ASPE AT A GLANCE

This publication has been compiled to assist users in gaining a high level overview of Accounting Standards for Private Enterprises (ASPE) included in Part II of the CPA Canada Handbook – Accounting as of December 1, 2015.

Not every standard in the ASPE Handbook is included in this ASPE at a Glance publication. This publication focuses on recognition, measurement and presentation of ASPE standards and does not cover disclosure requirements. Many of the standards that are not included in this publication are focused on disclosure.

If an ASPE standard has been revised or replaced the new version of the standard is included in the main section of this publication. Any superseded standards that are still in effect have been included at the end of this publication.
## ASPE at a Glance

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## Appendices

Appendix 1 - Standards not Included
## Financial Statement Presentation

### Overall Considerations

**Fair Presentation in Accordance with GAAP**
- Financial statements are required to present fairly in accordance with GAAP the financial position, results of operations and cash flows of an entity.
- Fair presentation in accordance with GAAP is accomplished by:
  - Applying Section 1100, *Generally Accepted Accounting Principles*.
  - Providing sufficient information about transactions or events that are of a size, nature and incidence that their disclosure is necessary to understand their effect on the entity’s financial position, results of operations and cash flows for the periods presented; and
  - Providing information in a clear and understandable manner.

**Going Concern**
- Financial statements are required to be prepared on a going concern basis, unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.
- Management must disclose material uncertainties about an entity’s ability to continue as a going concern.
- If the financial statements are not prepared on a going concern basis, this fact, the reason why the entity is not considered a going concern and the basis on which the financial statements must be disclosed.

**General Purpose Financial Statements**
- An entity selects one set of accounting policies in a period to use to prepare its general purpose financial statements in accordance with ASPE. Any additional sets of financial statements prepared that use alternative accounting policies in accordance with ASPE, must refer to the general purpose financial statements.

**Comparative Information**
- Financial statements are prepared on a comparative basis unless comparative information is not significant or the standards in ASPE permit otherwise.

**Basis of Preparation**
- Financial statements prepared in accordance with ASPE must state this basis of presentation prominently in the notes.

### Accounting Policies

- An enterprise’s financial statements must include a clear and concise description of the significant accounting policies adopted.
- As a minimum, disclosure of information on accounting policies must be provided in the following situations:
  - When a selection is made from alternative acceptable accounting principles and methods;
  - When accounting principles and methods used are peculiar to an industry the enterprise operates in, even if these are predominately followed in the industry.
- Accounting policies should be presented as the first note to the financial statements.

### Components of Financial Statements

- A complete set of financial statements comprises:
  - Balance Sheet
  - Income Statement
  - Statement of Retained Earnings
  - Cash Flow Statement
  - Notes
  - Supporting schedules
  - All statements are required to be presented with equal prominence.
  - Notes and supporting schedules which the financial statements are cross-referenced to are an integral part of the financial statements. The same does not apply to information set out in other material attached to or submitted with the financial statements.

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2 Except as specified in paragraphs 1400.20, 1520.05, 1521.07 and 1540.49.
### Structure and Content

#### Balance Sheet
- **Must distinguish** the following:
  - Current assets;
  - Long-term assets;
  - Total assets;
  - Current liabilities;
  - Long-term liabilities;
  - Total liabilities;
  - Equity; and
  - Total liabilities and equity.
- **Must present separately the following assets:**
  - Cash and cash equivalents;
  - Trade and other receivables;
  - Government assistance receivable;
  - Prepaid expenses;
  - Other financial assets;
  - Investments measured at fair value;
  - Investments measured using the equity method;
  - Investments measured using the cost method;
  - Inventories;
  - Intangible assets;
  - Goodwill;
  - Long-term assets and disposal groups classified as held for sale;
  - Defined benefit assets.
- **Must present separately the following liabilities:**
  - Main classes of current liabilities in accordance with paragraph 1510.11, *Current Assets and Current Liabilities*;
  - Liabilities for future income tax liabilities;
  - Liabilities of disposal groups classified as held for sale;
  - Obligations under capital lease;
  - Defined benefit liability;
  - Long-term debt;
  - Asset retirement obligations; and
  - Other financial liabilities.
- **Equity** must be presented in accordance with Section 3251, *Equity*.

#### Current Assets
- **Assets ordinarily realizable within one year from the balance sheet date or within the normal operating cycle, when longer than a year.**
- Segregated between main classes (i.e. cash, investments, accounts and notes receivable, inventories, prepaid expenses and future income tax assets).
- Includes:
  - Current portion of future income tax assets;
  - Investments capable of reasonably prompt liquidation; and
  - Prepaid assets that meet the definition of a current asset.
- Excludes:
  - Restricted cash; and
  - Cash appropriate for other than current purposes unless it offsets a current liability.

#### Current Liabilities
- **Amounts payable within one year from the balance sheet date or within the normal operating cycle, when longer than a year.**
- Segregated between main classes (i.e. bank loans, trade creditors and accrued liabilities, loans payable, taxes payable, dividends payable,deferred revenues, current payments on long-term debt, future income tax liabilities).
- Amounts owing on loans from directors, officers and shareholders, and amounts owing to parent and other affiliated companies must also be shown separately.
- Includes:
  - Current portion of future income tax liabilities;
  - Amounts received / due from customers / clients with respect to goods to be delivered / services to be performed within one year from the balance sheet date, if not offset against a related asset;
  - Portion of long-term debt obligations, including sinking-fund requirements, payable within one year from the date of the balance sheet; and
  - Government remittances payable (excluding income taxes).  This must also be disclosed separately.
- Excludes:
  - Obligations that contractual arrangements have been made for settlement from other than current assets.
  - For debt to be classified as non-current it must be based on facts that exist at the balance sheet date, instead of on expectations regarding future refinancing or renegotiation.  The obligation is classified as a current liability, if the creditor has at the balance sheet date, or will have within one year (operating cycle if longer) of that date, the unilateral right to demand immediate repayment of all or any portion of the debt under any provision of the debt agreement, unless:
    - The creditor has waived, in writing, or subsequent lost, the right, arising from the covenant violation at the balance sheet date, to demand payment for a period of more than one year (operating cycle if longer) from the balance sheet date;
    - The obligation has been refinanced on a long-term basis before the balance sheet is completed; or
    - The debtor has entered into a non-cancellable agreement to refinance the short-term obligation on a long-term basis before the balance sheet is completed and there is nothing impeding the completion of the refinancing.
  - Long-term debt with a measurable covenant violation is classified as a current liability unless:
    - The creditor has waived, in writing, or subsequent lost, the right, arising from the covenant violation at the balance sheet date, to demand payment for a period of more than one year from the balance sheet date; or
    - There is a grace period contained in the debt agreement during which the debtor may cure the violation and contractual arrangements have been made that ensure the violation will be cured within the grace period; and
    - It is not likely that a violation of the debt covenant which gives the creditor the right to demand repayment at a future compliance date within one year of the balance sheet date will occur.
## INCOME STATEMENT

- **Must present separately on the face of the income statement:**
  - Revenue recognized.
  - Income from investments, showing income from:
    - Non-consolidated subsidiaries and joint arrangements accounted for using the cost or equity method, showing separately:
      - Income from investments measured using the equity method; and
      - Income from all other investments in non-consolidated subsidiaries and joint arrangements accounted for using the cost method; and
    - All other investments showing separately:
      - Income from investments measured using the cost method;
      - Income from investments measured using the equity method; and
      - Income from investments measured at fair value.
  - Income tax expense included in determining income or loss before discontinued operations.
  - Income or loss before discontinued operations.
  - Results of discontinued operations.
  - Net income or loss for the period.
  - The attribution of net income to the parent company and to non-controlling interests.

- **Must either present separately on the face of the income statement or disclose in the notes to the financial statements and identify the income statement caption that contains each of the following items:**
  - Major categories of revenue recognized.
  - Government assistance credited directly to income.
  - Amount charged for amortization of property, plant and equipment.
  - Amount charged for amortization of intangible assets subject to amortization.
  - Amount of long-lived asset impairment losses, except for losses associated with discontinued operations that are included in the results of discontinued operations.
  - Amount of goodwill impairment losses, except for losses associated with discontinued operations that are included in the results of discontinued operations.
  - Amount of intangible asset impairment losses, except for losses associated with discontinued operations that are included in the results of discontinued operations.
  - Total compensation cost recognized in income for stock-based employee compensation awards.
  - Amount of exchange gain or loss included in net income. An entity may exclude from this amount exchange gains or losses arising on financial instruments measured at fair value in accordance with Section 3856, Financial Instruments.
  - The following amounts in respect of financial instruments:
    - Net gains or losses recognized;
    - Total interest income;
    - Total interest expense on current financial liabilities;
    - Interest expense on long-term financial liabilities, with separate identification of amortization of premiums, discounts and financing fees; and
    - The amount of any impairment loss or reversal of a previously recognized loss.
  - Interest expense related to capital lease obligations. The amount must be disclosed separately or as part of interest expense on indebtedness initially incurred for a term longer than one year.
  - Revenue, expenses, gains or losses resulting from transactions or events not expected to occur frequently over several years, or not characteristic of the entity’s normal business activities.
  - Amount of inventories recognized as an expense during the period.
  - Amount of gains or losses recognized on a long-lived asset (or disposal group) that has been sold, classified as held for sale or disposed of other than by sale.
  - Amount of any gain recognized in a bargain purchase.
  - Amount of gains or losses recognized as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer prior to a business combination.
  - Amount of remeasurements and other items arising from defined benefit plans.
  - Amount of termination benefits.
CASH FLOW STATEMENT

- Must report cash flows during the period classified by operating, investing and financing activities.
- Cash flows from operating activities must be reported using either the direct or indirect method.
- Major classes of gross cash receipts and gross cash payments arising from investing and financing activities must be presented separately, except for cash flows arising from the following operating, investing or financing activities which may be reported on a net basis:
  - Cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise; and
  - Cash receipts and payments for items in which the turnover is quick, the amounts are large and the maturities are short.
- Cash flows from foreign currency transactions shall be recorded in an enterprise’s reporting currency by applying the exchange rate between the reporting and foreign currency to the foreign currency amount at the date of the cash flow.
- Cash flows of integrated foreign operations and of investing and financing activities of self-sustaining foreign operations must be translated at the exchange rates between the reporting and foreign currency at the dates of the cash flows. While cash flows from operating activities of self-sustaining foreign operations must be translated at the exchange rates at which the respective items are translated for income statement purposes.
- Cash flows from interest and dividends:
  - Received and paid which are:
    - Included in the determination of net income are classified as cash flows from operating activities.
    - Not included in the determination of net income are classified according to their nature.
  - Paid and charged to retained earnings are presented separately as cash flows used in financing activities.
- Cash flows from dividends paid by subsidiaries to non-controlling interests are presented separately as cash flows used in financing activities.
- Cash flows from income taxes are classified as cash flows from operating activities, unless they are specifically identified with financing and investing activities and then they are classified accordingly.
- The aggregate cash flows from each of business combinations and disposals of business units are presented separately and classified as cash flows from investing activities.
- Excluded from the cash flow statement are non-cash investing and financing activities.
## Section 1500 - First-time Adoption

### Scope

Section 1500 applies to the first set of financial statements an entity prepares in accordance with ASPE.

### General Requirements

- Select ASPE accounting policies - using latest version of the standards that are currently effective at the reporting date of the entity’s first financial statements prepared under ASPE.
- Recognize / derecognize assets and liabilities where necessary so as to comply with ASPE.
- Reclassify items that the entity recognized under previous accounting framework as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under ASPE.
- Remeasure all assets and liabilities recognized under ASPE.
- An opening ASPE Balance Sheet is prepared at the date of transition.
- The date of transition is the beginning of the earliest period for which an entity presents full comparative information under ASPE.

### Recognition and Measurement

#### Optional Exemptions

An entity may elect to use one or more of the following exemptions on adoption of ASPE:
- Business combinations;
- Subsidiaries;
- Assets and liabilities of subsidiaries and joint arrangements;
- Joint arrangements;
- Investments;
- Fair value;
- Employee future benefits;
- Cumulative translation differences;
- Financial instruments;
- Share-based payment transactions;
- Asset retirement obligations; and
- Related party transactions.

#### Mandatory Exceptions

Section 1500 prohibits retrospective application in relation to the following:
- Derecognition of financial assets and financial liabilities;
- Hedge accounting;
- Estimates; and
- Non-controlling interests.

#### Accounting Policies

- Use the same accounting policies in the opening ASPE balance sheet and throughout all periods presented in the first ASPE financial statements.
- Those accounting policies have to comply with each ASPE effective at the end of the first APSE reporting period.
- If accounting policies an entity uses in its opening ASPE balance sheet differ from those used for the same date under its previous accounting policy any resulting adjustments are recognized directly in retained earnings at the date of transition.

### Presentation and Disclosure

- An entity’s first set of ASPE financial statements are required to present three balance sheets.
- In the year of adoption of ASPE an entity must disclose:
  - The amount of each charge to retained earnings at the date of transition resulting from the adoption of ASPE and the reason therefor; and
  - A reconciliation of the net income reported in the entity’s most recent previously issued financial statements to its net income under ASPE for the same period.
- The disclosures must provide sufficient detail to enable users to understand the material adjustments to the balance sheet, income statement and cash flow statement.
- All exemptions used by the entity must be disclosed.

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1 Except as specified in paragraph 1500.38.
Section 1506 - Accounting Changes

Scope

This Section provides guidance on accounting for and disclosing:
- Changes in accounting policies;
- Changes in accounting estimates; and
- Corrections of prior period errors.

Changes in Accounting Policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. Accounting policies are presumed to be consistently applied within each accounting period and between one period and the next, unless a change in accounting policy meets one of the criteria outlined below.

An entity can only change an accounting policy when:
- A primary source of GAAP requires the change;
- The entity’s financial statements will provide reliable and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flows as a result of the change; or
- The change is to one of the following accounting policies specified in paragraph 1506.09:
  - To consolidate subsidiaries, to account for them using the equity method or in accordance with Section 3856, Financial Instruments;
  - To account for investments subject to significant influence using the equity method or in accordance with Section 3856;
  - To account for interests in jointly controlled enterprises using the cost or equity method or by accounting for rights to the individual assets and obligations for the individual liabilities, in accordance with Section 3056, Interests in Joint Arrangements;
  - To capitalize or expense expenditures on internally generated intangible assets during the development phase;
  - To measure a defined benefit obligation for which an appropriate funding valuation has been prepared using the funding valuation or separate actuarial valuation prepared for accounting purposes;
  - To account for income taxes using the taxes payable method or the future income taxes method; and
  - To initially measure the equity component of a financial instrument that contains both a liability and an equity component at zero.

The following are not considered changes in accounting policies:
- The application of an accounting policy for transactions / events / conditions that are different in substance than those that previously occurred; and
- The application of a new accounting policy for transactions / events / conditions that did not previously occur or were previously immaterial.

Applying changes in accounting policies

Subject to the requirements of paragraph 1506.14, a change in accounting policy resulting from the initial application of a primary source of GAAP must be accounted for in accordance with the specific transitional provisions included in that primary source of GAAP.

However, if no specific transitional provisions are included in the primary source of GAAP or the entity is changing an accounting policy voluntarily, the change must be applied retrospectively.

Retrospective application
- When an entity applies a change in accounting policy retrospectively, the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented must be adjusted as if the new accounting policy had always been applied.

Limitations on retrospective application
- Paragraph 1506.15 states that when it is impracticable to determine the period-specific effects on comparative information for one or more prior periods presented, the entity:
  - Must apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable; and
  - Must make a corresponding adjustment to the opening balance of each affected component of equity for that period.
- When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a change in accounting policy to all prior periods, the entity must adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.
- Refer to paragraphs 1506.30-33 for guidance on determining when it is impracticable to apply a new accounting policy retrospectively.

1 Exception for as specified in paragraph 1506.38.
Prior period errors are omissions from, and misstatements in, the entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- Was available when financial statements for those periods were completed; and
- Could reasonably be expected to have been obtained and taken into accounting in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Material prior period errors must be corrected retrospectively in the first set of financial statements completed after their discovery by:

- Restating the comparative amounts for the prior period(s) in which the error occurred; or
- If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

In the period the error is corrected, the following must be disclosed:

- The nature of the prior period error;
- For each prior period presented, the amount of the correction for each financial statement line item affected; and
- The amount of the correction at the beginning of the earliest prior period presented.
## Section 1582 - Business Combinations

### Identifying a Business Combination / Scope

A business combination is:
- A transaction or event in which an acquirer obtains control of one or more businesses (e.g. acquisition of shares or net assets, mergers, reverse acquisitions).

Section 1582 does not apply to:
- Formation of a joint arrangement.
- A combination of entities or businesses under common control.
- Acquisition of an asset or group of assets that is not a business.

**Definition of “Control”**
- The continuing power to determine an entity’s strategic operating, investing and financing policies without the co-operation of others.
- Refer to Section 1591, Subsidiaries, for factors to consider in determining if control exists.

**Definition of a “Business”**
- Integrated set of activities and assets.
- Capable of being conducted and managed to provide a return.
- Returns include dividends and cost savings.

**Acquisition Costs**
- Cannot be capitalized, must instead be expensed in the period they are incurred.
- Except for costs to issue equity which are recognized in accordance with Section 3610, Capital Transactions, and costs to issue debt which are recognized in accordance with Section 3856, Financial Instruments.

### Additional Guidance for Applying the Acquisition Method

**Step 1: Identify Acquirer**

Section 1591, Subsidiaries, is used to identify the acquirer - the entity that obtains control of the acquiree.

**Step 2: Determining the Acquisition Date**

The date which the acquirer obtains control of the acquiree.

**Step 3: Recognition and Measurement of Assets, Liabilities and Non-Controlling Interests (NCI)**

As of the acquisition date, the acquirer recognizes, separately from goodwill:
- The identifiable assets acquired;
- The liabilities assumed; and
- Any non-controlling interest (NCI) in the acquiree.

The acquired assets and liabilities are required to be measured at their acquisition-date fair values.

The acquired NCI in the acquiree is measured at its acquisition-date fair value.

**Step 4: Recognition and Measurement of Goodwill or a Bargain Purchase**

As of the acquisition date, the acquirer recognizes goodwill as the excess between:
- The aggregate of the consideration transferred, any NCI in the acquiree and in a business combination achieved in stages, the acquisition-date fair value of the acquiree’s previously held equity interest in the acquiree; and
- The identifiable net assets acquired.

Goodwill can be grossed up to include the amounts attributable to NCI.
- A gain from a bargain purchase is immediately recognized in net income.
- The consideration transferred in a business combination (including any contingent consideration) is measured at fair value.

**Step Acquisition**

- An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition-date. This is known as a business combination achieved in stages or as a step acquisition.
- The acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value. Any resulting gain / loss is recognized in net income.

**Business Combination without Transfer of Consideration**

- The acquisition method of accounting for a business combination also applies if no consideration is transferred.
- Such circumstances include:
  - The acquiree repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.
  - Minority veto rights lapse that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights.
  - The acquirer and the acquiree agree to combine their businesses by contract alone.

**Subsequent Measurement and Accounting**

- In general, after the date of a business combination an acquirer measures and accounts for assets acquired, liabilities assumed or incurred and equity instruments issued in accordance with the applicable Sections of ASPE.
- However, Section 1582 includes accounting requirements for reacquired rights, contingent liabilities, indemnification assets and contingent consideration.

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1 Except as specified in paragraph 1582.66.
# Section 1591 - Subsidiaries

## Scope

**Applies to interests in other entities, except for:**
- Accounting for investments (see Section 3051), interests in joint arrangements (see Section 3056), or financial instruments (see Section 3856);
- Accounting by investment companies (see AcG-18);
- Employer's accounting for an employee benefit plan subject to Section 3462;
- Accounting for special-purpose entities, including interests in qualifying special-purpose entities as set out in 3856 Appendix B; or
- Accounting for contractual arrangements between enterprises under common control.

### Effective Date

Fiscal years beginning on or after January 1, 2016

## Subsidiary

- An enterprise controlled by another enterprise (the parent) that has the right and ability to obtain future economic benefits from the resources of the enterprise and is exposed to the related risks.
- May take many forms including a corporation, trust, partnership or unincorporated enterprise.

## Control

- Control of an enterprise is the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others.
- In determining whether control exists several factors must be considered:
  - Owning, directly or indirectly, an equity interest of 50% or more in an enterprise is usually an indication of control. Despite this, existence of control in a particular situation is a question of fact.
  - Other factors that may be considered in determining whether control exists include: the ability to elect the majority of the members of the board of directors, the provisions of a statute, contractual arrangements, and the ownership of convertible financial instruments.
- When the rights of equity interests may not be the dominate factor in determining control of an enterprise, control may exist through contractual arrangements.
  - Contractual arrangements include: supply arrangements, management contracts, lease agreements, license agreements, royalty contracts, other sales contracts, and finance arrangements.
- Control through contractual rights occurs when an enterprise:
  - Holds rights that are sufficient to direct the strategic operating, investing and financing policies of the other enterprise without the co-operation of others; and
  - It has the right and ability to obtain the future economic benefits and is exposed to the related risks of the other enterprise.
- The following facts and circumstances would be considered when evaluating whether contractual rights are sufficient to give an enterprise control over another enterprise:
  - The degree of involvement in and decisions made at inception in determining the purpose and design of the other enterprise.
  - How decisions are made about strategic policies that could affect:
    - The right and ability to obtain future economic benefits and related risks;
    - Who has the continuing ability to direct the activities of the other enterprise; and
    - Who receives economic benefits and is exposed to the related risks from those activities.
  - The risks to which the other enterprise was designed to be exposed, the risks it was designed to pass on to the parties involved with it, and whether the enterprise is exposed to some or all of those risks. Risks could include: operating, price, credit, liquidity and interest rate risk.
  - Whether the investor has the continuing ability in a contractual arrangement to direct the strategic policies of the other enterprise without the co-operation of others.
  - An enterprise would consider whether the rights it holds over another enterprise are protective. Protective rights do not confer control onto the holder.

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1 An enterprise applies this Section retrospectively in accordance with Section 1506, Accounting Changes, except as specified in paragraphs 1591.40-.47. Earlier application is permitted.
RECOGNITION AND PRESENTATION

- An enterprise makes an accounting policy choice to either:
  - Consolidate its subsidiaries (see Section 1601, Consolidated Financial Statements); or
  - Account for its subsidiaries that are:
    i. Controlled through voting interests, potential voting interests, or a combination thereof, using either the equity method or the cost method as set out in Section 3051, Investments; and
    ii. Controlled through contractual arrangements or in combination with voting interests, potential voting interest, or a combination thereof, according to the nature of contractual arrangements in accordance with the applicable Section, such as a lease (see Section 3065, Leases), a financial asset or a financial liability (see Section 3856, Financial Instruments) or voting interest in item (i).

  This accounting policy choice does not need to meet the criteria in paragraph 1506.06(b).

- All of an entity’s subsidiaries must be accounted for using the same method. The chosen method must be applied consistently (i.e. when an enterprise accounts for its subsidiaries using the cost or equity method it applies that method in accounting for a change in its ownership of the subsidiary). When an entity uses the cost or equity method it must also follow the disclosure requirements of Section 3051.

- When the equity securities of a subsidiary are quoted in an active market, the cost method cannot be used. Instead the investment may be accounted for at its quoted amount, with changes recognized in net income.

- When an entity chooses to account for its subsidiaries using either the cost or equity method it must apply the following:
  - At the date of acquisition, contingent consideration for the acquisition of a subsidiary must be measured at fair value and included in the carrying amount of the investment. Subsequently, it must be measured on the same basis required in Section 1582, Business Combinations.
  - Acquisition-related costs must be expensed in the periods when they are incurred and the services are received, except for:
    - Costs to issue debt and equity securities which must be recognized in accordance with Section 3856, Financial Instruments, and Section 3610, Capital Transactions, respectively.

NON-CONSOLIDATED FINANCIAL STATEMENTS

- When an entity accounts for its subsidiaries under either the equity or cost methods, the financial statements are described as being prepared on a non-consolidated basis and each statement is labeled accordingly.

- An entity’s Balance Sheet must present separately its investments in non-consolidated subsidiaries controlled through voting interests, potential voting interests, or a combination thereof, from other investments.

- Similarly an entity’s Income Statement must present the income or loss from the above investments separately.

- Investments in subsidiaries controlled through voting interests, potential voting interests, or a combination thereof, and income / loss from those investments may be presented in an entity’s financial statements with its interests in joint arrangements, if they are accounted for on the same basis (i.e. equity, cost, fair value).

- When an entity applies the cost or equity method, the requirements of Section 3840, Related Party Transactions, apply to intercompany transactions that would otherwise have been eliminated on consolidation.

- However, the requirements of Section 3840, do not apply to intercompany transactions between a parent and its subsidiaries controlled through means other than voting interest, potential voting interests, or a combination thereof, that would otherwise be eliminated on consolidation when:
  - The entity is preparing non-consolidated financial statements; and
  - Control through means other than voting interests, potential voting interests, or a combination thereof, is the only basis of the relationship with the other party.
Section 1601 - Consolidated Financial Statements &
Section 1602 - Non-controlling Interests

SCOPE

Section 1601 applies to:
- Consolidation accounting following a business combination that involves a purchase of an equity interest by one company in another.
- The guidance in this Section can also be used in situations involving a combination or consolidation other than through purchase of an equity interest or involving unincorporated businesses.

Section 1602 sets out:
- Standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

CONSOLIDATED FINANCIAL STATEMENTS

- Combine the financial statements of the parent and one or more subsidiaries line by line by adding together similar items of assets, liabilities, revenue and expenses.
- Eliminate intercompany balances and transactions.
- Provide for any non-controlling interest in subsidiaries.

COMBINED FINANCIAL STATEMENTS

- Do not include the financial statements of the parent company.
- Use similar principles to those used in preparing consolidated financial statements.
- May be useful in certain circumstances, such as:
  - When one individual owns a controlling interest in several corporations;
  - To present the financial position and results of operations of a group of subsidiaries; or
  - To combine the financial statements of companies under common management.

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

AT THE DATE OF ACQUISITION

- The investment account of the parent company is eliminated and replaced by the identifiable assets and liabilities of the subsidiary, any non-controlling interest therein, and any goodwill arising as a result of the investment.
- Intercompany balances are eliminated.
- The retained earnings or deficit accumulated by the subsidiary prior to the date of acquisition is not included in consolidated retained earnings.
- Gains and losses included in the carrying amount of the parent or subsidiary from intercompany transactions that took place prior to the date of acquisition are not eliminated from the consolidated financial statements, unless the transactions were made in contemplation of acquisition.

AT DATES SUBSEQUENT TO ACQUISITION

- Consolidated financial statements prepared at dates subsequent to acquisition are prepared based on amounts assigned to assets, liabilities and non-controlling interest at the acquisition date. These amounts are then adjusted to include the effects of transactions subsequent to the acquisition date.
- Unrealized intercompany gains or losses arising subsequent to the date of acquisition on assets remaining within the consolidated group must be eliminated. The amount of elimination from assets is not affected by the existence of a non-controlling interest.
- The depreciation and amortization of the assets of the subsidiary is calculated based on the amounts determined for these assets at the date of acquisition.
- Intercompany balances and post-acquisition transactions are eliminated.
- Guidance on accounting for shareholders’ equity transactions with interests outside the consolidated group as described in paragraphs 1601.25-.30 is provided in Section 1602, Non-controlling Interests.

OTHER

- If a difference arises from the elimination of reciprocal shareholdings among companies in the consolidated group, it is allocated to parent and non-controlling interests on the basis of their proportionate shareholdings.

NON-CONTROLLING INTERESTS

- When preparing consolidated financial statements, an entity identifies:
  - Non-controlling interests in the net income of consolidated subsidiaries for the reporting period; and
  - Non-controlling interests in the net assets of consolidated subsidiaries separately from the parent’s ownership interests in them.
- Non-controlling interests in the net assets consist of:
  - The amount of those non-controlling interests at the date of the original combination calculated in accordance with Section 1582, Business Combinations; and
  - The non-controlling interests share of changes in equity since the date of the combination.

1 Except as specified in paragraphs 1601.41 and 1602.16.
### CHANGES IN OWNERSHIP INTEREST IN A CONSOLIDATED SUBSIDIARY

- When changes in a parent’s ownership interest in a consolidated subsidiary do not result in a loss of control, they are accounted for as equity transactions.

### LOSS OF CONTROL OF A CONSOLIDATED SUBSIDIARY

- If a parent loses control of a consolidated subsidiary, it must:
  - Derecognize the assets, including any goodwill, and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
  - Derecognize the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of equity attributable to them);
  - Recognize:
    - The fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control; and
    - If the transaction that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution;
  - Recognize any investment retained in the former subsidiary at its carrying amount at the date when control is lost; and
  - Recognize any resulting difference as a gain or loss in net income attributable to the parent.
  - Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary must be accounted for in accordance with other Sections from the date when control is lost.

### PRESENTATION

- If an entity consolidates its subsidiaries, non-controlling interests are presented within equity in the consolidated Statement of Financial Position, separate from the equity of the owners of the parent.
# Section 1625 - Comprehensive Revaluation of Assets and Liabilities

**FINANCIAL REORGANIZATION**

- A substantial realignment of the equity and non-equity interests of a enterprise such that the holders of one or more of the significant classes of non-equity interests and the holders of all of the significant classes of equity interests give up some (or all) of their rights and claims upon the enterprise.
- The holders of one or more of the significant classes of non-equity interests and the holders of all of the significant classes of equity interests must participate in the process if the reorganization is to be viewed as justifying a "fresh start".
- The process must result in a substantial realignment such that the rights and claims of the equity and non-equity interests change relative to each other.

**PUSH-DOWN ACCOUNTING**

- A technique that attributes revised values to the assets and liabilities reported in the financial statements of an enterprise based on a purchase transaction or transactions of its equity interests.
- Application of the technique results in the acquirer’s cost being assigned to the assets and liabilities of the acquired enterprise.

**RECOGNITION**

- The following conditions are required to be satisfied for a enterprise’s assets and liabilities to be comprehensively revalued:
  - all or virtually all (at least 90%) of the equity interests in the enterprise have been acquired, in one or more transactions between non-related parties, by an acquirer who controls the enterprise after the transaction or transactions; or
  - the enterprise has been subject to a financial reorganization, and the same party does not control the enterprise both before and after the reorganization; and in either situation new costs are reasonably determinable.

**ACQUISITION OF AN ENTERPRISE - PUSH-DOWN ACCOUNTING**

- The values used in push-down accounting are those resulting from accounting for the purchase transaction or transactions in accordance with Section 1582, Business Combinations.
- The portion of retained earnings that has not been included in the consolidated retained earnings of the acquirer or is not related to any continuing non-controlling interests in the enterprise is reclassified to either share capital, contributed surplus, or a separately identified account within shareholders’ equity.
- The revaluation adjustment is accounted for as a capital transaction (see Section 3610, Capital Transactions), and recorded as either share capital, contributed surplus, or a separately identified account within shareholders’ equity.

**FINANCIAL REORGANIZATION**

- The new costs reflect the values established in the negotiation of claims among non-equity and equity interests and do not exceed the fair value of the enterprise as a whole, if known.
- If the financial reorganization does not establish values for identifiable individual assets and liabilities, values are estimated on a basis consistent with Section 1582.
- When the revalued net asset value exceeds the fair value of the enterprise as a whole, the new costs allocated to identifiable non-monetary assets are reduced by the amount of the excess based on their relative fair values at the date of the financial reorganization.
- When the fair value of the enterprise as a whole exceeds the revalued net asset value, the difference (goodwill) is not recorded.
- Retained earnings that arose prior to the reorganization are reclassified to share capital, contributed surplus, or a separately identified account within shareholders’ equity.
- The revaluation adjustment is accounted for as a capital transaction (see Section 3610, Capital Transactions) and recorded as share capital, contributed surplus, or a separately identified account within shareholders’ equity.
- Expenses directly incurred in effecting a financial reorganization shall be accounted for as an expense or income (see Section 3610).
- Write-downs related to circumstances that existed prior to the financial reorganization are accounted for in the income statement for the period prior to the financial reorganization and the adoption of a “fresh start” basis of accounting.
- When there is a negative balance in shareholders’ equity after the comprehensive revaluation, share capital is disclosed at a nominal value and the balance is disclosed as a capital deficiency resulting from the financial reorganization.

\(^1\) Except as specified in paragraph 1625.50.
INCOME TAX BENEFITS

- When the future income taxes method is used, a future income tax asset that arose prior to the date of a comprehensive revaluation and that was not recognized in the comprehensive revaluation is subsequently recognized, the benefit shall be recognized:
  - In net income if the comprehensive revaluation related to push-down accounting; or
  - In accordance with paragraph 50 of Section 3465, Income Taxes, if the comprehensive revaluation was due to a financial reorganization.
- Under the future income taxes method, future income tax assets are appropriately recognized as part of a comprehensive revaluation to the extent that they are more likely than not to be realized (see Section 3465).
- Future income tax assets that are not considered to be more likely than not to be realized at the time of the comprehensive revaluation would be excluded from the revaluation.
- If such an unrecognized future income tax asset were recognized subsequent to:
  - The application of push-down accounting, the benefit would be recognized in net income or, if Section 3465 so requires, outside net income; or
  - A comprehensive revaluation resulting from a financial reorganization, the benefit would be recognized in a manner consistent with the revaluation adjustment recorded at the time of the financial reorganization.

PRESENTATION

- Generally, prior period figures are not included in the financial statements of an enterprise that has comprehensively revalued its assets and liabilities as a result of a financial reorganization.
- When figures prior to the comprehensive revaluation are provided, for statutory or other purposes, financial information for the periods before and after the reorganization would be segregated on a columnar basis.
# Section 1651 - Foreign Currency Translation

**Effective Date**
Fiscal years beginning on or after January 1, 2011

## Scope

Applies to the translation of:
- Transactions of a reporting enterprise denominated in a foreign currency (foreign currency transactions); and
- Financial statements of a foreign operation for incorporation in the financial statements of a reporting enterprise.

## Definitions

### Reporting Enterprise
- An entity whose financial statements include transactions entered into by the entity in a foreign currency or whose statements incorporate foreign currency financial statements of a foreign operation.

### Foreign Currency Transactions
- Transactions of the reporting enterprise whose terms are denominated in a currency other than its reporting currency.

### Foreign Operation
- A subsidiary, division, branch, joint arrangement or similar type of entity that undertakes and/or records its economic activities in a currency other than the reporting currency of the reporting enterprise.
- There are two categories of foreign operations:
  - Integrated Foreign Operation
  - Self-Sustaining Foreign Operation

### Integrated Foreign Operation
- A foreign operation that is financially or operationally interdependent with the reporting enterprise such that the exposure to exchange rate changes is similar to the exposure that would have existed had the transactions and activities of the foreign operation been undertaken by the reporting enterprise.

### Self-Sustaining Foreign Operation
- A foreign operation that is financially and operationally independent of the reporting enterprise such that the exposure to exchange rate changes is limited to the reporting enterprise’s net investment in the foreign operation.

### Net Investment in a Self-Sustaining Foreign Operation
- Consists of:
  - The reporting enterprise’s proportional ownership of the foreign operation’s net assets (i.e. the amount equivalent to the carrying value of the investment computed as if using the equity method); and
  - Any other intercompany balances of a long-term nature that are related to the acquisition or financing of the foreign operation.

### Translation Methods

#### Temporal Method
- Translates assets, liabilities, revenues and expenses in a manner that retains their bases of measurement in terms of the Canadian dollar (the standard assumes the Canadian dollar as the unit of measure; however, it may be a currency other than the Canadian dollar). In particular:
  - Monetary items are translated at the exchange rate in effect at the balance sheet date;
  - Non-monetary items are translated at historical exchange rates, unless they are carried at market, then they are translated at the exchange rate in effect at the balance sheet date;
  - Revenue and expense items (including depreciation and amortization) are translated at the exchange rate in effect on the dates they occur; and
  - Depreciation or amortization of assets translated at historical exchange rates is translated at the same exchange rates as the assets to which it relates.

#### Current Rate Method
- Translates assets, liabilities, revenues and expenses in a manner that retains their bases of measurement in terms of the foreign currency (i.e. it uses the foreign currency as the unit of measure). In particular:
  - Assets and liabilities are translated at the exchange rate in effect at the balance sheet date;
  - Revenue and expense items (including depreciation and amortization) are translated at the exchange rate in effect on the dates on which such items are recognized in income during the period.

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*Except as specified in paragraph 1651.58*
## TRANSLATION

### FOREIGN CURRENCY TRANSACTIONS
- Translated using the **temporal method**.
- Exchange gains or losses that arise on translation must be included in net income for the current period.

### FOREIGN OPERATIONS
- Translated in the manner that best reflects the reporting enterprise’s exposure to exchange rate changes.
- Paragraph 1651.10 sets out matters that would be taken into consideration when determining whether a foreign operation is classified as integrated or self-sustaining.

### CHANGES IN CIRCUMSTANCES RELATING TO FOREIGN OPERATIONS
- When the translation method applied to a particular foreign operation must be changed due to significant changes in the economic facts and circumstances, the change in method must be accounted for prospectively.

### INTEGRATED FOREIGN OPERATIONS
- Translated using the **temporal method**.
- Exchange gains or losses that arise on translation must be included in net income for the current period.

### SELF-SUSTAINING FOREIGN OPERATIONS
- Translated using the **current rate method**.
- Exchange gains and losses are recognized as a separate component of shareholders’ equity.
- When the economic environment of the foreign operation is highly inflationary, the temporal method is used instead to translate the financial statements.
- A reporting enterprise may dispose or partially dispose of its interest in a self-sustaining foreign operation in a variety of ways. Refer to paragraphs 1651.31-.31A and Appendix A for guidance on how to account for this change.

### FOREIGN CURRENCY TRANSACTIONS
- Translated in the manner that best reflects the reporting enterprise’s exposure to exchange rate changes.
- Paragraph 1651.10 sets out matters that would be taken into consideration when determining whether a foreign operation is classified as integrated or self-sustaining.

### INTEGRATED FOREIGN OPERATIONS
- Translated using the **temporal method**.
- Exchange gains or losses that arise on translation must be included in net income for the current period.

### SELF-SUSTAINING FOREIGN OPERATIONS
- Translated using the **current rate method**.
- Exchange gains and losses are recognized as a separate component of shareholders’ equity.
- When the economic environment of the foreign operation is highly inflationary, the temporal method is used instead to translate the financial statements.
- A reporting enterprise may dispose or partially dispose of its interest in a self-sustaining foreign operation in a variety of ways. Refer to paragraphs 1651.31-.31A and Appendix A for guidance on how to account for this change.

### TRANSLATION OF AN INVESTMENT ACCOUNTED FOR BY THE EQUITY METHOD
- The financial statements of a foreign subsidiary, joint arrangement or investee accounted for by the equity method are:
  - First, translated into Canadian dollars according to the requirements in this Section; and
  - Then, the equity method is applied (refer to Section 1591, Subsidiaries, Section 3051, Investments, and Section 3056, Interests in Joint Arrangements).

### ADDITIONAL ASPECTS OF TRANSLATION
- Guidance related to the following items is provided in paragraphs 1651.42-.55:
  - Intercompany transactions, elimination of intercompany profits, differences in dates of financial statements, use of averages or other methods of approximation, non-controlling interest, preference shares, lower of cost or market, future income tax liabilities or assets, and the Cash Flow Statement.
Section 3031 - Inventories

DEFINITION

Inventories are assets:
- Held for sale in the ordinary course of business;
- In the process of production for such sale; or
- In the form of materials or supplies to be consumed in the production process or in the rendering of services.

SCOPE

Applies to all inventories except:
- Contracts accounted for using the percentage of completion method (Section 3400, Revenue).
- Financial Instruments.
- Major spare parts and standby equipment that may qualify as property, plant and equipment (Section 3061, Property, Plant and Equipment).

Does not apply to the measurement of inventories:
- Held by producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products measured at net realizable value.
- Held by commodity broker-traders who measure inventory at fair value less costs to sell.
- Of living animals and plants (biological assets) and the harvested product of the entity's biological assets (agricultural produce).

INVENTORIES ARE MEASURED AT THE LOWER OF COST AND NET REALIZABLE VALUE

- When inventory is written down below cost to net realizable value (NRV), the write-down is recognized as an expense in the period in which it occurs.
- When circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in NRV due to a change in economic circumstances, the amount of the write-down is reversed, but the reversal cannot exceed the amount of the original write-down.

COST

Includes
- Costs of purchase.
- Costs of conversion.
- Other costs incurred to bring inventory to its present condition and location.

Excludes
- Abnormal waste.
- Storage costs (unless necessary for the production process before a further production stage).
- Administrative overheads not related to production.
- Selling costs.
- Interest costs (where settlement is deferred).

Cost Formulas
- For non-interchangeable items:
  - Specific identification.
- For interchangeable items:
  - First-in, first-out (FIFO); or
  - Weighted average cost.

NET REALIZABLE VALUE

NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Measurement Techniques:
- **Standard cost method**
  - Takes into account normal levels of materials and supplies, labour, efficiency and capacity utilization. These levels are regularly reviewed and, if necessary, revised in the light of current conditions.
- **Retail method**
  - Often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin.
# Section 3051 - Investments

## Scope

### Applies to:
- Investments subject to significant influence.
- Other non-financial instrument investments (such as works of art and other tangible assets held for investment purposes).

Paragraph 3051.02 states Section 1591, *Subsidiaries*, and Section 3056, *Interests in Joint Arrangements*, provide an accounting policy choice to use the cost method or the equity method in accordance with this Section for certain investments.

### Excluded:
- Subsidiaries or interest in joint arrangements.
- Financial instruments within the scope of Section 3856, *Financial Instruments*.
- Investments held by investment companies (see AcG-18, *Investment Companies*).

## Application

### Equity Method

- A method of accounting where the investment is initially recorded at cost and subsequently adjusted to include:
  - The investor’s pro rata share of post-acquisition earnings of the investee, computed using the consolidation method. The amount of the adjustment is included in determining the investor’s net income.
  - The investor’s investment account is increased / decreased to reflect the investor’s proportionate share of any capital transactions, discontinued operations, changes in accounting policies and corrections of errors relating to prior period financial statements applicable to post-acquisition periods.
  - Profit distributions received / receivable from an investee reduce the carrying value of the investment.

### Cost Method

- A method of accounting where the investment is initially recorded at cost.
- Earnings from these investments are only recognized to the extent received / receivable.

### Gains and Losses

- When calculating a gain or loss on the sale of an investment, the cost of the investment sold is calculated using the average carrying value.
- When an investor’s interest in an investee accounted for using the equity method is diluted, any gains or losses arising from the dilution are recognized in income. This is consistent with the accounting for a gain or loss arising on the sale of a portion of an investment.

### Impairment

- An investor assesses whether there are any indications an investment may be impaired at the end of each reporting period.
- When there are impairment indicators, an investor determines whether there has been a significant adverse change in the expected timing or amount of future cash flows from the investment during the period.
- When the assessment results show a significant adverse change has occurred, the carrying amount of the investment is reduced to the higher of:
  - The present value of the cash flows expected to be generated by holding the investment, discounted using a current market rate of interest; and
  - The amount that could be realized by selling the asset at the balance sheet date.
- The reduction in the investment is recognized as an impairment loss in net income.
- When the value of a previously impaired investment increases, a reversal of the previous impairment is recognized to the extent of the improvement. The adjusted carrying amount of the investment cannot be greater than the carrying amount the investment would have been recorded at had the impairment not been recognized previously. The reversal is recognized in net income in the period it occurs.

### Investments Subject to Significant Influence

- Whose equity securities are not quoted in an active market:
  - The investor has an accounting policy choice to account for the investment using either the equity method or the cost method.
  - The cost method cannot be used. Instead the investment may be accounted for using either the equity method or at fair value, with changes in fair value recorded in net income.

### Presentation

- The following must be presented separately on the Balance Sheet and the related income from the following must be presented separately on the Income Statement:
  - Subsidiaries and interests in joint arrangements accounted for using the equity method;
  - Subsidiaries and interests in joint arrangements accounted for using the cost method;
  - Investments in companies subject to significant influence accounted for using the equity method; and
  - Other investments accounted for at cost.

### Fiscal Periods Not Coterminous

- When the fiscal periods of an investor and an investee are not coterminous and the equity method is used to account for the investee:
  - There must be disclosure of any events relating to, or transactions of, the investee that occurred during the intervening period which have a significant effect on the financial position or results of operations of the investor; unless, these events or transactions are already recorded in the financial statements.

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1 Except as specified in paragraph 3051.39.
Section 3056 - Interests in Joint Arrangements

**SCOPE**

- **Applies:**
  - To investments in arrangements in which the investor has joint control.
  - When economic activities meet the definitions and criteria outlined in paragraphs 3056.03-.15, even though the activities may not be referred to as joint arrangements.

- **Does not apply:**
  - When economic activities do not meet the definitions and criteria outlined in paragraphs 3056.03-.15, even though the activities may sometimes be referred to as joint arrangements. Instead, accounting for investments in such activities is governed by the nature of the investment (see Section 1591, Subsidiaries, Section 3051, Investments, and Section 3856, Financial Instruments).

**JOINT ARRANGEMENTS**

- The distinctive attribute common to all joint arrangements is that two or more investors are bound by a contractual arrangement that establishes they have joint control over the joint arrangement, regardless of the differences that may exist in their respective ownership interest.

- There are three categories of joint arrangements:
  - Jointly controlled operations;
  - Jointly controlled assets; and
  - Jointly controlled enterprises.

**JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS**

**RECOGNITION**

- An investor in a **jointly controlled operation** in which the investor has joint control must recognize on its:
  - Balance Sheet - the assets that it controls and the liabilities that it incurs; and
  - Income Statement - its share of the revenue of the joint arrangement and its share of the expenses incurred by the joint arrangement.

- An investor in a **jointly controlled assets** in which the investor has joint control must recognize on its:
  - Balance Sheet - its share of the jointly controlled assets and its share of any liabilities incurred jointly with the other investors in relation to the joint arrangement; and
  - Income Statement - any revenue from the sale or use of its share of the output of the joint arrangement, and its share of any expenses incurred by the joint arrangement.

**CONTRIBUTIONS AND TRANSACTIONS**

- When an investor **transfers assets** to a joint arrangement that consists of jointly controlled operations or jointly controlled assets and receives in exchange an interest in the joint arrangement that includes joint control, or **sells assets** in the normal course of operations to such a joint arrangement in which the investor has joint control, any gain or loss that occurs shall be recognized in income at the time of the transfer or sale to the extent of the interests of the other non-related investors.

- However, if such a transaction provides evidence of a reduction in the net realizable value or a decline in the carrying amount of the relevant assets, the investor recognizes the decline by writing down its portion of the assets retained through its interest in the joint arrangement and recognizing the full amount of any loss in income.

- When an investor **purchases assets** in the normal course of operations from a joint arrangement that consists of jointly controlled operations or jointly controlled assets and in which it has joint control, the investor does not recognize its share of the profit or loss of the joint venture until the assets are sold to a third party.

- However, if such a transaction provides evidence of a reduction in the net realizable value or a decline in the carrying amount of the relevant assets, the investor immediately recognizes its share of the loss in income.

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1 Earlier application is permitted. However, if an investor applies this section before January 1, 2016, it discloses that fact and applies paragraphs .14-.17 of Section 3051, Investments, at the same time.
An investor with an interest in a jointly controlled enterprise makes an accounting policy choice to:

a) Account for all such interests using the equity method (as defined in Section 3051);

b) Account for all such interests using the cost method (as defined in Section 3051); or

c) Performs an analysis of each such interest to determine whether it represents a right to the net assets or to the individual assets and obligations for the individual liabilities relating to the joint arrangement (refer to the Appendix to Section 3056 for additional guidance on performing this analysis) and:

i. Accounts for all interests in the net assets of a jointly controlled enterprise in accordance with either the equity method or the cost method; and

ii. Accounts for all interests representing rights to the individual assets and obligations for the individual liabilities relating to a joint arrangement in accordance with paragraphs 3056.17-.18 (as described on the previous page under the “recognition” section for jointly controlled operations and jointly controlled assets).

This accounting policy choice does not need to meet the criteria in paragraph 1506.06(b).

• If the investor accounts for its interest in the jointly controlled enterprise using the cost or equity method, the investor accounts for its contributions to, and transactions with, the joint arrangement in accordance with Section 3051.

• If the investor accounts for its interest in the individual assets and obligations for the individual liabilities of the jointly controlled enterprise, then the investor accounts for its contributions to, and transactions with, the joint arrangement in accordance with paragraphs 3056.19-26 (as described on the previous page in the “contributions and transactions” section of jointly controlled operations and jointly controlled assets).

The following must be presented separately on the Balance Sheet and the related income from investments in the following must be presented separately on the Income Statement:

• Subsidiaries and interests in joint arrangements accounted for using the equity method;

• Subsidiaries and interests in joint arrangements accounted for at cost;

• Investments in companies subject to significant influence; and

• Other investments accounted for at cost.
Section 3061 - Property, Plant and Equipment

PROPERTY, PLANT AND EQUIPMENT

- Identifiable tangible assets that meet all of the following criteria:
  - Are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other property, plant and equipment;
  - Have been acquired, constructed or developed with the intention of being used on a continuing basis; and
  - Are not intended for sale in the ordinary course of business.

MEASUREMENT

COST

- Property, plant and equipment are measured at cost.
- Cost includes:
  - The amount of consideration given up to acquire, construct, develop or better an item of property, plant and equipment.
  - All costs directly attributable to the acquisition, construction, development or betterment of the asset including installing it at the location and in the condition necessary for its intended use.
  - Any asset retirement cost accounted for in accordance with Section 3110.
- If the cost of an asset acquired other than through a business combination is different from its tax basis on acquisition, the cost of the asset is adjusted to reflect the related future income tax consequences.
- The cost of each item acquired as part of a basket purchase is determined by allocating the total price paid to each item on the basis of its relative fair value at the time of acquisition.
- The cost of an item of property, plant and equipment made up of significant separable component parts is allocated to the component parts when practicable and when the lives of the separate components can be estimated.
- Cost of an item of property, plant and equipment that is acquired, constructed or developed over time includes:
  - Direct construction or development costs.
  - Overhead costs that are directly attributable to the construction or development activity.
  - Carrying costs directly attributable to the acquisition, construction or development activity.
    - Capitalization of carrying costs ends when an item of property, plant and equipment is substantially complete and is ready for productive use.
  - Net revenue / expense derived from an item of property, plant and equipment prior to substantial completion and readiness for use.

AMORTIZATION

- Must be recognized in a rational and systematic manner that is appropriate to the nature of an item of property, plant and equipment with a limited life and its use by the enterprise.
- The amount of amortization charged to income is the greater of:
  - Cost less salvage value over the life of the asset; and
  - Cost less residual value over the useful life of the asset.
- An enterprise must review the amortization method and estimates of the life and useful life of an item of property, plant and equipment on a regular basis.

BETTERMENT

- The cost incurred to enhance the service potential of an item of property, plant and equipment.
- A betterment is capitalized not expensed like repair and maintenance costs.

1 Except as specified in paragraph 3061.29.
# Impairment of Long-lived Assets & Goodwill

## Scope

**Section 3063 applies to:**
- Non-monetary long-lived assets, held for use, including property, plant and equipment, intangible assets with finite useful lives and long-term prepaid assets.

**Section 3064 applies to:**
- Goodwill subsequent to initial recognition and intangible assets with indefinite useful lives.

**Section 3063 does not apply to:**
- Long-lived assets to be disposed of (see Section 3475).
- Goodwill and intangible assets with indefinite useful lives (see Section 3064).
- Investments, including equity method accounted investments (see Section 3051).
- Defined benefit assets (see Section 3462).
- Future income tax assets (see Section 3465).
- Financial assets, financial liabilities and contracts to buy or sell non-financial items accounted for in accordance with Section 3856, Financial Instruments.
- Oil and gas assets accounted for using the full cost method (see AcG-16).
- Unproved oil and gas properties accounted for using the successful efforts method.

## When to Test for Recoverability

- Whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable.
- Examples of such events or changes in circumstances are provided in paragraph 3063.10.

## Grouping Assets

- For the purposes of recognition and measurement of an impairment loss, a long-lived asset must be grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

## Cash Flow Test for Recoverability

- Only future cash flows (cash inflows less associated cash outflows) directly associated with, and expected to arise as a direct result of, a long-lived asset’s use and eventual disposition are included in the estimates of future cash flows used to test the recoverability of the long-lived asset.
- These cash flows include the principal amount of any liabilities included in the asset group, but do not include interest that will be recognized as an expense when incurred.

## Impairment Loss

- When the carrying amount of a long-lived asset is not recoverable and exceeds its fair value an impairment loss must be recognized.
- The carrying amount of a long-lived asset is not recoverable if:
  - The carrying amount is greater than the sum of the undiscounted cash flows that are expected to result from the asset’s use and eventual disposition.
  - The assessment is based on the carrying amount of the asset at the date it is tested for recoverability whether it is in use or under development.
- When an impairment loss is recognized, the adjusted carrying amount becomes the long-lived asset’s new cost basis.
- For a depreciable long-lived asset, this new cost basis is amortized in accordance with Section 3061, Property, Plant and Equipment.
- If the fair value of the long-lived asset subsequently increases, an impairment loss cannot be reversed.

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1 Includes Section 3063 - Impairment of Long-lived Assets, and portions of Section 3064 - Goodwill and Intangible Assets related to goodwill. For the remainder of the guidance provided in Section 3064 related to intangible assets, please refer to our publication “ASPE AT A GLANCE - Intangible Assets”.

2 Except as specified in paragraph 3064.95.
### RECOGNITION AND MEASUREMENT OF IMPAIRMENT OF GOODWILL

**Assigning Assets and Liabilities to Reporting Units**

- For the purpose of testing goodwill for impairment, acquired assets and assumed liabilities must be assigned to a reporting unit, as at the date of acquisition, when:
  - The asset is employed in, or the liability relates to, the operations of a reporting unit; and
  - The asset or liability is considered in determining the fair value of the reporting unit.
- All goodwill acquired in a business combination must be assigned to one or more reporting units as of the date of acquisition, for the purpose of testing goodwill for impairment.
- When an enterprise reorganizes its reporting structure in a way that changes the makeup of one or more reporting units, the guidance in paragraphs 306.78-.80 is used to reassign assets and liabilities to the reporting units affected. The relative fair value allocation approach is used to reassign goodwill.

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**Recognition and Measurement of an Impairment Loss**

- Whenever events or changes in circumstances indicate the carrying amount of the reporting unit to which goodwill is assigned may be greater than the fair value of the reporting unit, goodwill must be tested for impairment.
- When the carrying amount of a reporting unit, including goodwill, exceeds the fair value of a reporting unit, a goodwill impairment loss equal to the excess must be recognized.
- This impairment loss recognized cannot be greater than the carrying amount of goodwill.
- If the fair value of the reporting unit subsequently increases, the goodwill impairment loss cannot be reversed.
**Intangible Assets**

**INTANGIBLE ASSET**

- An identifiable non-monetary asset without physical substance.

**IDENTIFIABILITY**

- An asset meets the identifiability criteria in the definition of an intangible asset when it:
  - Is separable (i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability); or
  - Arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights or obligations.

**CONTROL**

- An entity controls an asset if the entity has the power to:
  - Obtain the future economic benefits flowing from the underlying resource; and
  - Restrict others from accessing those benefits.

**RECOGNITION AND MEASUREMENT**

- An intangible asset is:
  - Only recognized if:
    - It is probable the expected future economic benefits attributable to the asset will flow to the entity; and
    - The cost of the asset can be measured reliably.
  - Measured initially at cost.

**SEPARATE ACQUISITION**

- The probability of expected future economic benefits recognition criteria is always met.
- Cost can be measured reliably.
- Cost includes:
  - Purchase price; and
  - Any directly attributable costs of preparing the asset for its intended use.
- Recognizing costs in the carrying amount of an intangible asset stops when the asset is in the condition where it is capable of operating in the manner management intended.

**INTERNALLY GENERATED INTANGIBLE ASSETS**

**Research phase**

- No intangible asset arising from research / research phase can be recognized.
- Instead, expenditures on research / research phase are expensed as incurred.

**Development phase**

- An accounting policy choice must be made for expenditures on internally generated intangible assets incurred during the development phase to either:
  - Expense as incurred; or
  - Capitalize as an intangible asset if all the following criteria can be demonstrated:
    - Technical feasibility of completing the intangible asset so it will be available for use / sale;
    - Intention to complete the intangible asset and use / sell it;
    - Ability to use / sell the intangible asset;
    - Availability of adequate technical, financial and other resources to complete development and use / sell the intangible asset;
    - Ability to reliably measure the expenditure related to the intangible asset during development; and
    - How the intangible asset will generate probable future economic benefits.
- This accounting policy choice must be applied consistently to all expenditures on internal projects in the development phase. The criteria in Section 1506, Accounting Changes, paragraph .06 do not need to be met to make this accounting policy choice.
- Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be recognized as intangible assets as they cannot be distinguished from the cost of developing the business as a whole. Therefore they are expensed as incurred.

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1 Excludes portions of Section 3064 - Goodwill and Intangible Assets, related to goodwill. For the remainder of the guidance provided in Section 3064 related to goodwill please refer to our publication “ASPE AT A GLANCE - Impairment of Long-lived Assets & Goodwill”.

January 2013

Effective Date

Fiscal years beginning on or after January 1, 2011
**INTERNALLY GENERATED INTANGIBLE ASSETS (CONTINUED)**

**Cost of an internally generated intangible asset**
- The sum of expenditures incurred from the date when the intangible asset first meets the recognition criteria described above.
- Comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management.

**RECOGNITION OF AN EXPENSE**
- If an expenditure on an intangible item does not meet the recognition criteria previously discussed it must be expensed when incurred.
- For supply of goods, an entity recognizes the expense when it has a right to access the goods.
  - Generally, this is when the entity owns the goods.
  - In the case where goods have been constructed by a supplier in accordance with the terms of a supply contract and an entity could demand delivery of them in return for payment, an entity has the right to access the goods.
- For supply of services, the entity recognizes the expense when it receives the services.
  - Generally, this is when the service has been performed by a supplier in accordance with a contract to deliver the services to the entity. It is not when the entity then uses these services to deliver another service, such as delivering advertisements to its own customers.
- The following are examples of expenditures an entity recognizes as an expense when incurred:
  - Start-up activities, unless included in the cost of an item of property, plant and equipment;
  - Training activities;
  - Advertising and promotional activities (including mail order catalogues and other similar documents intended to advertise goods, services or events to customers); and
  - Relocating or reorganizing part or all of an entity.

**PAST EXPENSES NOT TO BE RECOGNIZED AS AN ASSET**
- Expenditure on an intangible item that was initially expensed cannot later be capitalized as part of the cost of the intangible asset.

**SUBSEQUENT MEASUREMENT**
- A recognized intangible asset with a finite useful life must be amortized over its useful life to an enterprise.
- A recognized intangible asset with an indefinite useful life must not be amortized until its life is determined to no longer be indefinite.
- The amortization method and estimate of the useful life of an intangible asset must be reviewed annually.
- For guidance on recognition and measurement of an impairment loss refer to our publication “ASPE AT A GLANCE - Impairment of Long-lived Assets & Goodwill”.

**PRESENTATION**
- A separate line on the entity’s Balance Sheet must present the aggregate amount of intangible assets.
**Section 3065 - Leases**

### Definitions

**Lease** - The conveyance, by a lessor to a lessee, of the right to use a tangible asset, usually for a specified period of time in return for rent.

**Operating Lease** - A lease in which the lessor does not transfer substantially all the benefits and risks incident to ownership of property.

**Capital Lease** - A lease that, from the point of view of the lessee, transfers substantially all the benefits and risks incident to ownership of property to the lessee.

### Accounting Treatment

**Lessor**
- Continues to recognize leased asset on the balance sheet.
- Recognizes rental revenue as income on a straight line basis over the lease term.

**Lessee**
- Does not recognize leased asset or related obligation on the balance sheet.
- Recognizes lease rental expense in net income on a straight line basis over the lease term.

#### Lessor

- **Classification as a sales-type or direct financing lease** when **ALL** the following conditions are present:
  - Any one of the three conditions noted to the right for the lessee are met;
  - Credit risk associated with the lease is normal compared to the risk of collection of similar receivables; and
  - Amounts of any unreimbursable costs likely to be incurred by the lessor under the lease can be reasonably estimated.

- **Direct Financing Lease** - The fair value of the leased property is the same as its carrying amount to the lessor (usually not a manufacturer or dealer).
  - A separate receivable equal to the net investment of the lease is recorded on the balance sheet, segregated between current and long-term portions.
  - Unearned finance income is deferred and recognized in income over the lease term to produce a constant rate of return on the investment in the lease.
  - The leased asset is derecognized.
  - The discount rate is the interest rate implicit in the lease.
  - Lease payments received are recorded as a reduction of the net investment in the lease.

- **Sales-Type Lease** - The fair value of the leased property is not the same as its carrying amount to the lessor (usually a manufacturer or dealer).
  - A separate receivable equal to the net investment of the lease is recorded on the balance sheet, segregated between current and long-term portions.
  - A sale is recorded recognizing the initial manufacturer / dealer profit or loss on the sale at the time of the transaction.
  - Unearned finance income is deferred and recognized in income over the lease term to produce a constant rate of return on the investment in the lease.
  - The leased asset is removed from inventory and expensed as a cost of sale at the time of the transaction. Any other direct costs are also expensed at this time.
  - The discount rate is the interest rate implicit in the lease.
  - Lease payments received are recorded as a reduction of the net investment in the lease.

**Lessee**

- **Classification as a capital lease when one or more of the following conditions are present**:
  - There is reasonable assurance the lessee will obtain ownership of the leased property by the end of the lease term (ownership transfer provisions or bargain purchase option are included in the lease).
  - The duration of the lease term is equal to a major portion (usually 75% or more) of the economic life of the leased property.
  - The lessor is assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement. This occurs when the present value of the minimum lease payments, excluding any executory costs, is equal to substantially all (usually 90% or more) of the fair value of the leased property.

- **Classification as a sales-type or direct financing lease when ALL the following conditions are present**:
  - Any one of the three conditions noted to the right for the lessee are met;
  - Credit risk associated with the lease is normal compared to the risk of collection of similar receivables; and
  - Amounts of any unreimbursable costs likely to be incurred by the lessor under the lease can be reasonably estimated.

- **Direct Financing Lease** - The fair value of the leased property is the same as its carrying amount to the lessor (usually not a manufacturer or dealer).
  - A separate receivable equal to the net investment of the lease is recorded on the balance sheet, segregated between current and long-term portions.
  - Unearned finance income is deferred and recognized in income over the lease term to produce a constant rate of return on the investment in the lease.
  - The leased asset is derecognized.
  - The discount rate is the interest rate implicit in the lease.
  - Lease payments received are recorded as a reduction of the net investment in the lease.

### Effective Date

Fiscal years beginning on or after January 1, 2011

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1 Except as specified in paragraph 3065.82.
ACCOUNTING TREATMENT (CONTINUED)

<table>
<thead>
<tr>
<th>Lessee</th>
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</table>
| • A leased asset is recognized separate from owned assets on the balance sheet at the present value of the minimum lease payments, excluding any executory costs. This amount cannot exceed the leased asset’s fair value.  
• The leased asset is amortized over the period of expected use on a basis consistent with the lessee’s depreciation policy for similar fixed assets and depending on the terms of the lease.  
• The related obligation under capital lease is recognized separately from other long-term obligations on the balance sheet at the present value of the minimum lease payments, excluding any executory costs. The current portion payable is presented separately in current liabilities.  
• The discount rate is the lower of the lessee’s rate for incremental borrowing and the interest rate implicit in the lease.  
• Lease payments made are allocated as a reduction of the obligation, interest expense and any executory costs. |

SALE-LEASEBACK TRANSACTION

<table>
<thead>
<tr>
<th>Capital Lease / Direct Financing Lease</th>
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</table>
| • Any profit or loss arising on sale is deferred and amortized in proportion to the amortization of the leased asset, unless it is a lease involving land only, in which case it is amortized on a straight-line basis over the lease term.  
• However, if at the time of the transaction, the fair value of the property is less than its carrying value, the difference is immediately recognized as a loss. |

<table>
<thead>
<tr>
<th>Operating Lease</th>
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| • Any profit or loss arising on sale is deferred and amortized in proportion to rental payments over the lease term.  
• However, if at the time of the transaction, the fair value of the property is less than its carrying value, the difference is immediately recognized as a loss. |
Section 3110 - Asset Retirement Obligations

SCOPE

Applies to:
- Legal obligations associated with the retirement of a tangible long-lived asset that results from its acquisition, construction, development or normal operation.

Does not apply to:
- Obligations arising solely from a plan to sell or otherwise dispose of a long-lived asset subject to Section 3475.
- Obligations that result from the improper operations of an asset.

RECOGNITION

- In the period in which an asset retirement obligation is incurred, an entity must recognize a liability when a reasonable estimate of the amount of the obligation can be made.
- However, when a reasonable estimate of the obligation cannot be made in the period in which an asset retirement obligation is incurred, the liability must be recognized when a reasonable estimate of the amount of the obligation can be made.
- When a tangible long-lived asset with an existing asset retirement obligation is acquired, a liability for the obligation is recognized at the asset’s acquisition date as if the obligation was incurred on that date.

CONDITIONAL OBLIGATIONS

- Uncertainty about whether performance of a retirement activity will be required, does not defer the recognition of an asset retirement obligation.
- Instead, the uncertainty is factored into the measurement of the amount of the asset retirement obligation by assigning probabilities to cash flows.
- When there are only two outcomes for the conditional aspect and there is no information available about which one is more probable, a 50 percent likelihood is assigned to each outcome until additional information becomes available. More information about the ultimate outcome will likely be obtained closer to the time for notification. Thus, the amount of the liability recognized may change from reassessment of the timing, amount and probabilities associated with the expected cash flows.

OBLIGATIONS CREATED BY NEW STATUTORY OR REGULATORY REQUIREMENTS

- When a newly enacted statute or regulation imposes a new asset retirement obligation on an entity as a result of its past activities, the liability and related asset retirement cost are recognized when the obligation is first imposed.
- The prior period financial statements presented for comparative purposes are not restated.

RECOVERIES OF ASSET RETIREMENT COSTS

- In circumstances where an entity may be entitled to recover asset retirement costs from another party, the asset retirement obligation is accounted for without considering the recovery.
**PRESENT VALUE TECHNIQUE**

- **The best estimate of the expenditure required to settle the present obligation at the balance sheet date must be the amount recognized as the asset retirement obligation.**
- The best estimate is the amount an entity would rationally pay to settle the obligation or to transfer it to a third party at the balance sheet date.
- Management’s judgment, experience with similar transactions and potentially reports from independent experts are used to determine the estimate of the expenditure required to settle the present obligation.
- When there is sufficient evidence future events that may affect the amount required to settle an obligation will occur, these events are reflected in the measurement of the obligation.
- Similarly when sufficient evidence exists that new legislation is virtually certain to be enacted, the effect of this possible new legislation is taken into consideration in the measurement of an existing obligation.
- At each balance sheet date, asset retirement obligations are reviewed and adjusted to reflect the current best estimate.

**RECOGNITION AND ALLOCATION OF AN ASSET RETIREMENT COST**

- Often, the best available technique to estimate the expenditure required to settle the present obligation at the balance sheet date is the present value technique.
- It can be determined using the following elements:
  - An estimate of the future cash outflows expected with regard to the obligation;
  - Expectations about possible variations in the amount or timing of those cash outflows; and
  - The time value of money, represented by the current market risk-free rate of interest, for maturity dates that coincide with the expected cash flows.
- An entity starts to determine the best estimate of the expenditures required to settle the present asset retirement obligation at the balance sheet date by, making an estimate of the future cash outflows that reflect an assessment of the cost and timing to perform the required retirement activities.
- When estimating these cash outflows an entity develops and incorporates specific assumptions, to the extent possible, about:
  - Costs the entity will incur in carrying out the tasks necessary to retire the asset; and
  - Other amounts, such as inflation, overhead, equipment charges and the effects of advances in technology.
- There are two approaches to calculating present value:
  - Traditional approach – in which adjustments for uncertainties of the amount and timing of cash flows are embedded in the discount rate; and
  - Expected cash flow approach – in which adjustments for uncertainties of the amount and timing of cash flows are reflected in the risk-adjusted cash flows.
- Since uncertainties regarding the amount and timing of future cash flows can typically be provided for in the present value calculation, these uncertainties do not prevent the determination of a reasonable estimate of the amount of the asset retirement obligation.

- When a liability for an asset retirement obligation is initially recognized, an entity also recognizes an asset retirement cost by increasing the carrying amount of the related long-lived asset by the same amount as the liability.
- The asset retirement cost is then subsequently allocated to expense over its useful life using a systematic and rational method.
- In subsequent periods, an entity recognizes period-to-period changes in the liability for an asset retirement obligation resulting from:
  - The passage of time; and
  - Revisions to either the timing, amount of the original estimate of undiscounted cash flows or the discount rate.
- Changes due to the passage of time are measured and incorporated into the carrying amount of the liability before an entity measures changes resulting from a revision to the timing or amount of the estimated cash flows.
- The related expense is classified as an operating item in the income statement, not as interest expense, and is referred to as “accretion expense” or a similar description.
Share Capital, Equity, Reserves and Capital Transactions

Effective Date
Fiscal years beginning on or after January 1, 2011

When a company acquires its own shares, the shares are carried at cost and shown as a deduction from shareholders’ equity until cancelled or resold.

When a company redeems or acquires its own shares, the difference between the cost and the par, stated or assigned value is a capital transaction and is excluded from the determination of net income.

- **Share Capital**
  - Comprises amounts paid in by equityholders.
  - Contributed surplus in the form of surplus paid in by equityholders includes premiums on shares issued, any portion of the proceeds of issue of shares without par value not allocated to share capital, gain on forfeited shares, proceeds arising from shares donated by equityholders, credits resulting from redemption or conversion of shares at less than the amount set up as share capital, and any other contribution by equityholders in excess of amounts allocated to share capital.

- **Equity**
  - Comprises the accumulated balance of income less losses arising from the operation of the business, after taking into account dividends, refundable taxes and other amounts that may properly be charged or credited thereto.
  - When the accumulation is a negative figure, “deficit” is a suitable description.

- **Contributed Surplus**
  - The equity in a subsidiary not attributable, directly or indirectly, to a parent.

- **Retained Earnings**
  - Include items such as:
    - Changes in capital, including premiums, discounts and expenses relating to the issue, redemption or cancellation of share capital;
    - Gains or losses:
      - On purchase and resale by a company of its own issued common shares; or
      - on purchase and cancellation by a company of its own issued common shares;
    - Contributions by owners or others;
    - Transfers to and from reserves;
    - Dividend distributions (including stock dividends); and
    - Taxes arising at the time of changes in shareholder status or share capital transactions.

- **Non-Controlling Interest**
  - Paragraph .22 of Section 3856, Financial Instruments, determines whether a transaction involving a financial instrument is a capital transaction.

- **Capital Transactions**
  - Comprises amounts paid in by equityholders.
  - Contributed surplus in the form of surplus paid in by equityholders includes premiums on shares issued, any portion of the proceeds of issue of shares without par value not allocated to share capital, gain on forfeited shares, proceeds arising from shares donated by equityholders, credits resulting from redemption or conversion of shares at less than the amount set up as share capital, and any other contribution by equityholders in excess of amounts allocated to share capital.

1 Includes Sections 3240 - Share Capital, 3251 - Equity, 3260 - Reserves, and 3610 - Capital Transactions.
### RESERVES

- Use of the term "reserve" is limited to an amount that, though not required to meet a liability or contingency known or admitted or a decline in value that has already occurred as at the balance sheet date, has been appropriated from retained earnings or other surplus:
  - At the discretion of management (e.g. reserve for future decline in inventory values, reserve for general contingencies, reserve for future plant extension); or
  - Pursuant to the requirements of a statute, the instrument of incorporation or by-laws of a company or a trust indenture, or other agreement (e.g. sinking fund reserve, general reserve, preferred stock redemption reserve).

- Reserves are created or increased only by appropriations of retained earnings or other surplus. They are not set up or increased by charges made in arriving at net income for the period.
- Regardless of how a reserve was originally created, all reductions in reserves are returned to retained earnings or other surplus and no charges are made against the reserves that would relieve the income account of charges that are to be taken into account in determining the net income for the period.

### PRESENTATION

#### EQUITY

- An enterprise presents separately changes in equity for the period arising from each of the following:
  - Net income, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
  - Other changes in retained earnings;
  - Changes in contributed surplus;
  - Changes in share capital;
  - Changes in reserves; and
  - Other changes in equity.

- An enterprise presents separately the following components of equity:
  - Retained earnings;
  - Contributed surplus;
  - Share capital;
  - Reserves;
  - Non-controlling interests; and
  - Other components of equity.

- A company presents a separate component of equity for each category of equity that is of a different nature.

- The basic classification must not be distorted by compliance with statutory requirements as to special designations of certain items of equity. An appropriate description or explanation must be added when statutory designations deviate from accepted usage in financial statements or are otherwise inadequate.

- Charges against contributed surplus are restricted to instances when that disposition is clearly warranted by the circumstances, such as:
  - A charge that is the direct opposite of a credit previously carried to contributed surplus; or
  - The elimination or reduction of a deficit, when made with the approval of the shareholders.

- Share purchase loans receivable are presented as deductions from shareholders' equity unless there is substantial evidence that the borrower, not the enterprise, is at risk for any decline in the price of the shares and there is reasonable assurance that the enterprise will collect the full amount of the loan in cash.

#### RESERVES

- Shown as part of shareholders' equity with the source from which they were created (i.e., retained earnings or contributed surplus) indicated.

- Changes in reserves during the period are presented separately in the financial statements.

#### CAPITAL TRANSACTIONS

- Excluded from determination of net income and presented separately in the statement to which they related (at least for the year in which the transactions occur).
Section 3290 - Contingencies

SCOPE

Does not apply to:
- Allowances for impaired loans and doubtful accounts (see Section 3856, Financial Instruments).
- Non-discretionary vendor rebates.
- Warranty provisions.

CONTINGENCY

An existing condition or situation involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur.
- Resolution of the uncertainty may confirm the acquisition of an asset or the reduction of a liability or the loss or impairment of an asset or the incurrence of a liability.
- Some examples of contingencies: pending or threatened litigation, threat of expropriation of assets, guarantees of the indebtedness of others and possible liabilities arising from discounted bills of exchange or promissory notes.

MEASUREMENT UNCERTAINTY

Range of probabilities
- Express the uncertainty relating to the occurrence or non-occurrence of the future event(s), which determines the outcome of a contingency.
- Provide a basis for determining the appropriate accounting treatment:
  - Likely - the chance of the occurrence (or non-occurrence) of the future event(s) is high;
  - Unlikely - the chance of the occurrence (or non-occurrence) of the future event(s) is slight; and
  - Not determinable - the chance of the occurrence (or non-occurrence) of the future event(s) cannot be determined.

ACCOUNTING TREATMENT

Contingent losses
- When both of the following conditions are met the amount of a contingent loss must be accrued in the financial statements by a charge to income:
  - It is likely a future event will confirm an asset has been impaired or a liability incurred at the date of the financial statements; and
  - A reasonable estimate of the amount of the loss can be made.
- When the estimate of the amount of a contingent loss to be accrued is based on a range and a specific amount in the range appears to be a better estimate than any other, that amount is accrued.
- However, if no amount in the range appears to be a better estimate than any other, then the minimum amount in the range is accrued.
- Contingent gains
  - Must not be accrued in the financial statements.

DISCLOSURE

Contingent losses
- Disclosure in the notes to the financial statements of the existence of a contingent loss at the date of the financial statements must occur when:
  - The occurrence of the confirming future event is likely but a reasonable estimate of the loss cannot be made;
  - The occurrence of the confirming future event is likely and an accrual has been made but exposure to loss in excess of the amount accrued exists; or
  - The occurrence of the confirming future event is not determinable.
- Minimum disclosure in the notes must include:
  - The nature of the contingency;
  - The estimate of the amount of the contingent loss or a statement that such an estimate cannot be made; and
  - Any exposure to loss in excess of the amount accrued.

Contingent gains
- Disclosure in the notes to the financial statements of the existence of a contingent gain must occur when it is likely that a future event will confirm that an asset has been acquired or a liability reduced at the date of the financial statements.
- Minimum disclosure in the notes must include:
  - The nature of the contingency; and
  - The estimate of the amount of the contingent gain or a statement that such an estimate cannot be made.
Section 3400 - Revenue

Effective Date
Periods beginning on or after 1 January 2011

**REVENUE - DEFINITION**

Revenue is the inflow of cash, receivables, other consideration arising in the course of ordinary activities of an enterprise, normally from the sale of goods, rendering of services, interest, royalties, and dividends. Revenue does not include income from investments accounted for under the equity method, revenues arising from lease agreements, and income from government grants.

**MEASUREMENT**

- Revenue is usually measured at the amount agreed upon by the parties to the transaction.
- Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. In an agency relationship, the amounts collected on behalf of the principal are not revenue; instead, revenue is the commission.
- Revenue is net of items such as trade or volume discounts, returns and allowances, claims for damaged goods, and certain excise and sales taxes.
- Cash consideration received by a customer from a vendor is presumed to be a reduction of the prices of the vendor's products or services, not revenue; unless the consideration is payment for assets or services rendered to the vendor.

**RECOGNITION**

**RECOGNITION CRITERIA**

Revenue arising from the sale of goods or rendering of services is recognized when all of the following criteria have been satisfied:
- The significant risks and rewards of ownership are transferred.
  - Consider whether the seller has continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold;
- The amount of revenue can be measured reliably; and
- Ultimate collection of consideration is reasonably assured

When there is uncertainty as to ultimate collection of consideration, it may be appropriate to recognize revenue only as cash is received.

The recognition criteria are usually applied separately to each transaction. However, in the case of a multiple deliverable arrangement, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.

**RENDERING OF SERVICES**

Revenue from service transactions and long-term contracts is usually recognized as the service or contract activity is performed, using either the percentage of completion method or the completed contract method.
- The percentage of completion method is used when performance consists of the execution of more than one act, and revenue would be recognized proportionately by reference to the performance of each act. Measures of performance include output measures, such as units produced and project milestones, or input measures, such as labour hours or machine use.) Amounts billed are not an appropriate basis of measurement unless they reflect the work accomplished.
- The completed contract method would only be appropriate when performance consists of the execution of a single act or when the enterprise cannot reasonably estimate the extent of progress toward completion.

**INTEREST, ROYALTIES AND DIVIDENDS**

For interest, royalties and dividends, if it is probable that the economic benefits will flow to the enterprise and the amount of revenue can be measured reliably, revenue should be recognized as follows:
- **Interest**: on a time proportion basis.
- **Royalties**: on an accruals basis in accordance with the substance of the relevant agreement; and
- **Dividends**: when the shareholder’s right to receive payment is established.
Section 3400 - Revenue

**PERFORMANCE**

Performance would be regarded as being achieved when all of the following criteria have been met:
- persuasive evidence of an arrangement exists;
- delivery has occurred or services have been rendered; and
- the sellers’ price to the buyer is fixed or determinable

**PERSUASIVE EVIDENCE**

Some of the items an entity would consider in determining if persuasive evidence of an arrangement exists are as follows:
- customary business practices;
- side arrangements;
- consignment arrangements;
- rights to return the product; and
- requirements to repurchase the product

**DELIVERY**

Generally, delivery is not considered to have occurred unless the product has been delivered to the customer's place of business or another site specified by the customer. Some of the aspects of the revenue arrangement an entity would consider in determining if delivery has occurred or services have been rendered are as follows:
- bill and hold arrangements;
- customer acceptance of product;
- layaway sales arrangements;
- non-refundable fee arrangements; and
- licensing and similar fee arrangements

**PRICE**

In determining if the seller's price to the buyer is fixed or determinable, an entity would consider the impact of the following factors:
- cancellable sales arrangements;
- right of return arrangements;
- price protections and/or inventory credit arrangements; and
- refundable fee for service arrangements

**DISCLOSURE**

- The revenue recognition policy for each type of revenue stream
- Revenue recognition policy for sales transactions with multiple elements including determination of multiple elements, performance, cancellation, and termination provisions and valuation.
- The amount of each significant category of revenue, including:
  - Sale of goods
  - Rendering of services
  - Interest
  - Royalties
  - Dividends
Section 3462 - Employee Future Benefits

SCOPE

Applies to:
- Employee future benefits include the following:
  - Pension and other retirement benefits that an entity anticipates providing to employees and their beneficiaries after retirement.
  - Post-employment benefits that an entity anticipates providing to employees and their beneficiaries subsequent to employment but prior to retirement.
  - Compensated absences that an entity anticipates paying to employees.
  - Termination benefits.
  - Any arrangement that is a benefit plan in substance irrespective of its form or the method / timing of its funding.
  - Future benefits that an entity pays all / part of the cost.
  - Entities with funded or unfunded benefit plans.

Does not apply to:
- Benefits an entity provides to employees during active employment.
- Defined contribution plans and defined benefit plans
  - When an entity provides benefits under a defined benefit plan it bears the following risks:
    - Actuarial risk - the risk regarding the amount of benefits each employee will actually receive.
    - Investment risk - the risk investment returns on assets set aside to pay for the cost of the employee benefits will fall short and the entity will be responsible for funding the difference.
  - Conversely, when an entity provides benefits under a defined contribution plan it does not bear the actuarial or investment risks, instead it is the employees who bear these risks.

BASIC PRINCIPLES

- The objective of accounting for employee future benefits is to recognize a liability and a cost during the reporting period when an employee provides the service that results in the future benefits.
- Defined contribution plans and defined benefit plans
  - When an entity provides benefits under a defined benefit plan it bears the following risks:
    - Actuarial risk - the risk regarding the amount of benefits each employee will actually receive.
    - Investment risk - the risk investment returns on assets set aside to pay for the cost of the employee benefits will fall short and the entity will be responsible for funding the difference.
  - Conversely, when an entity provides benefits under a defined contribution plan it does not bear the actuarial or investment risks, instead it is the employees who bear these risks.
  - The economic substance of the plan determines its classification as either a defined benefit plan or a defined contribution plan.

DEFINED CONTRIBUTION PLANS

- A benefit plan that specifies how an entity’s contributions to the plan are determined instead of specifying the benefits an employee will receive or the method of determining those benefits.
  - The cost for a period that an entity recognizes includes:
    - The current service cost;
    - The past service cost;
    - The interest cost on the estimated present value of any contributions required in future periods that results from employee services provided during the current / prior periods; and
    - A reduction for interest income on any unallocated plan surplus.
  - The cost for the period is either expensed or capitalized as part of an asset such as inventory or property, plant and equipment.

DEFINED BENEFIT PLANS

- A benefit plan that is not a defined contribution plan.
- Defined benefit liability (asset)
  - The amount of the defined benefit obligation less the fair value of plan assets, if any, adjusted for any valuation allowance in the case of a net asset.
- Recognition
  - An entity must recognize:
    - The defined benefit liability (asset) in the balance sheet at the end of the period; and
    - The costs of the plan for the period, which would include remeasurements, (refer to paragraphs 3462.076-.090) as either:
      - An expense; or
      - An amount capitalized as part of an asset such as inventory or property, plant and equipment.
- The defined benefit obligation and the cost for employee future benefits must be recognized in the same period when the employees provide services to the entity in exchange for the benefits, except for post-employment benefits and compensated absences that do not vest or accumulate. In this case, the entity must recognize the defined benefit obligation and the cost for employee future benefits at the time the event that obligates the entity occurs.

1 Except as specified in paragraph 3462.119. Earlier application is permitted, but only if applied to all of an entity’s benefit plans. This Section is applied prospectively, in accordance with Section 1506, Accounting Changes, except as set out in paragraphs 3462.121-.124.
DEFINITION OF A DEFINED BENEFIT OBLIGATION

An entity must measure the defined benefit obligation for each of its defined benefit plans as of the balance sheet date using either:

- An actuarial valuation prepared for accounting purposes as set out in paragraphs 3462.035-.061; or
- An actuarial valuation prepared for funding purposes, provided the criteria in paragraphs 3462.029B or 3462.029C, and paragraph 3462.029D are met.

TERMINATION BENEFITS

When special termination benefits are offered to employees for voluntary termination and the employees accept the offer and a reasonable estimate can be made of the amount of the benefits an entity must recognize:

- A liability; and
- An expense.

When special termination benefits are offered to employees for involuntary termination a liability and expense must be recognized by the entity in the period when:

- A plan of termination has been approved and committed to by management with the proper authority and this plan sets out the benefits employees will receive on termination;
- Communication has been provided to employees in enough detail to allow them to understand the type and amount of benefits to be received on termination.
- The intended reduction in the number of employees, job classifications / functions and locations are all identified by the termination plan; and
- The termination plan indicates significant changes to the plan are unlikely during the time required to complete the plan.

When contractual termination benefits must be provided to employees under the existing terms of a benefit plan, an entity must recognize a liability and expense when:

- It is probable the employees will be entitled to benefits; and
- A reasonable estimate can be made of the amount.

MULTIEMPLOYER AND MULTIPLE-EMPLOYER BENEFIT PLANS

MULTIEMPLOYER PLAN

- A defined benefit plan to which two or more unrelated entities contribute, normally pursuant to one or more collective bargaining agreements.
- An entity may apply defined contribution accounting when sufficient information is not available to apply the accounting requirements for defined benefit plans.

MULTIPLE-EMPLOYER BENEFIT PLAN

- A defined benefit plan maintained by more than one entity that is not a multiemployer plan.
- Each entity in a multiple-employer plan accounts for their plan using defined benefit accounting as set out in this Section and accounts for its plan assets based on its proportionate interest in the assets of the multiple-employer plan.
Income Taxes - Taxes Payable Method

**Scope**

Does not apply to:

- Accounting for investment tax credits (see Section 3805).

**Income Taxes**

Include:

- All domestic and foreign taxes that are based on taxable income;
- Taxes, such as mining taxes, that are based on a measure of revenue less certain specified expenses;
- Alternative minimum income taxes, including taxes based on measures other than income and that may be used to reduce income taxes of another period; and
- Taxes, such as withholding taxes, that are based on amounts paid to the enterprise.

**Accounting Policy**

- An enterprise must make an accounting policy choice to either account for income taxes using:
  - The taxes payable method; or
  - The future income taxes method.
- In making this choice, the entity does not need to meet the criteria in paragraph .06(b) of Section 1506, Accounting Changes.

**Taxes Payable Method**

- A method of accounting under which an enterprise reports as an expense (income) of the period only the cost (benefit) of current income taxes for that period, determined in accordance with the rules established by taxation authorities.
- Current income taxes, to the extent unpaid or recoverable, must be recognized as a liability or an asset.
- The benefit relating to a tax loss arising in the current period that will be carried back to recover income taxes of a previous period must be recognized as a current asset.
- Income tax liabilities and assets must be measured at the balance sheet date using the income tax rates and laws that are expected to apply when the liability is settled or the asset is realized, which are normally those enacted at the balance sheet date.

**Intrapерiod Allocation**

- **Income tax expense**
  - The cost (benefit) of current and future income taxes must be recognized as income tax expense included in determining net income / loss for the period before discontinued operations, except for:
    - Any portion of the cost (benefit) of current and future income taxes that relates to capital transactions, or items that are credited / charged directly to equity in the current period. This amount is credited / charged directly to equity. For more details on how to account for such items refer to the guidance provided in paragraphs 3465.59 (c), (h) and (i).

- **Refundable taxes**
  - Taxes based on certain types of income that are refundable when certain amounts are paid to shareholders.
  - Refundable taxes in the nature of advance distributions related to a component of an instrument classified as equity in accordance with Section 3856, Financial Instruments, are charged to retained earnings when it is more likely than not that the taxes will be recovered in the foreseeable future. The recovery of such refundable taxes is credited to retained earnings.
  - When it is not more likely than not that the taxes will be recovered in the foreseeable future, the taxes are charged to income.
  - Refundable taxes are accrued relating to all related elements of income recognized in the period, whether the taxes relating to these amounts are payable currently or in the future.

- **Taxes related to distributions or future distributions**
  - Are treated the same for accounting as the distributions themselves.

**Presentation**

- **Income tax expense**
  - Included in determining net income / loss before discontinued operations is presented on the face of the Income Statement.

- **Income tax liabilities and income tax assets**
  - Must be presented separate from other liabilities and assets.
  - Current income tax liabilities and assets must be offset if they relate to the same taxable entity and taxation authority.

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1 Includes portions of Section 3465 - Income Taxes, that relate to the taxes payable method. For the remainder of the guidance provided in Section 3465 related to the future income taxes method, please refer to our publication “ASPE AT A GLANCE - Income Taxes - Future Income Taxes Method”.

2 Except as specified in paragraph 3465.92.
# Income Taxes - Future Income Taxes Method

## SCOPE

Does not apply to:
- Accounting for investment tax credits (see Section 3805).

## INCOME TAXES

### Include:
- All domestic and foreign taxes that are based on taxable income;
- Taxes, such as mining taxes, that are based on a measure of revenue less certain specified expenses;
- Alternative minimum income taxes, including taxes based on measures other than income and that may be used to reduce income taxes of another period; and
- Taxes, such as withholding taxes, that are based on amounts paid to the enterprise.

## ACCOUNTING POLICY

- An enterprise must make an accounting policy choice to either account for income taxes using:
  - The taxes payable method; or
  - The future income taxes method.
- In making this choice, the entity does not need to meet the criteria in paragraph .06(b) of Section 1506, Accounting Changes.

## FUTURE INCOME TAXES METHOD

- A method of accounting under which an enterprise reports as an expense (income) of the period the cost (benefit) of current income taxes and the cost (benefit) of future income taxes, determined in accordance with the rules established by taxation authorities.

## RECOGNITION

### CURRENT INCOME TAX LIABILITIES AND CURRENT INCOME TAX ASSETS

- Are recognized, to the extent unpaid or recoverable, as a liability or an asset.
- Must not be included in future income tax liabilities and future income tax assets.
- The benefit relating to a tax loss arising in the current period that will be carried back to recover income taxes of a previous period must be recognized as a current asset.

### FUTURE INCOME TAX LIABILITIES AND FUTURE INCOME TAX ASSETS

#### Temporary differences

- Differences between the tax basis of an asset or liability and its carrying amount in the balance sheet. May be either taxable temporary differences or deductible temporary differences.

#### Future income tax liabilities

- The amounts of income taxes arising from taxable temporary differences.
- **Taxable temporary differences**
  - Temporary differences that will result in taxable amounts in determining taxable income of future periods when the carrying amount of the asset or liability is recovered or settled.
  - At each balance sheet date, except as set out in paragraphs 3465.31, .33 and .35, a future income tax liability must be recognized for all taxable temporary differences, except those arising from any portion of goodwill not deductible for tax purposes.

#### Future income tax assets

- The amounts of income tax benefits arising in respect of:
  - Deductible temporary differences;
  - The carryforward of unused tax losses; and
  - The carryforward of unused income tax reductions, except for investment tax credits.
  - **Deductible temporary differences, unused tax losses and income tax reductions**
    - Deductible temporary differences are differences that will result in deductible amounts in determining taxable income of future periods when the carrying amount of the asset or liability is recovered or settled.
    - At each balance sheet date, except as set out in paragraphs 3465.31, .33 and .35, a future income tax asset must be recognized for all deductible temporary differences, unused tax losses and income tax reductions.
    - The amount recognized must be limited to the amount that is more likely than not to be realized.

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1. Includes portions of Section 3465 - Income Taxes, that relate to the future income taxes method. For the remainder of the guidance provided in Section 3465 related to the taxes payable method, please refer to our publication “ASPE AT A GLANCE - Income Taxes - Future Income Taxes Method”.
2. Except as specified in paragraph 3465.92
FUTURE INCOME TAX LIABILITIES AND FUTURE INCOME TAX ASSETS (CONTINUED)

- Reassessment of future income tax assets
  - At each balance sheet date:
    - To the extent it is no longer more likely than not a recognized future income tax asset will be realized, the carrying amount of the asset must be reduced; or
    - To the extent it is no longer more likely than not an unrecognized future income tax asset will be realized, a future income tax asset must be recognized.

- Integrated foreign operations
  - When a temporary difference arises from the difference between the historical exchange rate and the current exchange rate translations of the cost of non-monetary assets or liabilities of integrated foreign operations, a future income tax asset or liability cannot be recognized.

- Intra-group transfers
  - When an asset is transferred between enterprises within a consolidated group and a temporary difference arises between the tax basis of the asset in the buyer’s tax jurisdiction and its cost as reported in the consolidated financial statements, a future income tax liability or asset must not be recognized in the consolidated financial statements.
  - Any taxes paid or recovered by the transferor resulting from the transfer must be recorded in the consolidated financial statements as an asset or liability until the gain or loss is recognized by the consolidated entity.

- Investments in subsidiaries and interests in joint arrangements
  - At each balance sheet date, a future income tax liability or a future income tax asset must be recognized for all temporary differences resulting from investments in subsidiaries and interests in joint arrangements, except those related to the difference between the carrying amount and the tax basis of the investment when it is evident this difference will not reverse in the foreseeable future.
  - A future income tax asset can only be recognized to the extent it is more likely than not the benefit will be realized.

ASSETS ACQUIRED OTHER THAN IN A BUSINESS COMBINATION

- When the tax basis of an asset acquired other than in a business combination is less than its cost, the cost of the future income taxes recognized at the time of acquisition must be added to the cost of the asset.
- When the tax basis of an asset acquired other than in a business combination is greater than its cost, the benefit related to the future income taxes recognized at the time of the acquisition must be deducted from the cost of the asset.

BUSINESS COMBINATION

- When, at the time of a business combination, the acquirer considers it more likely than not that it will realize a future income tax asset of its own that was previously unrecognized, it must recognize a change in the future income tax asset in the period of the business combination, but must not include it as part of the accounting for the business combination.
- When a future income tax asset acquired in a business combination was not recognized as an identifiable asset by the acquirer at the date of the acquisition, but is subsequently recognized by the acquirer within the measurement period, the benefit must be applied as follows:
  - First, to reduce any unamortized goodwill related to the acquisition to zero; and
  - Next, to reduce income tax expense.
- When a future income tax asset acquired in a business combination was not recognized as an identifiable asset by the acquirer at the date of the acquisition, but is recognized by the acquirer after the measurement period, the benefit must be recognized as income tax expense.
- The same principles outlined above must also be applied:
  - When accounting for an investment subject to significant influence or an interest in a joint arrangement; and
  - When recognizing future income tax assets in periods subsequent to the application of push-down accounting (see Section 1625, Comprehensive Revaluation of Assets and Liabilities).
- When a future income tax asset was not recognized at the date of a comprehensive revaluation resulting from a financial reorganization (see Section 1625, Comprehensive Revaluation of Assets and Liabilities), but is subsequently recognized, the benefit must be applied as follows:
  - First, to reduce any unamortized intangible assets (see Section 3064, Goodwill and Intangible Assets) that were recorded at the date of the comprehensive revaluation to zero; and
  - Next, in a manner consistent with the revaluation adjustment recorded at the date of the comprehensive revaluation.
**MEASUREMENT**

- At the balance sheet date, income tax liabilities and assets must be measured using the income tax rates and laws that are expected to apply when the liability is settled or the asset is realized, which are normally those enacted at the balance sheet date.
- Future income tax liabilities and assets must not be discounted.

**INTRAPERiod ALLOCATION**

- **Income tax expense**
  - The cost (benefit) of current and future income taxes must be recognized as income tax expense included in determining net income / loss for the period before discontinued operations, except for:
    - Any portion of the cost (benefit) of current and future income taxes that relates to capital transactions, or items that are credited / charged directly to equity in the current period. This amount is credited / charged directly to equity. For more details on how to account for such items refer to the guidance provided in paragraphs 3465.59 (c)-(i).
    - Changes in future income tax balances recognized in accordance with paragraph 3465.51 as a result of changes in tax laws or rates must be included in future income tax expense reported in income before discontinued operations.

- **Refundable taxes**
  - Taxes based on certain types of income that are refundable when certain amounts are paid to shareholders.
  - A future income tax asset is recognized when the amount of a payment related to a component of an instrument classified as a liability in accordance with Section 3856, Financial Instruments, results in a refund of income taxes previously paid.
  - Refundable taxes in the nature of advance distributions related to a component of an instrument classified as equity in accordance with Section 3856, Financial Instruments, are charged to retained earnings when it is more likely than not that the taxes will be recovered in the foreseeable future. The recovery of such refundable taxes is credited to retained earnings.
  - Refundable taxes are accrued relating to all related elements of income recognized in the period, whether the taxes relating to these amounts are payable currently or in the future.

- **Alternative minimum tax**
  - Any income taxes currently payable that may reduce income taxes of a future period must be recorded as a future income tax asset if it is more likely than not that the income taxes will be sufficient to recover the amounts currently payable.
  - However, any amounts that are not more likely than not to be recovered must be included in current income tax expense.

- **Taxes related to distributions or future distributions**
  - Are treated the same for accounting as the distributions themselves.

**PRESENTATION**

- **Income tax expense**
  - Included in determining net income / loss before discontinued operations is presented on the face of the Income Statement.

- **Income tax liabilities and income tax assets**
  - Must be presented separate from other liabilities and assets.
  - Current income tax liabilities and assets must be presented separate from future income tax liabilities and assets.
  - When an entity segregates assets and liabilities between current and non-current, the current and non-current portions of future income tax liabilities and assets must also be segregated.
  - The classification between current and non-current is based on the classification of the liabilities and assets that the future income tax liabilities and assets relate to.
  - When a future income tax liability or asset is not related to a liability or asset recognized for accounting purposes, it is classified according to the expected reversal date of the temporary difference.
  - Future income tax assets that relate to unused tax losses and income tax reductions are classified according to the date when the entity expects to realize the benefit.
  - Current income tax liabilities and assets must be offset if they relate to the same taxable entity and taxation authority.
  - Similarly, future income tax liabilities and assets must be offset if they relate to the same taxable entity and taxation authority.
  - When an enterprise classifies assets and liabilities as current and non-current, the portion of future income tax balances classified as current must not be offset against the future income tax balances classified as non-current.
  - When enterprises are part of a group, but are taxed separately by the same taxation authority, a future income tax asset recognized by one enterprise cannot be offset against a future income tax liability of another enterprise in the group, unless:
    - Tax planning strategies can be implemented that meet the requirements of paragraph 3465.83 when the future income tax liability becomes payable.
Section 3475 - Disposal of Long-lived Assets and Discontinued Operations

SCOPE

Applies to:
- Disposal of non-monetary long-lived assets, including property, plant and equipment, intangible assets with finite useful lives and long-term prepaid assets.

Does not apply to:
- Investments, including equity method accounted investments (see Section 3051).
- Financial assets, financial liabilities and contracts to buy or sell non-financial items accounted for in accordance with Section 3856, Financial Instruments.
- Oil and gas assets accounted for using the full cost method (see ACG-16).
- Unproved oil and gas properties accounted for using the successful efforts method.

DEFINITIONS

Disposal group
- A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Long-lived asset
- An asset that does not meet the definition of a current asset in Section 1510, Current Assets and Current Liabilities. For this Section, the term “long-lived asset” includes a disposal group.

Discontinued operation
- A component of an enterprise that either has been disposed of (by sale, abandonment or spin off) or is classified as held for sale, and:
  - Represents a separate major line of business or geographical area of operation;
  - Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
  - Is a subsidiary acquired exclusively with a view to resale.
- A component of an enterprise comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the enterprise.

LONG-LIVED ASSETS TO BE DISPOSED OF BY SALE

RECOGNITION

- Is classified as held for sale in the period in which all of the following criteria are met:
  - Management, that has authority to approve the action, commits to a plan to sell;
  - The long-lived asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets;
  - An active program to locate a buyer and other actions required to complete the sale plan have been initiated;
  - The sale is probable, and is expected to qualify for recognition as a completed sale within one year, except as permitted by paragraph 3475.09;
  - The price that the long-lived asset is being actively marketed for sale at is reasonable in relation to its current fair value; and
  - Actions required to complete the plan indicate it is unlikely significant changes to the plan will be made or that the plan will be withdrawn.
- If these criteria are met after the balance sheet date but before the financial statement are issued, a long-lived asset continues to be classified as held and used and the disclosures required by paragraph 3475.37(a) are included in the notes.

1 The definition of a discontinued operation in paragraph 3475.03(e) applies to fiscal years beginning on or after January 1, 2014. Earlier application is permitted.
2 For guidance on long-lived assets to be disposed of other than by sale refer to paragraphs 3475.04-.07.
### Measurement

- A long-lived asset classified as held for sale:
  - Is measured at the lower of its carrying amount or fair value less cost to sell.
  - Is not amortized.
- Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be accrued.
- A loss is recognized for any initial or subsequent write-down to fair value less cost to sell.
- A gain is recognized for a subsequent increase in fair value less cost to sell, however, it must not exceed the cumulative loss previously recognized.
- In the case where a disposal group is a portion of a reporting unit that constitutes a business, prior to determining any write-down, goodwill is allocated to the disposal group and included in its carrying amount.

### Changes to a Plan of Sale

- A long-lived asset that no longer meets the criteria to be classified as held for sale is reclassified as held and used.
- When this occurs, the reclassified long-lived asset is measured individually at the lower of:
  - Its carrying amount before it was classified as held for sale, adjusted for any amortization expense that would have been recognized if it had continuously been classified as held and used; or
  - Its fair value at the date of the subsequent decision not to sell.

### Presentation

#### Discontinued Operations

- The results of discontinued operations, less applicable income taxes, must be reported as a separate element of income for both current and prior periods (refer to Section 1520, Income Statement).
- Any gain or loss recognized in accordance with paragraph 3475.19 is included in the results of discontinued operations and is reported in discontinued operations in the period(s) in which it occurs.
- Any future losses that are associated with the operations of a discontinued operation are not accrued in accordance with paragraph 3475.16.
- Classified separately in the current period in discontinued operations are, any adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a component of an enterprise in a prior period.
- The disposal of an equity method investment, by itself, is not reported as a discontinued operation.

#### Balance Sheet Presentation

- An entity must present a long-lived asset classified as held for sale separately on the Balance Sheet.
- Assets and liabilities of a disposal group that is classified as held for sale must be presented separately in the asset and liability sections, respectively, of the Balance Sheet.
# Government Assistance & Investment Tax Credits

**SCOPE**

**Does not apply to:**
- Loans having normal commercial characteristics from governments and their agencies.
- Accelerated tax write-offs or tax rate reductions such as small businesses or manufacturing and processing businesses.
- Assistance received from a government that holds an equity position in an enterprise.

**GOVERNMENT ASSISTANCE**

Governmental actions that provide specific assistance to an individual enterprise in order to influence business decisions on matters such as investment, hiring, plant location, etc.

**INVESTMENT TAX CREDITS**

- A type of government assistance related to specific qualifying expenditures that are prescribed by tax legislation.
- The credits may be received as a reduction in income taxes otherwise payable or they may be received by other means.

## Recognition

### Government Assistance Related to Non-Capital Items

- **Current expenses and revenues**
  - Include in the determination of net income for the period.

- **Expenses of future periods**
  - Defer and amortize to income as related expenses are incurred.

### Government Assistance Related to Capital Items

- **Acquisition of fixed assets**
  - Alternatives:
    - Deduct the amount of the assistance from the related fixed assets with any depreciation calculated on the net amount; or
    - Defer and amortize the amount of the assistance to income on the same basis as the related depreciable fixed assets are depreciated.

- **Remission of excise or sales taxes**
  - Recognize as a fixed asset cost reduction.

### Forgivable Loans

- A type of government assistance drawn up in the form as a loan that is forgiven on condition that the borrower continues to meet certain requirements specified at the time it was granted.
- Recognize in the same manner as a grant at the time the entity becomes entitled to receive the loan.

## Repayment of Government Assistance

- Recognize the liability to repay government assistance in the period when conditions arise that cause the assistance to be repayable as follows:
  - When the original receipt of government assistance was applied to reduce expenses or increase revenues, recognize the repayment in the current income statement.
  - When the original receipt of government assistance was related to expenses of future periods and was treated as a deferred credit, adjust the unamortized balance of the deferred credit by the repayment. Base the future amortization on the resulting balance when the deferred credit has not been eliminated. Recognize any excess of repayment over the unamortized balance in the current income statement.
  - When the cost of fixed assets was reduced by the original receipt of the assistance, increase the cost of the assets by the applicable repayment. The effect on depreciation shall be accounted for prospectively.
  - When the original receipt of government assistance relating to fixed assets was treated as a deferred credit, adjust the unamortized balance of the deferred credit by the applicable repayment. Base the future amortization on the resulting balance.

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1 Includes Section 3800 - Government Assistance and Section 3805 - Investment Tax Credits.
2 Does not apply to investment tax credits.
## Accrual of Assistance

### Government Assistance
- Accrue an estimate of the total amount to be received as long as there is reasonable assurance that the entity has complied with and will continue to comply with all of the conditions of the assistance.

### Investment Tax Credits
- Accrue when the enterprise has made the qualifying expenditures, provided there is reasonable assurance that the credits will be realized.
- If the investment tax credits are not accrued because there is no reasonable assurance that the credits will be realized, such credits are accrued in the subsequent year in which reasonable assurance of realization is first obtained and are accounted for as a change in accounting estimate, as set out in Section 1506, *Accounting Changes*.
- When circumstances arise that indicate that the company will not be able to claim the investment tax credits previously accrued, the effects are accounted for prospectively in a manner similar to the repayment of government assistance (see 3800.28-.29).

## Unanticipated Government Assistance
- Example: assistance received as compensation for flood damage when legislation is enacted in a subsequent period.
- When unanticipated assistance relates to expenditures made or losses incurred in prior periods, recognize the assistance in the period when the estimate is first made.

## Presentation
- Alternatives available for presentation of government assistance related to current expenses and revenue are to:
  - Show expenses net of assistance; or
  - Show the assistance as a deduction from aggregate expenses or as revenue.
Section 3820 - Subsequent Events

SCOPE

- This section applies to events that occur subsequent to the financial statement date.
- The extent to which, and the manner in which, the effect of a subsequent event is reflected in the financial statements depends on its type.
- There are two types of subsequent events:
  - Those that provide further evidence of conditions that existed at the financial statement date; and
  - Those that are indicative of conditions that arose subsequent to the financial statement date.

ACCOUNTING TREATMENT

- Financial statements are complete when:
  - A complete set of financial statements, including all required note disclosures, has been prepared (See Section 1400, General Standards of Financial Statement Presentation, paragraphs 10-.11);
  - All final adjusting journal entries have been reflected in the financial statements (for example, adjustments for income taxes and bonuses);
  - No changes to the financial statements are planned or expected; and
  - The financial statements meeting the above requirements have been approved in accordance with the entity’s process to finalize its financial statements.
- When events occurring between the date of the financial statements and the date of their completion provide additional evidence relating to conditions that existed at the date of the financial statements, the financial statements must be adjusted.
- Financial statements must not be adjusted for events occurring between the date of the financial statements and the date of their completion that do not relate to conditions that existed at the date of the financial statements.

DISCLOSURE

- Disclosure must be made of events occurring between the date of the financial statements and the date of their completion that do not relate to conditions that existed at the date of the financial statements but:
  - Cause significant changes to assets or liabilities in the subsequent period; or
  - Will, or may, have a significant effect on the future operations of the enterprise.
- At a minimum, the disclosure must include:
  - A description of the nature of the event; and
  - An estimate of the financial effect, when practicable, or a statement that such an estimate cannot be made.
Section 3831 - Non-monetary Transactions

DEFINITIONS

Monetary assets and liabilities
• Money or claims to future cash flows that are fixed or determinable in amounts and timing by contract or other arrangement.

Non-monetary assets and liabilities
• Assets and liabilities that are not monetary.

Non-monetary transactions are either:
• Non-monetary exchanges
  • Exchanges of non-monetary assets, liabilities or services for other non-monetary assets, liabilities or services with little or no monetary consideration involved; or
• Non-monetary non-reciprocal transfers
  • Transfers of non-monetary assets, liabilities or services without consideration.

SCOPE

Applies to:
• Non-monetary transactions.

Does not apply to:
• Business combinations (see Section 1582).
• Transactions involving employee future benefits (see Section 3462).
• Transactions between related parties (see Section 3840), unless paragraphs 3831.14-.15 apply.
• Transactions involving stock-based compensation (see Section 3870).
• Replacement through insurance or expropriation proceeds, of non-monetary assets that are lost, destroyed or expropriated since these are monetary transactions.

MEASUREMENT

An asset exchanged or transferred in a non-monetary transaction is measured at the fair value of the asset given up or the fair value of the asset received, whichever is more reliable, unless:
• The transaction lacks commercial substance;
• The transaction is an exchange of a product / property held for sale in the ordinary course of business for a product / property to be sold in the same line of business to customers who were not parties to the exchange;
• Neither the fair value of the asset received nor given up are reliably measurable; and
• The transaction is a non-monetary non-reciprocal transfer to owners.

An asset exchanged or transferred in a non-monetary transaction that is not measured at fair value, is measured at the carrying amount of the asset given up (after any reduction for impairment) adjusted by the fair value of any monetary consideration received or given.

RELIABLY MEASURABLE FAIR VALUES

• When comparable market transactions do not exist the fair value of an asset is reliably measurable when:
  • Variability in the range of reasonable fair value estimates for the asset is not significant; or
  • Probabilities of the various estimates within the range can be reasonably assessed and used to estimate fair value.
• When an entity can reliably determine the fair value of both the asset received and the asset given up, the fair value of the asset given up is used to measure the asset received.

COMMERCIAL SUBSTANCE

• Exists in a non-monetary transaction when the entity's future cash flows are expected to change significantly as a result of the transaction.
• This occurs when:
  • The configuration of the future cash flows of the asset received differs significantly from the configuration of the future cash flows of the asset given up; or
  • The entity-specific value of the asset received differs significantly, relative to the fair value of the assets exchanged, from the entity-specific value of the asset given up.

RESTRUCTURING OR LIQUIDATION

• A non-monetary non-reciprocal transfer to owners that represents a spin-off or other form of restructuring or liquidation is measured at the carrying amount of the non-monetary assets or liabilities transferred.

GAINS AND LOSSES

• Any gain or loss resulting from a non-monetary transaction is included in net income for the period, except as specified in Section 3051, Investments, and Section 3056, Interests in Joint Arrangements.

1 Except as specified in paragraph 3831.18.
# Section 3840 - Related Party Transactions

## Scope

**Applies to:**
- Related party transactions in the financial statements of profit-oriented enterprises.

**Does not apply to:**
- Management compensation arrangements, including employee future benefits accounted for in accordance with Section 3462, *Employee Future Benefits*, expense allowances and other similar payments, including loans and receivables, to individuals, in the normal course of business.
- Transactions between an enterprise preparing non-consolidated financial statements and subsidiaries:
  - That are only controlled through means other than voting interests, potential voting interests, or a combination thereof, and
  - For which control is the only basis for the related party relationship. Transactions with such enterprises are governed by other Sections, such as Section 3280, *Contractual Obligations*.

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## Related Parties

- Exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over another.
- Two or more parties that are subject to common control, joint control or common significant influence are related.
- Includes management and immediate family members.
- For examples of the most common related parties of a reporting enterprise refer to paragraph 3840.04.

## Related Party Transaction (RPT)

- A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged.
- Parties to the transaction are related prior to the transaction. A relationship that arises as a result of the transaction is not a transaction between related parties.

## Measurement

- Related party transactions (RPTs) are measured at either the **carrying amount** or the **exchange amount**.

  - **Carrying Amount** is the amount of an item transferred, or cost of services provided, as recorded in the accounts of the transferor, after adjustment, if any, for amortization or impairment in value.
  - When RPTs are measured at the **carrying amount**, any difference between the carrying amounts of items exchanged is included as a charge to equity.

  - **Exchange Amount** is the amount of consideration paid or received as established and agreed to by related parties.
  - When RPTs are measured at the **exchange amount**, the gain or loss is recognized in income for the period, unless another Section requires alternative treatment.

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## Transactions in the Normal Course of Business

- A monetary or non-monetary RPT that has commercial substance is measured at the exchange amount.
- **Unless**, it is a non-monetary RPT that is an exchange of a product / property held for sale in the normal course of operations for a product / property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange. This type of RPT is measured at the carrying amount of the asset given up adjusted by the fair value of any monetary consideration given or received.

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## Transactions Not in the Normal Course of Business

- A monetary or non-monetary RPT that has commercial substance is measured at the exchange amount when:
  - The change in the ownership interests in the item transferred or the benefit of a service provided is substantive; and
  - The exchange amount is supported by independent evidence.
- Otherwise it is measured at the carrying amount.

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1 Except as specified in paragraph 3840.61.
Section 3856 - Financial Instruments

**SCOPE**

Applies to all financial instruments except for the following:

- Interests in subsidiaries, entities subject to significant influence, and joint arrangements that are accounted for in accordance with Section 1591, Subsidiaries, Section 3051, Investments, Section 3056, Interests in Joint Arrangements; however, this Section does apply to a derivative that is based on such an interest.
- Leases (see Section 3065, Leases), although Appendix B of this Section applies to transfers of lease receivables.
- Employer’s rights and obligations for employee future benefits and related plan assets (see Section 3462, Employee Future Benefits).
- Insurance contracts, including the cash surrender value of a life insurance policy.
- Investments held by an investment company that are accounted for at fair value in accordance with AcG-18, Investment Companies; however, the disclosure requirements in paragraphs 3856.37-.54 apply to an investment company.
- Contracts and obligations for stock-based compensation to employees and stock-based payments to non-employees (see Section 3870, Stock-based Compensation and Other Stock-based Payments).
- Guarantees, other than guarantees that replace financial liabilities as described in paragraph 3856.58 (see also AcG-14, Disclosure of Guarantees).
- Contracts based on revenues of a party to the contract.
- Loan commitments (see Section 3280, Contractual Obligations, and Section 3290, Contingencies).
- Contractual arrangements that prevent sale treatment (for example, an option to repurchase transferred receivables).
- Contracts issued by an acquirer (but not the seller) for contingent consideration in a business combination until such time as the contingency is resolved (see Section 1582, Business Combinations, paragraphs .41-.42). This exception applies only to the acquirer (the entity that is accounting for the combination) and not to the seller.

Does not apply to contracts to buy or sell non-financial items except for:

- Exchange-traded futures contracts; and
- Contracts that are designated in a qualifying hedging relationship in accordance with paragraphs 3856.30-.36.

**COMMEN FINANCIAL INSTRUMENTS**

- Cash;
- Demand and fixed-term deposits;
- Commercial paper, bankers’ acceptances, treasury notes and bills;
- Accounts, notes and loans receivable and payable;
- Bonds and similar debt instruments, both issued and held as investments;
- Common and preferred shares and similar equity instruments, both issued and held as investments; and
- Options, warrants, futures contracts, forward contracts, and swaps.

**DEFINITIONS**

**Financial Instrument**
- A contract that creates a financial asset for one entity and a financial liability or equity instrument of another entity.

**Financial Asset**
- Any asset that is:
  - Cash;
  - A contractual right to receive cash or another financial asset from another party;
  - A contractual right to exchange financial instruments with another party under conditions that are potentially favourable; or
  - An equity instrument of another entity.
  - The cost incurred by an entity to purchase a right to reacquire its own equity instruments from another party is a deduction from its equity, not a financial asset.

**Financial Liability**
- Any liability that is a contractual obligation:
  - To deliver cash or another financial asset to another party; or
  - To exchange financial instruments with another party under conditions that are potentially unfavourable to the entity.
  - The variable is not specific to a party to the contract;
  - It requires no initial investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
  - It is settled at a future date.

**Equity Instrument**
- Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

**Derivative**
- A contract with all three of the following characteristics:
  - It’s value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable (sometimes called the “underlying”), provided in the case of a non-financial variable that the variable is not specific to a party to the contract;
  - It requires no initial investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
  - It is settled at a future date.

*1 Except as specified in paragraph 3856.55.*
**RECOGNITION**

Financial instruments are recognized on the Balance Sheet when the entity becomes party to the contractual provisions of the instrument.

**MEASUREMENT**

**INITIAL MEASUREMENT**

- All financial instruments are measured initially at fair value.
  - **Fair value** - the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.
  - Directly attributable transaction costs are added to or deducted from the carrying value of those financial instruments that are not measured subsequently at fair value.
  - **Directly attributable transaction costs** - incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. (Transaction costs include expenditures such as legal fees, reimbursement of the lender's administrative costs and appraisal costs associated with a loan. Transaction costs do not include financing fees, debt premiums or discounts.)
  - When a financial asset is originated or acquired or a financial liability is issued or assumed in a related party transaction, the transaction should be measured in accordance with Section 3840, Related Party Transactions, (parties whose sole relationship with the entity is in the capacity of management, are deemed to be unrelated third parties for financial instrument purposes).
  - If there is a difference between the consideration paid or received and the fair value of the instrument, the difference should be recognized in net income unless it qualifies as some other type of asset or liability.

**SUBSEQUENT MEASUREMENT - AMORTIZED COST**

Financial assets and liabilities are measured at amortized cost except for those noted below.

When determining amortized cost either the effective interest rate or straight line methods may be used to recognize the premium or discount and all related transactions costs and financing fees over the expected life of the instrument with limited exceptions.

**SUBSEQUENT MEASUREMENT - FAIR VALUE**

The following financial instruments should be measured at fair value without any adjustment for transaction costs:

- Investments in equity instruments that are quoted in an active market.
- Derivative contracts except for derivatives that are designated in a qualifying hedging relationship or derivatives that are linked to, and must be settled by delivery of, equity instruments of another entity whose fair value cannot be readily determined.

All gains and losses are recognized in net income.

An entity may elect to measure any financial asset or financial liability at fair value by designating it to be measured at fair value:

- By irrevocably designating that financial instrument when it is initially recognized; or
- When an equity instrument ceased to be quoted in an active market.

All gains and losses are recognized in net income.

**DISCLOSURE**

An entity shall disclose the carrying amounts of each of the following categories of financial instruments, either on the face of the Balance Sheet or in the notes:

- Financial assets measured at amortized cost;
- Financial assets measured at fair value; and
- Investments in equity instruments measured at cost less any reduction for impairment.

Accounts and notes receivable shall be segregated so as to show separately trade accounts, amounts owing by related parties and other unusual items of significant amount. The amounts and, when practicable, maturity dates of accounts maturing beyond one year shall be disclosed separately.
### IMPAIRMENT

At the end of each reporting period, the existence of any indicators that a financial asset, or group of similar financial assets, measured at cost or amortized cost may be impaired should be assessed.

### INDICATORS

An indicator of impairment is a condition or event that will cause a significant adverse change in the expected timing or amount of future cash flows such as significant financial difficulty of the issuer or customer or significant adverse changes in technological, market, economic or legal environment in which the issuer/customer operates in.

### MEASUREMENT

If there is evidence of impairment, reduce the carrying amount of the asset, or group of assets, to the highest of the following:

- The present value of the cash flows from holding the asset discounted using a current market rate of interest;
- The amount that could be realized by selling the asset, or group of assets, at the balance sheet date; and
- The net amount the entity expects to realize by exercising its right to any collateral held to secure repayment of the asset.

The carrying amount of the asset shall be reduced directly or through the use of an allowance account through net income.

The impairment can also be reversed through net income if the situation changes. The adjusted carrying amount of the asset shall not be greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously.

For financial assets other than trade receivables, an entity shall disclose the carrying amount of impaired financial assets, by type of asset, and the amount of any related allowance for impairment. For current trade receivables, an entity shall disclose the amount of any allowance for impairment.

### INTEREST, DIVIDENDS, LOSSES AND GAINS

The classification of an instrument in the balance sheet determines whether interest, dividends, losses and gains relating to that instrument are classified as expenses or income and reported in the income statement or as a charge to equity.

- Dividend payments on shares classified as liabilities are classified as expenses.
- Interest on a bond is reported in net income.
- Gains and losses on redemptions or refinancing of instruments classified as liabilities or equity are reported in net income or equity respectively.

### PRESENTATION - EQUITY OR LIABILITY

A financial instrument, or its components, should be classified as a liability or as equity in accordance with the substance of the contractual arrangement on initial recognition and not based on its legal form.

A financial liability exists when:

- The issuer has a contractual obligation to deliver cash or another financial asset to the holder or to exchange another financial instrument with the holder under conditions that are potentially unfavourable to the issuer. A restriction on the ability of the issuer to satisfy an obligation does not negate the issuer's obligation or the holder's right under the instrument; or
- An issuer's obligation can be settled through the issuance of shares and the number of shares fluctuates in response to changes in a variable other than the market price of the entity's own equity instruments.

### EXCEPTIONS

The following instruments shall be classified as equity on initial recognition:

- Preferred shares issued in a tax planning arrangement under Sections 51, 85, 85.1, 86, 87 or 88 of the Income Tax Act. The entity must present the shares at par, stated or assigned value as a separate line item in the equity section of the balance sheet.
- Partnership interests and certain types of shares in co-operative organizations that provide for payments to the holder of a pro rata share of the residual equity of the issuer in the event of specific events like liquidation or death of the holder.
- A retractable or mandatorily redeemable share is classified as a liability unless all of the following criteria are met:
  - The redeemable shares are the most subordinated of all equity instruments issued by the enterprise;
  - The redemption feature is extended to 100 percent of the shares and the basis for determination of the redemption price is the same for all shares;
  - The shares have no preferential rights relative to other classes of shares of the enterprise that have the same degree of subordination; and
  - The redemption event is the same for all the shares subject to the redemption feature.

### HYBRID INSTRUMENTS

If an instrument has both liability and equity components, such as the case with convertible debt or when warrants or options are issued with and detachable from a liability, an accounting policy choice exists as there are two acceptable methods for measurement of the liability and equity elements on initial measurement:

- The equity component is measured at zero. As a result, the entire proceeds are allocated to the liability component; or
- The less easily measurable component is allocated to the residual amount after deducting from the entire proceeds of the issue the amount separately determined for the component that is more easily measurable.
### Derecognition

#### Financial Assets

Receivables shall be derecognized only when the transferor has surrendered control. Control is surrendered when all of the following conditions are met:
- The transferred assets have been isolated from the transferor — put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership;
- Each transferee has the right to pledge or exchange the assets it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor; and
- The transferor does not maintain effective control over the transferred assets through either:
  - An agreement that both entities and obligates the transferor to repurchase or redeem them before their maturity; or
  - The ability to unilaterally cause the holder to return specific assets with limited exception.

Upon completion of a transfer of receivables that satisfies the conditions to be accounted for as a sale, the transferor (seller):
- Derogonizes all assets sold;
- Recognizes all assets obtained and liabilities incurred in consideration as proceeds of the sale;
- Initially measures at fair value assets obtained and liabilities incurred in a sale; and
- Recognizes in income any gain or loss on the sale.

The transferee recognizes all assets obtained and any liabilities incurred and initially measures them at fair value (in aggregate, presumptively the price paid).

Servicing is inherent in all receivables; it becomes a distinct asset or liability only when contractually separated from the underlying assets by sale or securitization of the assets with servicing retained or separate purchase or assumption of the servicing. A servicer that recognizes a servicing asset or servicing liability accounts for the contract to service receivables separately from those assets, as follows:
- Report servicing assets separately from servicing liabilities in the Balance Sheet.
- Initially measure servicing assets retained in a securitization of the assets being serviced at their allocated previous carrying amount based on relative fair values, if practicable, at the date of the securitization.
- Initially measure servicing assets purchased or servicing liabilities assumed at fair value.
- Initially measure servicing liabilities undertaken in a securitization at fair value, if practicable.
- Account separately for rights to future interest income from the serviced assets that exceed contractually specified servicing fees.
- Subsequently measure servicing assets by amortizing the amount recognized in proportion to and over the period of estimated net servicing income — the excess of servicing revenues over servicing costs.
- Subsequently evaluate and measure impairment of servicing assets.
- Subsequently measure servicing liabilities by amortizing the amount recognized in proportion to and over the period of estimated net servicing loss — the excess of servicing costs over servicing revenues.

#### Financial Liabilities

A financial liability (or part of it) is extinguished when the debtor:
- Discharges the liability (or part of it) by paying the creditor; or
- Is legally released from primary responsibility for the liability (or part of it), either by process of law or by the creditor.

As a result, payments to third parties, including a trust (i.e. in-substance defeasance), by itself will not result in derecognition of the liability, without legal release from the creditor.

When the terms of a financial liability are changed, an entity must determine whether the change is substantial and as such should be accounted for as an extinguishment of old debt and recognition of new debt, or whether the change is a modification of debt.

Extinguishment accounting will be applied when the change in terms is substantial. The change is considered substantial when the present value of the cash flows under the new terms differs by at least 10% from the present value of the remaining cash flows under the original terms, both discounted at the original rate of interest. The difference between the carrying amount of a financial liability extinguished and the fair value of the consideration paid, is recognized in net income for the period.

#### Disclosure

If an entity has transferred financial assets during the period and accounts for the transfer as a sale it shall disclose:
- The gain or loss from all sales during the period;
- The accounting policies for:
  - Initially measuring any retained interest (including the methodology used in determining its fair value); and
  - Subsequently measuring the retained interest; and
- A description of the transferor’s continuing involvement with the transferred assets, including, but not limited to, servicing, recourse and restrictions on retained interests.

If an entity has transferred financial assets in a way that does not qualify for derecognition, it shall disclose:
- The nature and carrying amount of the assets;
- The nature of the risks and rewards of ownership to which the entity remains exposed; and
- The carrying amount of the liabilities assumed in the transfer.
**HEDGE ACCOUNTING**

The purpose of hedge accounting is to recognize offsetting gains, losses, revenues and expenses of the hedged item and the hedging instrument in net income in the same period or periods.

Hedge accounting is optional.

<table>
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<th>ELIGIBILITY</th>
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<td>A hedging relationship qualifies for hedge accounting only when all of the following conditions are satisfied:</td>
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<tr>
<td>• At the inception of the hedging relationship, the entity designates that hedge accounting will be applied to the hedging relationship and formally documents the hedging relationship;</td>
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<tr>
<td>• Both at the inception of the hedging relationship and throughout its term, the entity has reasonable assurance that the critical terms of the hedging item and the hedged item are the same, as described in paragraphs 3856.A62-.A65 or paragraphs 1651.38-.41; and</td>
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<tr>
<td>• When the hedged item is an anticipated transaction, it is probable the anticipated transaction will occur at the time and in the amount designated.</td>
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An entity may designate only the following hedging relationships:

- An anticipated transaction denominated in a foreign currency hedged with a forward contract (see paragraph 3856.A62);
- An anticipated purchase or sale of a commodity hedged with a forward contract (see paragraph 3856.A63-A63C);
- An interest-bearing asset or liability hedged with an interest rate swap (see paragraph 3856.A64);
- A foreign currency denominated interest-bearing asset or liability hedged with a cross-currency interest rate swap (see paragraph 3856.A65); and
- The net investment in a self-sustaining foreign operation hedged with a derivative or non-derivative financial instrument (see Section 1651, Foreign Currency Translation, paragraphs .38-.41).

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<th>RECOGNITION</th>
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<td>A hedge of an anticipated transaction is accounted for as follows:</td>
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<td>• When the anticipated transaction occurs, the hedged item is recognized initially at the amount of consideration received or paid; and</td>
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<tr>
<td>• The forward contract is not recognized until its maturity.</td>
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When the forward contract matures, the gain or loss on the contract is recorded as an adjustment of the carrying amount of the hedged item. When the hedged item is recognized directly in net income, the gain or loss on the forward contract is included in the same category of revenue or expense in the income statement.

When the forward contract matures before the hedged item is recognized, the gain or loss on the forward contract is recognized as a separate component of equity until the hedged item is recognized. Then when the hedged item is recognized, the gain or loss on the forward contract is transferred from the separate component of equity to the carrying amount of the hedged item or into net income and is included in the same category of revenue or expense in the income statement (see paragraph 3856.A62A).

When the forward contract matures after the hedged item is recognized, the forward contract is recognized on the same date as the hedged item using the spot price / rate in effect on that date. The resulting gain or loss is included in the carrying amount of the hedged item or in net income, in the same category of revenue or expenses in the income statement, and the offsetting amount is recognized as a derivative-related asset or liability, as appropriate. If a reporting period ends before the forward contract matures, the forward contract is remeasured using the spot price or rate in effect at the reporting period balance sheet date with any gain or loss included in net income. When the forward contract matures, the asset or liability is derecognized and any additional gain or loss on the forward contract is recognized in net income.

A hedge of an interest bearing asset or liability is accounted for as follows:

- Interest on the hedged item is recognized using the instrument’s stated interest rate plus or minus amortization of any initial premium or discount and any financing fees and transaction costs;
- Net amounts receivable or payable on the interest rate swap are recognized as an adjustment to interest on the hedged item in the period in which they accrue; and
- When applicable, recognized foreign currency receivables and payables on a hedging cross-currency interest rate swap are translated using current exchange rates with gains and losses included in net income in the period in which they arise.

The approach for both types of hedges results in the derivative being accounted for off-balance sheet. This approach is offset by the requirement for disclosures which describe the nature and terms of the hedged item, the nature and terms of the hedging instrument, the fact that hedge accounting applies and the net effect of the relationship.

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<th>DISCONTINUANCE</th>
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<tbody>
<tr>
<td>Once a hedging relationship is accounted for using hedge accounting, an entity cannot choose to discontinue hedge accounting. Once hedge accounting is being used for a specific relationship, any entity can only discontinue hedge accounting when:</td>
</tr>
<tr>
<td>• The hedged item or the hedging item ceases to exist;</td>
</tr>
<tr>
<td>• The critical terms of the hedging item set out in paragraphs 3856.A62-A65 cease to match those of the hedged item, including but not limited to, when:</td>
</tr>
<tr>
<td>• It becomes probable an interest bearing asset or liability hedged with an interest rate or cross currency interest rate swap will be prepaid; and</td>
</tr>
<tr>
<td>• It is no longer probable that an anticipated transaction will occur in the amount designated or within 30 days of the maturity date of the hedging item.</td>
</tr>
</tbody>
</table>

When a hedging item ceases to exist, any gains or losses incurred on its termination are recognized in net income at the same time the hedged item affects net income.

If the hedged item is an anticipated transaction, any gain or loss incurred on the termination of the hedging item is recognized in a separate component of shareholders’ equity. When the anticipated transaction occurs, the gain or loss is removed from shareholders’ equity and is recognized as an adjustment of the carrying amount of the hedged item.

If the hedged item is a recognized asset or liability, any gain or loss incurred on the termination of the hedging item is recognized as an adjustment of the carrying amount of the hedged item.

When hedge accounting is discontinued, the hedging item is measured as otherwise required by Section 3856 and any gain or loss is recognized in net income.
### FINANCIAL LIABILITIES

For bonds, debentures and similar securities, mortgages and other long-term debt, an entity shall disclose:
- The title or description of the liability;
- The interest rate;
- The maturity date;
- The amount outstanding, separated between principal and accrued interest;
- The currency in which the debt is payable if it is not repayable in the currency in which the entity measures items in its financial statements; and
- The repayment terms, including the existence of sinking fund, redemption and conversion provisions.

An entity shall disclose the carrying amount of any financial liabilities that are secured. An entity shall also disclose:
- The carrying amount of assets it has pledged as collateral for liabilities; and
- The terms and conditions relating to its pledge.

An entity shall disclose the aggregate amount of payments estimated to be required in each of the next five years to meet repayment, sinking fund or retirement provisions of financial liabilities.

For financial liabilities recognized at the balance sheet date, an entity shall disclose:
- Whether any financial liabilities were in default or in breach of any term or covenant during the period that would permit a lender to demand accelerated repayment; and
- Whether the default was remedied, or the terms of the liability were renegotiated, before the financial statements were completed.

For a financial liability that contains both a liability and an equity element, an entity shall disclose the following information about the equity element including, when relevant:
- The exercise date or dates of the conversion option;
- The maturity or expiry date of the option;
- The conversion ratio or the strike price;
- Conditions precedent to exercising the option; and
- Any other terms that could affect the exercise of the option, such as the existence of covenants that, if contravened, would alter the timing or price of the option.

For a financial instrument that is indexed to the entity's equity or an identified factor, an entity shall disclose information that enables users of the financial statements to understand the nature, terms and effects of the indexing feature, the conditions under which a payment will be made and the expected timing of any payment.

For a preferred share issued in a tax planning arrangement, an entity shall disclose:
- On the face of the Balance Sheet, the total redemption amount for all classes of such shares outstanding;
- The aggregate redemption amount for each class of such shares; and
- The aggregate amount of any scheduled redemptions required in each of the next five years.

### RISK

For each significant risk arising from financial instruments, and separately for derivatives, an entity shall disclose:
- The exposures to risk and how they arise; and
- Any change in risk exposures from the previous period.

For each type of risk arising from financial instruments, an entity shall disclose concentrations of risk.

### DERIVATIVES

An entity shall disclose:
- The notional and carrying amounts of all derivative assets measured at fair value;
- The notional and carrying amounts of all derivative liabilities measured at fair value;
- The method used to determine the fair value of all derivatives measured at fair value; and
- The notional and accrued amounts of all interest rate and cross-currency interest rate swaps in designated hedging relationships.

When an entity measures the fair value of a derivative asset or liability using a quote from a derivatives dealer, it discloses that fact and the nature and terms of the instrument.

An entity shall disclose sufficient information about derivatives that are linked to, and must be settled by delivery of, equity instruments of another entity whose fair value cannot be readily determined to permit the reader to assess the potential implications of the contract. This information shall include:
- The name of the issuer of the equity instrument;
- A description of the equity instrument; and
- The terms under which settlement will take place.

### ITEMS OF INCOME

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:
- Net gains or net losses recognized on financial instruments;
- Total interest income;
- Total interest expense on current financial liabilities;
- Interest expense on long-term financial liabilities, separately identifying amortization of premiums, discounts and financing fees; and
- The amount of any impairment loss or reversal of a previously recognized loss.

An entity shall disclose:
- The notional and carrying amounts of all derivative assets measured at fair value;
- The notional and carrying amounts of all derivative liabilities measured at fair value;
- The method used to determine the fair value of all derivatives measured at fair value; and
- The notional and accrued amounts of all interest rate and cross-currency interest rate swaps in designated hedging relationships.

When an entity measures the fair value of a derivative asset or liability using a quote from a derivatives dealer, it discloses that fact and the nature and terms of the instrument.

An entity shall disclose sufficient information about derivatives that are linked to, and must be settled by delivery of, equity instruments of another entity whose fair value cannot be readily determined to permit the reader to assess the potential implications of the contract. This information shall include:
- The name of the issuer of the equity instrument;
- A description of the equity instrument; and
- The terms under which settlement will take place.
Section 3870 - Stock-based Compensation and Other Stock-based Payments

SCOPE

Applies to:
- Transactions, including non-reciprocal transactions, in which an enterprise grants shares of common stock, stock options, or other equity instruments, or incurs liabilities based on the price of common stock or other equity instruments.

Does not apply to:
- Equity instruments granted by an acquiring enterprise as part of the purchase consideration in a business combination that are accounted for in accordance with Section 1582, Business Combinations.
- Related party transactions, other than stock-based compensation plans with a principal shareholder that are accounted for in accordance with Section 3840, Related Party Transactions, (management compensation arrangements are excluded from the scope of Section 3840 and thus, management stock compensation arrangements are included in this Section).
- Contracts and obligations for stock-based payments in which the entity receives or acquires goods or services under a contract within the scope of Section 3856, Financial Instruments.

DEFINITIONS

Stock option
- A contract that gives the holder the right, but not the obligation, either to purchase or sell a certain number of shares of stock at a predetermined price for a specified period of time.

Grant date
- The date at which an enterprise and an employee have a mutual understanding of the terms of a stock-based compensation award.

Measurement date
- For transactions with employees, it is the date at which the stock price that enters into measurement of the fair value of an award of employee stock-based compensation is fixed. Paragraphs 3870.14-.17 provide guidance for determining the measurement date for transactions with non-employees.

Vest
- To earn the right to. An employee’s award of stock-based compensation becomes vested at the date on which the employee’s right to receive or retain shares of stock or cash under the award is no longer contingent on the employee remaining in the service of the enterprise or the achievement of a performance condition (other than the achievement of a target stock price or specified amount of intrinsic value). Typically, an employee stock option that is vested also is immediately exercisable.

TRANSACTIONS WITH NON-EMPLOYEES

- Reciprocal transactions where an enterprise obtains goods and services by either granting equity instruments or by incurring liabilities to the supplier (other than an employee) in amounts based on the price of the enterprise’s stock must be accounted for based on the fair value of the consideration received, or the fair value of the equity instruments or liabilities incurred, whichever is more reliably measurable.
- In situations where an enterprise grants equity instruments or incurs liabilities to non-employees based on the price of the enterprise’s stock, by way of a non-reciprocal transfer, these transactions must be accounted for using the fair value of the equity instruments issued or liabilities incurred.

MEASUREMENT DATE

- To measure the fair value of the equity instruments issued in exchange for the receipt of goods and services from non-employees, an enterprise uses the stock price and other measurement assumptions at the earliest of the following dates:
  - The date when a commitment for performance by the counterparty to earn the equity instruments is reached (a performance commitment);
  - The date when the equity instruments are granted if they are fully vested and non-forfeitable on that date; or
  - The date when the counterparty’s performance is complete. Performance is considered complete when the counterparty has delivered / purchased the goods or services, even though on that date, the quantity or all the terms of the equity instruments may still be dependent on other events.

- For a non-reciprocal transfer, the measurement date is the later of:
  - The date when the detailed terms of the transfer are set; and
  - The date when the enterprise is committed to the transfer.
**TRANSACTIONS WITH EMPLOYEES**

**Employees**
- An employee of an enterprise is an individual that an enterprise exercises or has the right to exercise sufficient control over to establish an employer-employee relationship as determined by law.
- Refer to paragraph 3870.08 for additional guidance on employees.

**RECOGNITION AND MEASUREMENT**

- An asset, cost, or sales discount must be recognized (or the previous recognition reversed) in the same period(s) and manner (i.e. capitalized vs. expense) as if the enterprise had paid cash for the goods or services or used cash rebates as a sales discount instead of paying with / using the equity instruments.
- If a stock option that the counterparty has the right to exercise expires unexercised, an asset, cost, or sales discount that has been recognized cannot be reversed.
- When the quantity and terms of the equity instrument are known or are dependent on other conditions, paragraphs 3870.20-.23 provide guidance on the how the equity instruments are measured prior to, at, and subsequent to the measurement date.

- The purpose of the measurement process is to estimate the fair value, based on the stock price at the grant date, of stock options or other equity instruments that employees become entitled to when they have provided the required service and satisfied any other conditions necessary to earn the right to benefit from the instrument.
- Paragraph 3870.30 provides guidance on the effect restrictions may have on the fair value estimate.

**MEASUREMENT OBJECTIVE AND DATE**

- The fair value of a share of non-vested stock that is awarded to an employee must be measured at the market price (or estimated market price, if the stock is not publicly traded) of a share of the same stock as if it were vested and issued on the grant date.
- Non-vested stock is shares of stock that cannot currently be sold because the employee to whom the shares were granted has not yet satisfied the vesting requirements necessary to earn the right to the shares.
- The fair value of a share of restricted stock awarded to an employee (i.e. a share that will be restricted after the employee has a vested right to it), must be measured at its fair value, which is the same amount as a share of similarly restricted stock granted to non-employees.
- Restricted stock refers to shares of stock for which sale is contractually or governmentally restricted for a given period of time.
- The fair value of an option estimated at the grant date is not subsequently adjusted for changes in the risk-free interest rate, the price of the underlying stock or its volatility, dividends on the stock, or the life of the option.
- In most cases it is possible to make a reasonable estimate of the fair value of most stock options and other equity instruments at the date they are granted. However, in unusual circumstances, when this is not possible, stock-based compensation is measured in accordance with paragraph 3870.36.
DETERMINING FAIR VALUE

- To estimate the fair value of a stock option (or its equivalent) an option pricing model is used, such as the Black-Scholes or a binomial model, which takes into account the following as of the grant date:
  - The exercise price;
  - The option’s expected life (unless there is an absence of reliable evidence on a stock option’s expected life, when its contractual life is to be used);
  - The current price of the underlying stock;
  - It’s expected volatility, which can be determined using the calculated value method. Calculated value is a measure of the value of a share option or similar instrument determined by substituting the historical volatility of an appropriate industry sector index for the expected volatility of an entity’s share price in an option-pricing model. Refer to paragraphs 3870.A11-.A16 for guidance on expected volatility.
  - Expected dividends on the stock (except as outlined in paragraphs 3870.50-.51); and
  - The risk-free rate of interest for the expected term of the option. When an entity grants options on its own stock, the rate currently available on zero coupon Canada government bonds with a remaining term that is equal to the options is used as the risk-free interest rate.

AWARDS THAT CALL FOR SETTLEMENT IN CASH AND OTHER ASSETS

- An entity measures compensation cost for awards (including modifications to awards) that call for settlement in cash or other assets, including stock appreciation rights, as:
  - The amount by which the market value of the shares of the entity’s stock covered by the grant exceeds the option price or value specified, by reference to a market price or otherwise, subject to any appreciation limitations under the plan.
  - An award of stock appreciation rights that requires settlement in cash is an indexed liability, and the measurement date is the settlement (exercise) date.
  - When stock price changes after the service period change the amount of the liability, these changes are recognized as compensation costs in the period that the change occurs.
  - Refer to paragraphs 3780.B52-.B60 (Illustrations BXIII-BXV) for application guidance on accounting for awards that result in an entity incurring a liability, including stock appreciation rights.

RECOGNITION OF COMPENSATION COSTS

NUMBER OF INSTRUMENTS THAT VEST

- The total amount of compensation cost that is recognized for an award of stock-based employee compensation must be based on the number of instruments that eventually vest.
- Compensation cost cannot be recognized for awards that employees forfeit either:
  - Because they fail to satisfy a service requirement for vesting, such as for a fixed award; or
  - Because the enterprise does not achieve a performance condition, unless the condition is a target stock price or specified intrinsic value on which vesting or exercisability is conditioned.
    - For awards in this condition, compensation cost must be recognized for awards to employees who remain in service for the required period regardless of whether the target stock price or amount of intrinsic value is reached.
  - If a vested employee stock option expires unexercised, compensation cost previously recognized is not reversed.
  - The service period used for attribution purposes must be consistent with the assumptions used in estimating the fair value of the award if, performance conditions affect either:
    - The exercise price; or
    - The exercisability date of an employee stock option.
  - When an award has a performance condition that determines the number of options or shares all employees receiving the award will be entitled to, measurement of the compensation cost must be based on the best estimate of the outcome of the performance condition. However, forfeitures by individual employees may either be:
    - Estimated at the grant date; or
    - Recognized only as they occur.
  - Compensation cost must be adjusted for subsequent changes in the expected or actual outcome of service-related and performance-related conditions until the vesting date when compensation cost is estimated at the grant date for:
    - The number of instruments expected to vest based on performance-related conditions; and for
    - Those where vesting is contingent only on future service for which the enterprise chooses to estimate forfeitures at the grant date.
  - The effect of a change in the estimated number of shares or options expected to vest is considered to be a change in an estimate. The cumulative effect of this change on current and prior periods must be recognized in the period of the change.
ADDITIONAL AWARDS AND MODIFICATIONS OF OUTSTANDING AWARDS

- The fair value of each award of equity instruments, including an award of reloaded options, must be measured separately based on:
  - Its terms; and
  - The current stock price; and
  - Related factors at the date it is granted.
- When a modification of the terms of an award makes it more valuable, the modification must be treated as if it were an exchange of the original award for a new award. The incremental value is recorded as additional cost and measured as the difference between:
  - The fair value of the modified option determined in accordance with the provisions of this Section; and
  - The value of the old option immediately before its terms are modified, determined based on the shorter of:
    - Its remaining expected life; or
    - The expected life of the modified option.

SETTLEMENTS OF AWARDS

- Occasionally an enterprise may repurchase equity instruments that have vested.
- As long as, the amount of cash or other asset paid / liabilities incurred to repurchase an equity instrument is not greater than the value of the instruments that were repurchased, the amount paid is charged to equity.
- However, if the amount paid was greater than the value of the instruments repurchased, the excess must be recognized as a cost.
- When an enterprise settles a non-vested award for cash, the enterprise has effectively vested the award. The amount of cost measured at the grant date but not yet recognized must be recognized at the date of repurchase.
AcG-18 - Investment Companies

**DETERMINATION OF WHETHER AN ENTITY IS AN INVESTMENT COMPANY**

- An investment company is a separate legal entity whose primary business activity for the period is investing.
- All of the following must apply for an entity's primary business activity to be investing:
  - The expressed business purpose is to be an investment company that holds investments for current income, capital appreciation, or both.
  - The entity has no substantive activities other than its investment activities and no significant assets or liabilities other than those related to its investment activities, except for operating activities related to services provided to investment companies.
  - The entity does not obtain, or have the objective of obtaining, benefits from its investments that are unavailable to unrelated non-investor entities and that are not normal benefits attributable to an ownership interest (such as dividends). Such benefits might include, for example: access to processes, intangible assets or technology of the investee; guarantees provided by an investee to benefit the investor; or other transactions that are not at fair value.
  - The entity or its affiliates are not involved in the day-to-day management of investees, affiliates of investees, or other investment assets. However, that requirement may be met if management of the entity or its affiliates is represented on the boards of directors of investees or affiliates of investees, or provides limited assistance to management of investees or affiliates of investees for a short period.
  - For each investment, the entity has an exit strategy that involves the transfer of the entity's ownership interest to unrelated third parties. An exit strategy includes methods of exiting the investment and the time when this is expected to occur. For example, this might be expressed as a time period or when certain conditions or targets have been met.

**ACCOUNTING FOR INVESTMENTS**

- An investment company measures all of its investments at fair value and presents them on this basis in its financial statements, except as follows:
  - A controlling interest in another investment company, when it is determined that the parent investment company's primary business activity is not investing; and
  - An investment in an operating entity that provides services to the investment company (e.g., an investment advisor).
- Such investments shall be consolidated in accordance with Section 1601, Consolidated Financial Statements, or accounted for in accordance with Section 3056, Interests in Joint Arrangements, as appropriate.
- Changes in the fair value of investments shall be included in the investment company's net income for the period in which the change occurred.

**ACCOUNTING BY PARENT COMPANIES AND EQUITY METHOD INVESTORS FOR INVESTMENTS IN INVESTMENT COMPANIES**

- The parent company of, or equity method investor in (the “investors”), an investment company accounts for the investment company's investments at fair value, consistent with the accounting by the investment company, only if each of the following apply:
  - The investment company is either:
    - A separate legal entity whose primary business activity for the period is investing; or
    - An individual class of securities of a mutual fund corporation.
  - The investors or their related parties are not involved in the day-to-day management of investees, affiliates of investees, or other investment assets. However, that requirement may be met if management of the investors or affiliates is represented on the boards of directors of investees or affiliates of investees, or provides limited assistance to management of investees or affiliates of investees for a short period.
  - The investors or their related parties do not obtain, or have the objective of obtaining, benefits that are unavailable to unrelated non-investor entities and that are not normal benefits attributable to an ownership interest, such as dividends.
  - For a parent company of an investment company, the consolidated group (the parent company and its consolidated subsidiaries) follows established policies that effectively distinguish the nature and type of investments made by investment companies in the consolidated group from those made by non-investment companies. These policies address, at a minimum:
    - The degree of influence held by the investment company and related parties over the investees;
    - The extent to which investees are in the same line of business as the parent company or its related parties; and
    - The level of ownership interest in the investment company held by the consolidated group.

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1 Amendments to paragraphs 5, 9 and 12 apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.
2 The fair value measurement considerations of Section 3856, Appendix A, Financial Instruments apply to investments held by an investment company that are accounted for at fair value.
The following standards have been superseded by the Sections identified below and are not available to users of ASPE for reporting periods beginning on / after the dates noted below:

<table>
<thead>
<tr>
<th>Previous Standard</th>
<th>Replaced by New Standard</th>
<th>Effective Date of New Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 1590, Subsidiaries</td>
<td>Section 1591, Subsidiaries</td>
<td>January 1, 2016</td>
</tr>
<tr>
<td>Section 3055, Interests in Joint Ventures</td>
<td>Section 3056, Joint Arrangements</td>
<td>January 1, 2016</td>
</tr>
</tbody>
</table>
Section 1590 - Subsidiaries

### SCOPE

**Applies to:**
- Accounting for subsidiaries in general purpose financial statements.

**Does not apply to:**
- Accounting for investments (see Section 3051);
- Accounting by investment companies (see AcG-18);
- Interests in joint ventures (see Section 3055); or
- Financial instruments (see Section 3856).

### SUBSIDIARY

- An enterprise controlled by another enterprise (the parent) that has the right and ability to obtain future economic benefits from the resources of the enterprise and is exposed to the related risks.

### CONTROL

- Control of an enterprise is the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others.
- In determining whether control exists several factors must be considered:
  - Owning, directly or indirectly, an equity interest of 50% or more in an enterprise is usually an indication of control. Despite this, existence of control in a particular situation is a question of fact.
  - Other factors that may be considered in determining whether control exists include: the ability to elect the majority of the members of the board of directors, the provisions of a statute or agreement, and the ownership of convertible financial instruments associated with a large number of potential voting rights.
  - When an entity has a structure that precludes control through ownership of voting interests but over which control may exist through other arrangements refer to AcG-15, Consolidation of Variable Interest Entities, for guidance.

### RECOGNITION AND PRESENTATION

- An enterprise makes an accounting policy choice to either:
  - Consolidate its subsidiaries; or
  - Account for its subsidiaries using either the equity method or the cost method as set out in Section 3051, Investments. An entity must also follow the disclosure requirements of Section 3051.
- All of an entity’s subsidiaries must be accounted for using the same method. The chosen method must be applied consistently (i.e. when an enterprise accounts for its subsidiaries using the cost or equity method it applies that method in accounting for a change in its ownership of the subsidiary.
- However, when the equity securities of a subsidiary are quoted in an active market, the cost method cannot be used. Instead the investment may be accounted for at its quoted amount, with changes recognized in net income.
- When an entity chooses to account for its subsidiaries using either the cost or equity method it must apply the following:
  - At the date of acquisition, contingent consideration for the acquisition of a subsidiary must be measured at fair value and included in the carrying amount of the investment. Subsequently, it must be measured on the same basis required in Section 1582, Business Combinations.
  - Acquisition-related costs must be expensed in the periods when they are incurred and the services are received, except for:
    - Costs to issue debt and equity securities which must be recognized in accordance with Section 3856, Financial Instruments, and Section 3610, Capital Transactions, respectively.

### CONSOLIDATED FINANCIAL STATEMENTS

- When an entity prepares consolidated financial statements, the financial statements must be described as being prepared on a consolidated basis and each statement must be labeled accordingly.
- Consolidation of a subsidiary starts at the date a parent acquires control and continues as long as control exists.

### NON-CONSOLIDATED FINANCIAL STATEMENTS

- When an entity accounts for its subsidiaries under either the equity or cost methods, the financial statements are described as being prepared on a non-consolidated basis and each statement is labeled accordingly.
- On an entity’s Balance Sheet it must present separately its investments in non-consolidated subsidiaries.
- Similarly on its Income Statement it must present the income or loss from its non-consolidated subsidiaries separately.
- Investments in subsidiaries and income / loss from those investments may be presented on an entity’s financial statements with its interests in joint ventures. If they are accounted for on the same basis (i.e. equity/cost/fair value).

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1 Except as specified in paragraphs 1590.34-.35.
# Section 3055 - Interests in Joint Ventures

## Scope

### Applies:
- To accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, revenue and expenses in the financial statements of joint venturers, regardless of the structures and forms under which the joint venture activities take place.
- When economic activities meet the definitions and criteria outlined in paragraphs 3055.03-.16, even though the activities may not be referred to as joint ventures.

### Does not apply:
- When economic activities do not meet the definitions and criteria outlined in paragraphs 3055.03-.16, even though the activities may sometimes be referred to as joint ventures. Instead accounting for investments in such activities is governed by the nature of the investment (see Section 3051, Investments, and Section 3856, Financial Instruments).
- To variable interest entities (see AcG-15, Consolidation of Variable Interest Entities).

## Joint Ventures

- The distinctive attribute common to all joint ventures is that two or more venturers are bound by a contractual arrangement that establishes they have joint control over the joint venture, regardless of the differences that may exist in their respective ownership interest.
- There are three categories of joint ventures:
  - Jointly controlled operations;
  - Jointly controlled assets; and
  - Jointly controlled enterprises.

## Recognition

An enterprise makes an accounting policy choice to account for its interests in joint ventures using either:
- The proportionate consolidation method;
- The equity method (see Section 3051, Investments); or
- The cost method (see Section 3051, Investments).

All investments within the scope of this Section must be accounted for using the same method. The chosen method must be applied consistently (i.e. when an enterprise accounts for its interests in joint ventures using the cost or equity method it applies that method in accounting for a change in its ownership.

## Proportionate Consolidation

- The method of accounting and reporting whereby a venturer’s pro rata share of each of the assets, liabilities, revenues and expenses that are subject to joint control is combined on a line-by-line basis with similar items in the venturer’s financial statements.
- This method of accounting differs from full consolidation in that only the venturer’s portion of all assets, liabilities, revenues and expenses is taken up rather than the full amount, offset by non-controlling interests.

## Equity or Cost Methods

- Please refer to our publication “ASPE AT A GLANCE: Section 3051 - Investments,” for guidance on accounting for joint ventures using the equity or cost methods.

## Transactions in the Normal Course of Business Between a Venturer and a Joint Venture

When selling assets, a venturer only recognizes the realized gain or loss to the extent of the interests of the other non-related venturers.

When purchasing assets, a venturer does not recognize its share of the profit or loss of the joint venture until the assets are sold to a third party.

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1 Except as specified in paragraph 3055.56.
### CONTRIBUTIONS TO A JOINT VENTURE (CONTINUED)

- When a venturer transfers assets to a joint venture as a contribution and receives in exchange an interest in the joint venture, either a gain or a loss can occur.
- If a gain occurs, the venturer recognizes the gain only to the extent of the interests of the other non-related venturers and accounts for it as follows:
  - When cash or other assets that do not represent a claim on the assets of the joint venture are received, the portion of the gain that relates to the amount of cash received or the fair value of the other assets received is taken into income immediately.
  - Any remaining portion of the gain is deferred and amortized into income in a rational and systematic manner over the life of the contributed assets. If the assets are non-depreciable, the deferred gain is taken into income on a basis appropriate to the expected revenue or service to be obtained from their use.
  - If the joint venture disposes of the contributed assets, any unamortized portion of the deferred gain is taken into income immediately.
- If a loss occurs, the venturer recognizes only the portion of the loss attributable to the interests of the other non-related venturers; unless there is an indication the transferred assets are impaired. If this occurs, the venturer’s share of the loss is recognized by writing down its portion of the assets retained.

### PRESENTATION

- The following must be presented separately on the Balance Sheet and the related income from the following must be presented separately on the Income Statement:
  - Subsidiaries and interests in joint ventures accounted for using the equity method;
  - Subsidiaries and interests in joint ventures accounted for at cost;
  - Investments in companies subject to significant influence; and
  - Other investments accounted for at cost.
APPENDIX 1 - STANDARDS NOT INCLUDED

The following ASPE Sections and Accounting Guidelines are not covered in this publication:

Section 1000, Financial Statement Concepts
Section 1100, Generally Accepted Accounting Principles
Section 1508, Measurement Uncertainty
Section 1800, Unincorporated Businesses
Section 3280, Contractual Obligations
Section 3841, Economic Dependence
Section 3850, Interest Capitalized – Disclosure Considerations
AcG-2, Franchise Fee Revenue
AcG-14, Disclosure of Guarantees
AcG-15, Consolidation of Variable Interest Entities
AcG-16, Oil and Gas Accounting – Full Cost
AcG-19, Disclosure by Entities Subject to Rate Regulation