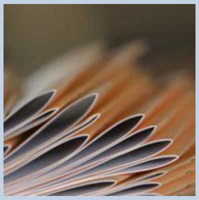
# Accounting Update 2007

# October 31, 2007



In January 2006, the Accounting Standards Board (AcSB) approved a new strategic plan which is based on the "One size does not necessarily fit all" philosophy. The plan pursues separate strategies for publicly accountable enterprises, non-publicly accountable enterprises and not-for-profit organizations.

Publicly accountable enterprises are defined as: listed companies and other organizations that are responsible to large or diverse groups of stakeholders. Examples of these include: Public Companies; Investment Companies; Credit Unions; Farm Mutuals; Co-ops; Utilities (rate regulated); and Government business enterprises.

The publicly accountable enterprise strategy will encompass full convergence with International Financial Reporting Standards (IFRS). The convergence will take place over a transitional period. At the changeover date, Canadian GAAP for publicly accountable enterprises will no longer be separate and distinct from IFRS. The changeover date will not be earlier than 2011.

An Omnibus Exposure Draft is expected to be issued in Q1-2008 with expectations for finalization for Q1-2009. This exposure draft will expose the entire IFRS Handbook and on approval it will become part of Canadian GAAP.

The non-publicly accountable enterprise strategy will be based on the IFRS conceptual framework and the AcSB is considering three possible alternatives for private enterprises with significant external users. The alternatives include: a top-down approach based on IFRS, which would be similar to our current differential reporting model; adoption of the International Accounting Standards Board's IFRS for Small and Medium Size Enterprise Exposure Draft with Canadian modifications; and building a completely new set of GAAP. The AcSB issued an invitation to comment, and to gather opinions from constituents on which of the three approaches was preferred.

## Inside



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The above invitation to comment also asked if separate guidance should be developed for owner-managed businesses which do not have significant external users. Related to this the CICA has recently issued a press release which announced that it is developing a simplified accounting framework tailored to the of owner-manager businesses. The new framework will be based on the existing CICA Handbook, but will be focused solely on supporting owner-manager businesses.

The not for profit organization (NPO) strategy will involve consulting the NPO sector to determine if NPO accounting standards should be based on those applicable to publicly accountable or non publicly accountable enterprises. To date, no public statements have been made about this plan.

## IFRS Implementation Plan

Publicly accountable enterprises will adopt IFRS and the convergence will take place over a transitional period. At the changeover date, Canadian GAAP will no longer be separate and distinct from IFRS. By March 31, 2008, a definite changeover date will be set. The changeover date will not be earlier than 2011. Assuming a January 1, 2011 changeover date, the following timeline should be considered:

- **2006 to 2008 -** Obtain training and knowledge of IFRS
- **2008 -** Compare current accounting policies to IFRS and develop a transition plan
- **December 31, 2008 -** Possible financial statement disclosure of the anticipated effects of the change to IFRS
- **December 31, 2009 -** Same disclosure as required in 2008, but with a greater degree of quantification of the anticipated change to IFRS
- **January 1, 2010 -** Begin collecting the comparative information which will be needed for inclusion with the 2011 financial statements
- **January 1, 2011-** Changeover to IFRS
- **March 31, 2011-** First quarterly IFRS financial statements, with IFRS quarterly comparatives
- **December 31, 2011-** First annual IFRS financial statements, with IFRS annual comparatives

# CICA Accounting Handbook Changes

## Standards

| Topic | Effective Date | Guidance |
|---|---|---|
| ***Going Concern***<br>*Section 1400* | Section 1400, *General Standards for Financial Statement Presentation* was amended in May 2007.<br><br>The effective date of these amendments is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. | This standard adopts the going concern paragraphs from IAS 1. The adoption of this is consistent with the AcSB's strategic plan.<br><br>The following amendments were made:<br>• Management is required to make an assessment of an entity's ability to continue as a going concern.<br>• In making its assessment, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date.<br>• Financial statements must be prepared on a going concern basis unless management intends either to liquidate the entity, to cease trading or cease operations, or has no realistic alternative but to do so.<br>• Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.<br>• When financial statements are not prepared on a going concern basis, that fact must be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern. |

| Topic | Effective Date | Guidance |
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| ***Accounting Changes***<br>*Section 1506* | This section, which replaces the former Section 1506, is applicable to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2007.<br>Earlier adoption is encouraged. | This section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and correction of errors. It adopts the relevant parts IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The main features of the new section are:<br>• Voluntary changes in accounting policy are only made if they result in the financial statements providing more reliable and more relevant information.<br>• Changes in accounting policy are applied retrospectively unless doing so is – or the change in accounting policy is – made on initial application of a primary source of GAAP in accordance with specific transitional provisions in that primary source of GAAP. A change in accounting estimate is generally recognized prospectively.<br>• Material prior period errors are corrected retrospectively.<br>• New disclosures are required in respect of changes in accounting policies, changes in accounting estimates, and correction of errors, including disclosure of when an entity has not applied a new standard that has been issued but is not yet effective. |

| Topic | Effective Date | Guidance |
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| ***Comprehensive Income***<br><br>*Section 1530* | Applies to annual and interim periods in fiscal years beginning on or after October 1, 2006.<br><br>Non-publicly accountable enterprises, may defer application of this section to interim, and annual financial statements relating to fiscal years beginning on or after October 1, 2007.<br><br>Early adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004, and if the entity adopts all requirements of Sections 3855, 3865 and 1530 at the same time. | This section introduces a new requirement to temporarily present certain gains/losses outside of net income.<br><br>Gains and losses included in OCI per 1530 include:<br><br>• Available-for-sale financial assets<br>• Cash flow hedges<br>• Foreign currency adjustments on translation of self-sustaining foreign operations<br>• Capital donations from non-owners<br>• Appraisal increase credits<br><br>For additional Information on this new section see the BDO Dunwoody LLP Publication “Financial Instruments – Time to Get Ready.” |

| Topic | Effective Date | Guidance |
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| ***Financial Instrument Disclosures and Capital Disclosures***<br><br>*Section 3862*<br><br>*Section 3863*<br><br>*Section 1535* | In October 2006, the AcSB approved a set of disclosure and presentation requirements for financial instruments that replace of HB 3861, Financial Instruments – Disclosure and Presentation. The existing requirements on presentation of financial instruments have been carried forward unchanged to HB 3863, Financial Instruments – Presentation.<br><br>This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. Early adoption is permitted at the same time an entity adopts other standards relating to accounting for financial instruments. | The new standards are in line with the financial instrument disclosure and presentation requirements of IFRS 7, Financial Instruments: Disclosures, and the capital disclosure portion of IAS 1, Presentation of Financial Statements.<br><br>Sections 3862 and 3863 comprise a complete set of disclosure and presentation requirements for financial instruments. They will carry forward unchanged the presentation requirements from Section 3861, however with much more extensive disclosure requirements. Section 3862 will require the disclosure of :<br><br>• The significance of financial instruments for an entity's financial position and performance; and,<br><br>• Qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The qualitative disclosures would describe management's objectives, policies and processes for managing those risks. The quantitative disclosures would provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.<br><br>Section 1535 requires the disclosure of information about an entity's objectives, policies and processes for managing capital. It applies to all entities, not just those with financial instruments. |

| Topic | Effective Date | Guidance |
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| ***Cash Distributions***<br><br>*Section 1540* | In January 2007, the AcSB approved amendments to HB 1540, Cash Flow Statements.<br><br>Effective for interim and annual financial statements for fiscal periods ending on or after March 31, 2007. | The amendment is for the disclosure requirements pertaining to cash distributions made in accordance with contractual agreements. Specifically, it amends paragraph 1540.55 so that:<br><br>• It applies in all cases when an enterprise makes a cash distribution on financial instruments classified as equity, in accordance with a contractual obligation; and<br><br>• Disclosure is required of the total cash distributions for the period and the extent to which total cash distributions are non-discretionary. |
| ***Foreign Currency Translation***<br><br>*Section 1651* | This section replaces Section 1650 and applies to annual and interim periods in fiscal years beginning on or after October 1, 2006.<br><br>Non-publicly accountable enterprises may defer application of this section to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.<br><br>Early adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004, and if the entity adopts all requirements of Sections 3855, 3865 and 1530 at the same time. | This section establishes standards for the translation of:<br><br>• Transactions of a reporting enterprise that are denominated in a foreign currency (foreign currency transactions); and<br><br>• Financial statements of a foreign operation for incorporation in the financial statements of a reporting enterprise. |

| Topic | Effective Date | Guidance |
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| ***Inventories***<br><br>*Section 3031* | In May 2007, the AcSB issued HB 3031 which supersedes HB 3030, Inventories.<br><br>Section 3031 will apply to fiscal years beginning on or after January 1, 2008 with earlier application encouraged. | This new section is based on IAS 2, Inventories. The adoption of this is consistent with the AcSB's strategic plan.<br><br>The key features of the new section include:<br><br>• Measurement of inventories at the lower of cost and net realizable value;<br><br>• Guidance on the determination of cost, including allocation of overheads and other costs to inventory;<br><br>• Allocation of fixed production overhead based on normal capacity levels, with unallocated overhead expensed as incurred;<br><br>• Cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects, assigned by using a specific identification of their individual costs;<br><br>• Consistent use (by type of inventory with similar nature and use) of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of other inventories and eliminates the use of last-in, last out (LIFO) formula; and<br><br>• Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. |

| Topic | Effective Date | Guidance |
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| ***Equity***<br>*Section 3251* | Applies to annual and interim periods in fiscal years beginning on or after October 1, 2006.<br>Non-publicly accountable enterprises may defer application of this section to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.<br>Early adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004, and if the entity adopts all requirements of Sections 3855, 3865 and 1530 at the same time. | This section, which replaces Section 3250 Surplus, establishes standards for the presentation of equity and changes in equity during the reporting period. The main feature of this section is a requirement for an enterprise to present separately each of the changes in equity during the period, including comprehensive income, as well as components of equity at the end of the period. |
| ***Financial Instruments – Recognition and Measurement***<br>*Section 3855* | Applies to annual and interim periods in fiscal years beginning on or after October 1, 2006.<br>Non-publicly accountable enterprises, may defer application of this section to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.<br>Early adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004, and if the entity adopts all requirements of Sections 3855, 3865 and 1530 at the same time. | This section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount – sometimes using fair value; other times using cost-based measures. It also specifies how financial instrument gains/losses are to be recognized and presented in the financial statements. This standard identifies 4 financial asset classifications and 2 financial liability classifications. The classification of the financial asset or liability will drive the subsequent measurement and the impact of unrealized gains and losses on the financial statements.<br>NPO's must follow similar standards for Financial Instruments with some minor presentation differences.<br>For additional Information on this new section see the BDO Dunwoody LLP Publication "Financial Instruments – Time to Get Ready." |

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| ***Financial Instruments – Disclosure and Presentation***<br><br>*Section 3861* | Applies to annual and interim periods in fiscal years beginning on or after October 1, 2006.<br><br>Non-publicly accountable enterprises may defer application of this section to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.<br><br>Early adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004, and if the entity adopts all requirements of Sections 3855, 3865 and 1530 at the same time. | This section replaces Section 3860, Financial Instruments – Disclosure and Presentation, and establishes standards for presentation of financial instruments and non-financial derivatives. Further, it identifies the information that should be disclosed about them in the notes to the financial statements. This standard increases the amount of disclosures in accordance with the requirements of 3855. |
| **Topic** | **Effective Date** | **Guidance** |
| ***Hedges***<br><br>*Section 3865* | Applies to annual and interim periods in fiscal years beginning on or after October 1, 2006.<br><br>Non-publicly accountable enterprises may defer application of this section to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.<br><br>Early adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004, and if the entity adopts all requirements of Sections 3855, 3865 and 1530 at the same time. | This new section provides alternative treatments to Section 3855 for entities that choose to designate qualifying transactions as hedges for accounting purposes. It builds on existing Accounting Guideline AcG-13, Hedging Relationships, and Section 1650, Foreign Currency Translation, by specifying how hedge accounting is applied and what disclosures are necessary.<br><br>For additional Information on this new section see the BDO Dunwoody LLP Publications “Financial Instruments – Time to Get Ready” and “Management Guide for Preparing Hedging Documentation”. |

## Emerging Issues Committee Abstract

| Topic | Effective Date | Guidance |
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| ***Debtor's Accounting for a Modification or Exchange of Debt Instruments***<br><br>*EIC 88* | To be applied in accordance with the effective date and transitional provisions of Section 3855.<br><br>Applies to annual and interim periods in fiscal years beginning on or after October 1, 2006.<br><br>Non-publicly accountable enterprises, may defer application of this section to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.<br><br>Early adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004, and if the entity adopts all requirements of Sections 3855, 3865 and 1530 at the same time. | This abstract addresses how a debtor should account for a modification or exchange of debt instruments under two scenarios: when it is a renegotiation of the original financial liability or when it is an extinguishment of the original financial liability and the recognition of a new financial liability.<br><br>The Committee concluded that when it is a renegotiation of the original financial liability, all existing debits and credits accounted for as adjustments to the original debt instrument should be maintained and should be amortized over the remaining term of the renegotiated debt using the effective interest rate method.<br><br>When it is an extinguishment of the original financial liability and the recognition of a new financial liability, the debtor should account for the difference between the fair value of the new debt instrument and the carrying value of the original debt instrument as a current period adjustment to net income.<br><br>Also, a second issue was added to define the fees and costs discussed in 3855.51A-.51C. The EIC concluded that fees and costs should be defined as amounts that are incremental and directly attributable to the original financial liability and would not have been incurred if the entity had not modified or exchanged the financial liability. |
| ***Related Party Transactions – Meaning of Substantive Change and Measurement of Change in a Transfer of Ownership Interests***<br><br>*EIC 103* | The accounting treatment for the third issue in this Abstract may be applied prospectively and should be applied to transactions occurring on or after January 1, 2007. This consensus may also be applied retrospectively, with restatement of prior periods, to all transactions from the date at which the enterprise adopted AcG-15. | This EIC was revised to add a third issue. This third issue deals with transfers to a related party that is a VIE and for which the transferor is the primary beneficiary. Even though the transferor does not have voting control or joint control over the VIE before or after the transfer, the nature of the relationship of the transferor to the transferred item has not changed. The transferor still controls the transferred item through the VIE, therefore, there has not been a substantive change in ownership interests. |

| Topic | Effective Date | Guidance |
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| ***Application Of Section 3465 To Mutual Fund Trusts, Real Estate Investment Trusts, Royalty Trusts And Income Trusts***<br>*EIC 107* | Entities should apply the accounting treatment described in this Abstract in the financial statements of all trusts and their subsidiaries prepared in accordance with CICA 3465. | As a result of the substantive enactment of changes to the Income Tax Act affecting income trusts and other specified investment flow-throughs (SIFTs), the Committee approved an amendment to the consensus on the second issue of EIC-107. This consensus provides that a trust would not recognize any future income tax assets or liabilities on temporary differences in the trust if the trust meets certain conditions. The amendment adds an additional condition that the trust is eligible to claim a tax deduction for distributions paid to the unit holders in all future years and not only for some future years (i.e., the changes to the Tax Act made in 2007 do not apply to the trust). |
| ***The Date of Acquisition in a Business Combination***<br>*EIC 119* | The Committee reached a consensus that the accounting treatment in this abstract should be applied to all business combinations accounted for by the purchase method that are initiated after the date of issue of this abstract. | A third issue has been added to this abstract. This issue deals with the situation where a company has purchased another company or business but still requires regulatory approval. The abstract concludes that during the period before regulatory approval is received, if the acquiree was not a variable interest entity prior to being acquired, it would not become a variable interest entity solely because of the restrictions imposed by the regulatory authority. As a result, the acquirer is not required to consolidate the acquiree as a variable interest entity during this period. |
| ***Stripping Costs Incurred in the Production Phase of a Mining Operation***<br>*EIC 160* | To be applied to stripping costs incurred in fiscal years beginning on of after July 1, 2006, and may be applied retroactively.<br>Earlier adoption encouraged. | The Committee concluded that if the stripping activity provides access to sources of reserves which will be produced in future years, the stripping costs should be capitalized, and the capitalized stripping costs should be amortized in a rational and systematic manner over the reserves that directly benefit from the specific stripping activity.<br>The EIC also addresses the disclosure requirements related to such stripping costs. |

| Topic | Effective Date | Guidance |
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| ***Determining the Variability to be Considered in Applying AcG-15***<br>*EIC 163* | To be applied prospectively to all entities with which the enterprise first becomes involved and to all entities previously required to be analyzed under AcG-15 Consolidation of Variable Interest Entities when a reconsideration event occurs beginning the first day of the first interim or annual reporting period beginning on January 1, 2007.<br>Early adoption is encouraged. | At issue is the type of variability that should be considered in identifying variable interests (i.e., risks of fluctuations in cash flows, fair values of assets, both, or risks that the VIE was designed to bear). The EIC supports the "by design" approach under which the determination of whether an interest is variable requires a thorough understanding of the design of the potential VIE. |

| Topic | Effective Date | Guidance |
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| ***Convertible and Other Debt Instruments with Embedded Derivatives***<br><br>*EIC 164* | This abstract replaces the guidance previously provided in EIC-158, Accounting for Convertible Debt Instruments for entities that have adopted HB 3855, Financial Instruments – Recognition and Measurement.<br><br>The Committee reached a consensus that the accounting treatment in this abstract should be applied retrospectively to financial instruments accounted for in accordance with Section 3855 in financial statements issued for interim and annual periods ending on or after June 30, 2007.<br><br>Earlier adoption is encouraged. | The abstract provides guidance on the presentation and disclosure of a debt instrument that is convertible into a fixed number of common shares. Upon conversion, the issuer is either required or has the option to satisfy all or part of the obligation in cash. The debt instrument may also contain an embedded issuer call option or a holder put option.<br><br>This EIC provides guidance on the accounting treatment for two specific debt instruments. These debt instruments are convertible into a fixed number of common shares and on conversion the issuer is required or has the option to settle all or part of the obligation in cash. These debt instruments may also contain an embedded issuer call option or holder put option.<br><br>For each instrument, EIC-164:<br><br>• addresses whether there is a liability and an equity component required to be accounted for separately under HB 3861;<br><br>• identifies whether embedded derivatives exist and determines whether they require separate accounting under HB 3855;<br><br>• provides guidance on the presentation of the elements of the instrument;<br><br>• provides guidance on how to account for the future tax aspects of the instrument; and<br><br>• determines how the instrument should be treated in earnings per share computations. |

| Topic | Effective Date | Guidance |
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| ***Accounting by an Investor Upon a Loss of Significant Influence***<br><br>*EIC 165* | This EIC should be applied retrospectively, with restatement of prior periods, to all financial statements for interim and annual reporting periods ending after June 30, 2007. | The EIC concluded that when an investor loses significant influence in an investee, the amount recorded by the investor accumulated in OCI for its share of the investee's equity adjustments should be deducted from or added to the carrying value of the investment. Since the carrying value of the investment cannot be less than zero; any remaining balance is recorded in income. |
| ***Accounting Policy Choice for Transaction Costs***<br><br>*EIC 166* | This EIC should be applied retrospectively to transaction costs accounted for in accordance with Section 3855 in financial statements issued for interim and annual periods ending on or after September 30, 2007.<br><br>Earlier adoption is encouraged. | Section 3855 requires that when an entity acquires a financial asset or incurs a financial liability classified other than as held for trading, it adopts an accounting policy for transaction costs of either: recognizing all transaction costs in net income; or adding transaction costs its initial carrying amount. The issue is whether the entity must make one accounting policy choice that applies to all financial assets and financial liabilities classified other than as held for trading. Alternatively, can transaction costs be recognized in net income for certain of these financial assets and liabilities and added to the carrying amount for other financial assets and liabilities?<br><br>The EIC concluded that the same accounting policy choice should be made for all similar financial instruments classified as other than Held For Trading, but that a different accounting policy choice might be made for financial instruments that are not similar. |

| Topic | Effective Date | Guidance |
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| ***Future Income Tax Liabilities – Income Trusts and Other Specified Investment Flow-Throughs***<br><br>*EIC 167* | The EIC should be applied to interim and annual financial statements issued after the date of this abstract. Application should be retrospective with restatement of prior periods commencing with the period that includes the date of substantive enactment of the changes to the Income Tax Act. | This abstract was a result of the changes to the Income Tax Act introduced in 2007. Previously, a tax deduction was permitted by the trust for distributions paid to the trust's unit holders. The changes impose an income tax on income trusts. The EIC concludes the following:<br><br>• Future income tax assets or liabilities should be recognized as of the date of substantial enactment;<br><br>• The future income tax asset or liability should be recognized as an income tax expense;<br><br>• The future income tax asset or liability should be measured using income tax rates, that at the balance sheet, are expected to apply when the temporary differences reverse and would be rates enacted (or substantively enacted at the balance sheet date);<br><br>• Disclosure of a description of the implications of the tax changes on the entity's tax status and in the year in which the tax changes are enacted and the impact of the change on future tax assets and liabilities. |
| ***Accounting by Pension Plans for Transaction Costs***<br><br>*EIC 168* | The EIC should be applied retrospectively, without restatement of prior periods, for all annual reporting periods ending on or after December 31, 2007.<br><br>Earlier adoption is encouraged. | Pension Plans, Section 4100 requires that pension plans measure investment assets at fair value at the date of the statement of net assets available for benefits. The issue is whether transaction costs should be included in the fair value measurement of pension plan investment assets. The Committee reached a consensus that pension plans should not include transaction costs in the fair value of investments either on initial recognition or on subsequent remeasurement. Transaction costs should be included in the statement of changes in net assets in the period incurred. |

| Topic | Effective Date | Guidance |
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| ***Determining Whether a Contract for the Purchase or Sale of a Non-Financial Asset such as a Commodity is Routinely Denominated in a Single Currency in Commercial Transactions Around the World***<br><br>*D69* | The draft abstract is proposed to be effective on a retrospective basis to embedded foreign currency derivatives in host contracts that are not financial instruments accounted for under HB 3855, Financial Instruments – Recognition and Measurement, to financial statements issued for interim periods ending on or after December 15, 2007. | The draft abstract concludes that "routinely denominated in commercial transactions around the world" should be interpreted to mean that a large majority of similar transactions all around the world, not just in one local area, are based on a particular currency.<br><br>The draft abstract also discusses factors that should be considered in determining whether there is a currency in which a good or service is routinely denominated around the world. Factors considered include:<br><br>• The existence of a "convenience translation" mechanism;<br><br>• The existence of an organized commodity exchange where a commodity is traded in a single currency;<br><br>• The existence of global pricing forums. |
| ***Reporting Revenue Gross As A Principal Versus Net As An Agent For Not-For-Profit Organizations***<br><br>*D71* | The accounting treatment in this abstract should be applied by not for-profit organizations to all financial statements for fiscal years beginning on or after January 1, 2009. If application of the accounting treatment in this abstract causes a change in the presentation of revenue of an entity, all comparative figures should be restated so that revenue information is presented on a consistent basis in the financial statements. | This abstract proposes changes to "EIC-123, Reporting Revenue Gross as a Principal Versus Net as an Agent," to expand its scope to include not-for-profit organizations. |

## Accounting Guidelines

| Topic | Effective Date | Guidance |
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| ***AcG-15,*** *Consolidation of Variable Interest Entities* ***and AcG-18,*** *Investment Companies* | In March 2007, AcSB amended AcG-15 and AcG-18.<br>The amendment was effective for annual and interim periods ending on or after September 30, 2007. | The amendments clarify the scope of AcG-15. Investments accounted for at fair value in accordance with AcG-18 are not subject to the consolidation requirements of AcG-15. |

## Exposure Drafts

| Topic | Effective Date | Guidance |
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| ***Intangible Assets***<br>*Section 1000*<br>*Section 3062*<br>*Section 3450* | The exposure draft was issued in December 2005. In December 2006, the AcSB decided to modify the original scope of the original exposure draft to be more consistent with IAS 38, Intangible Assets. A revised exposure draft was issued in July 2007. | The exposure draft proposes to amend Section 1000 Financial Statement Concepts to reinforce the criteria for the recognition of assets by clarifying the matching principle.<br>The exposure draft also proposes the replacement of Section 3062 Goodwill and Other Intangible Assets with a new Section 3054, Goodwill and Other Intangibles. It also proposes to withdraw Section 3450, Research and Development Costs and provide guidance to be applied when an enterprise develops intangible assets internally. |
| ***Business Combinations***<br>*Section 1582* | Issued August 2005 to replace Section 1581.<br>The AcSB expects to issue an exposure draft on non-controlling interests in the fourth quarter of 2007 and final standards on business combinations and non-controlling interests in the second quarter of 2008. | The exposure draft proposes to require the purchase method of accounting but includes significant measurement changes. The fundamental principle is that all business combinations be accounted for at fair value at the acquisition date. Specifically, the acquisition would be measured at the fair value of the acquired business as a whole even if less than 100 per cent was acquired. The fair value of the acquired business will usually be based on the fair value of the consideration, which includes contingent consideration but excludes transaction costs. Assets acquired and liabilities assumed would similarly be measured at fair value, with a few exceptions such as future tax assets and liabilities. A non-controlling interest (NCI) would be measured at the acquisition date at the NCI's proportional interest in the amount of net assets acquired (including goodwill) as recorded by the acquirer. |

| Topic | Effective Date | Guidance |
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| ***Not for Profit Organizations*** | Issued August 2007 for comment by November 2007. A final standard is expected to be issued in 2008, effective for interim and annual periods beginning on or after January 1, 2009 with some exceptions. | This proposed abstract is to update the not-for-profit standards to improve financial reporting by not-for-profit organizations.<br><br>The key points of the abstract are:<br><br>• to provide NFPOs with additional guidance to be used in applying GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100;<br>• to no longer require net assets invested in capital assets to be a separate component of net assets and, instead, to treat net assets;<br>• to clarify that revenues and expenses must be recognized on a gross basis when an NFPO is acting as a principal in the subject transactions;<br>• to make CASH FLOW STATEMENTS, Section 1540, applicable to NFPOs;<br>• to make INTERIM FINANCIAL STATEMENTS, Section 1751, applicable to NFPOs that prepare interim financial statements in accordance with GAAP;<br>• to require the consolidation of controlled entities and provide guidance on the accounting for investments and disclosures for economic interest relationships with other NFPOs;<br>• to require disclosure by an NFPO that chooses to classify its expenses by function and allocates some of its fundraising and general support costs to another function; and<br>• to make the language in Section 4460 consistent with RELATED PARTY TRANSACTIONS, Section 3840. |

| Topic | Effective Date | Guidance |
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| ***Rate Regulated Operations***<br>*1100*<br>*1600*<br>*3465* | The proposals in this exposure draft are expected to be finalized in the fourth quarter of 2007 and are applicable to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. | The key points of this exposure draft are:<br>• to remove the temporary exemption in Section 1100;<br>• to amend Section 3465 to require the recognition of future income tax liabilities and assets as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to future customers; and<br>• to retain AcG-19 (after some consequential amendments) during the transition period to full adoption of IFRSs for publicly accountable enterprises. |

## Public Sector Accounting Handbook Changes

### Standards

| Topic | Effective Date | Guidance |
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| ***Reporting Model***<br><br>*Sections PS 1000, 1100 and 1200* | In conjunction with Section PS 3150 Tangible Capital Assets, the revised Sections PS 1000, 1100 and 1200 are expected to apply to local governments for fiscal years beginning on or after January 1, 2009. | Existing Sections PS 1000, 1100 and 1200 are applicable to federal, provincial and territorial governments. The revised Sections are intended to apply to all levels of government. As a result, local governments will be required to:<br><br>• Prepare a statement of financial position which presents both net debt/net financial assets and accumulated surplus/deficit calculated on a full accrual basis of accounting. When reporting the accumulated surplus/deficit, it will be presented as a single line item;<br><br>• Prepare a statement of operations which reports the annual surplus/deficit as the difference between revenues and expenses;<br><br>• Prepare a statement of changes in net debt which highlights the effects of capital spending on net debt;<br><br>• Prepare a statement of cash flows which provides for a new capital category and allows either the direct or the indirect method to be used;<br><br>• Present current year budget figures on the statement of operations and the statement of changes in net debt on a basis consistent with that used for actual results; and<br><br>• Funds and reserves are not permitted to be presented on the face of the financial statements. If the government chooses, they may be disclosed in the notes or schedules to the financial statements. |

| Topic | Effective Date | Guidance |
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| ***Segment Disclosures***<br>*Section PS 2700* | This section applies to all governments for fiscal years beginning on or after April 1, 2007.<br>Earlier adoption is encouraged. | This section establishes standards on how to define and disclose segments in a government's summary financial statements.<br>A segment is a distinguishable activity or group of activities of which it is appropriate to report financial information.<br>Possible segmentation bases include:<br>• Functional classification of activities;<br>• Service line; or<br>• Accountability and control activities.<br>The required disclosures include:<br>• Basis of identifying segments, nature of segments, activities they encompass and method of allocation to the segment;<br>• Segment expenses by major object;<br>• Segment revenue by source and type;<br>• Aggregate surplus/deficit of entities accounted for using the modified equity method for each segment; and<br>• Reconciliation of amounts reported in segments to the amounts reported in the statement of operations. |
| ***Tangible Capital Assets***<br>*Section PS 3150* | This section applies to local governments for fiscal years beginning on or after January 1, 2009.<br>Earlier adoption is encouraged. | This section establishes standards on how to account for and report tangible capital assets in government financial statements. Tangible capital assets are a significant economic resource managed by governments and a key component in the delivery of many government programs. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals, and bridges. The section requires all tangible capital assets to be recognized on the statement of financial position and the related depreciation is to be recognized as an expense of the statement of operations. |

## Public Sector Guidelines

| Topic | Effective Date | Guidance |
|---|---|---|
| ***Including Results of Organizations and Partnerships Applying Fair Value Measurement***<br>*PSG-6* | This guideline applies to all governments for the first fiscal year that government organizations and government partnerships included in the governments' financial statements have adopted:<br>(a) Comprehensive Income, CICA Handbook – Accounting Section 1530;<br>(b) Financial Instruments — Recognition And Measurement, CICA Handbook – Accounting Section 3855; and<br>(c) Hedges, CICA Handbook – Accounting Section 3865. | The purpose of this guideline is to provide guidance on the reporting of government organizations and government partnerships in a government's summary financial statements that are in accordance with the new CICA Handbook Financial Instrument Sections.<br>The guideline requires fair value adjustments to be reflected in the government financial statements as a component of the investment. Other comprehensive income, however, would not be reflected in the income from the investment, but would be reported separately following the difference between revenue and expenses on the statement of activities. |
| ***Tangible Capital Assets of Local Governments***<br>*PSG-7* | This guideline applies to local governments for fiscal years beginning on or after January 1, 2007.<br>Earlier adoption is encouraged. | This guideline requires disclosure of information on tangible capital assets by major category including:<br>• Cost at beginning and end of period;<br>• Additions, disposals and write downs';<br>• Accumulated amortization at beginning and end of period; and,<br>• Amortization for the period.<br>It is not expected that local governments will have all of this information by December 31, 2007. They are, however, expected to provide disclosure for the categories where they do have this information, as well as disclose those categories excluded from the disclosure. |

## Exposure Drafts

| Topic | Effective Date | Guidance |
|---|---|---|
| ***Government Transfers***<br>*Section PS 3410* | The proposed amendments to Section PS 3410 – and the other consequential amendments – are proposed to apply to all governments for fiscal years beginning on or after January 1, 2009. | The proposed amendments require government transfers to be recognized as revenue or expenses when the transfer has been authorized and any eligibility criteria have been met.<br>Therefore, a transaction that meets the definition of a government transfer for a transferring government cannot also meet the definition of an asset and, therefore, it should not be recognized and reported as an asset.<br>In the case of a government that receives resources through a transfer, the transfer increases the net assets of that government. How or when this funding is to be applied by the recipient is irrelevant to the accounting for the transfer. Transfer terms may impose an obligation on a transfer recipient to use the transferred resources as agreed, but that obligation does not meet the definition of a liability. Therefore the government transfer should not be deferred to match the related expenditures.<br>As a result of these proposals, volatility in annual results related to the provision or receipt of transfers may occur. |
| ***Amendment to Introduction*** | Issued July 2007 to be adopted in line with IFRS adoption for publicly accountable enterprises. | The proposals state that when preparing financial statements for their own purposes, government business enterprises and government business-type organizations should follow the CICA Handbook – Accounting for publicly accountable enterprises and thus, adopt the full IFRS standards in line with the AcSB's strategic plan. |