illustrative purposes, Company G has assigned a value of \$25,000 to the common shares issued regardless of whether the transaction is measured at the carrying amount or the exchange amount of the land.

In Situation II, the gain is included in net income because the related party transaction includes financial instruments, and is either in the normal course of operations, or is not in the normal course of operations and meets the criteria in paragraphs 3856.08E(a)-(c).

Part III – Accounting Standards for Not-for-Profit Organizations

FIRST-TIME ADOPTION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 1501

PURPOSE AND SCOPE

.02A An organization that 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, shall apply either:

(a) this Section; or

(b) accounting standards for not-for-profit organizations retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506, as if the organization had never stopped applying accounting standards for not-for-profit organizations.

.02B When an organization chooses to apply paragraph 1501.02A(b), the organization shall nevertheless apply the disclosure requirements in paragraphs 1501.34A-34B, in addition to the disclosure requirements in ACCOUNTING CHANGES, Section 1506.

...

DISCLOSURE

...

.34A An organization that has applied accounting standards for not-for-profit organizations in a previous period, as described in paragraph 1501.02A, shall disclose:

(a) the reason it stopped applying accounting standards for not-for-profit organizations; and

(b) the reason it is resuming the application of accounting standards for not-for-profit organizations.

.34B An organization shall disclose whether it has chosen to apply this Section or ACCOUNTING CHANGES, Section 1506, as specified in paragraph 1501.02A.

EFFECTIVE DATE AND TRANSITION

.35 Except as specified in paragraphs 1501.36-~~40~~41, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2012. Earlier application is permitted.

...

.41 New paragraphs 1501.02A-.02B and 1501.34A-34B, issued in [Month] 2021, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2022. Earlier application is permitted.

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