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ASSURANCE AND ACCOUNTING

ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS (ASNPO) UPDATE 2017

Introduction

Private sector not-for-profit organizations (NPOs) prepare financial statements in accordance with Part III of the CPA Canada Handbook—Accounting: Accounting Standards for Not-for-Profit Organizations (ASNPO). During 2017, the Accounting Standards Board (AcSB) issued the first Exposure Draft related to its NPO improvement project.

NPOs applying ASNPO also apply the relevant standards from Part II of the CPA Canada Handbook—Accounting: Accounting Standards for Private Enterprises (ASPE) to the extent that the standards in Part II address topics applicable for NPOs that are not addressed in Part III. As a result, some changes made to ASPE also affect NPOs. This publication will discuss amendments resulting from the 2017 ASPE Annual Improvements Process and their impact on NPOs as well as provide an update on the progression of the AcSB's NPO improvement project and other projects the AcSB is working on that will impact NPOs.

Standards Effective in 2018

2017 Annual Improvements Process

As a result of the 2017 ASPE Annual Improvements Process, amendments were made to the following ASPE Sections, which would also affect NPOs. These change are effective for years beginning on or after January 1, 2018, with earlier application permitted.

Disclosure of Accounting Policies

Paragraph .08 in Section 1505, *Disclosure of Accounting Policies*, requires that an entity's accounting policies be disclosed "as the first note" to the financial statements. However, some stakeholders noted that this requirement is too prescriptive. As a result, the Board has amended this paragraph to required that this disclosure be provided "in one of the first notes", rather than as the first note, to the financial statements.

Accounting Changes

Paragraphs .34-.35 of Section 1506, A*ccounting Changes*, set out the disclosure requirements related to changes in accounting policy. Paragraphs 1506.34(e) and .35(c) required an entity to disclose the amount of an adjustment related to an accounting policy change "for the current period", but not for each of the prior period(s) presented. However, stakeholders noted that disclosing the adjustment related to the prior period(s), instead of the current period is what actually meets user needs. As a result, the Board removed the requirement to disclose the amount of an adjustment related to an accounting policy change for the current period and disclosure "for each of the prior period(s) presented" is required instead.

Balance Sheet

Section 1521, *Balance Sheet*, distinguishes between the items that must be presented separately on the face of the balance sheet and those items that can either be presented separately on the balance sheet or in the notes. Some stakeholders have noted that Section 1521 was not consistent with the presentation and disclosure requirements set out in other standards in ASPE. As a result, the Board revised paragraphs 1521.04 and .05 to clarify the line items that are required to be separately presented on the balance sheet, and added paragraphs 1520.04A and .05A to clarify the line items that may either be presented separately on the balance sheet or in the notes to the financial statements.

Foreign Currency Translation

Paragraph .53 of Section 1651, *Foreign Currency Translation*, does not allow an entity to reverse previously recorded write-downs of inventory in the translated financial statements of an integrated foreign operation. However, this contradicts Section 3031, *Inventories*, which requires that previous write-downs of inventory be reversed when the circumstances that caused the write down no longer exist or there is clear evidence of an increase in the net realizable value reflecting changes in economic circumstances. Consequently, the Board removed paragraph 1651.53 and provided further clarification of this situation in the example included in paragraph 1651.51.

Leases

Paragraph .81 in Section 3065, *Leases*, requires disclosure of the carrying amount of impaired operating lease receivables and the amount of any related allowance for impairment. However, Section 3856, *Financial Instruments,* was amended during the 2014 Annual Improvements to ASPE to only require disclosure of any allowance for impairment for current trade receivables and not the carrying amount of impaired current trade receivables. Stakeholders believe the impairment disclosure for operating lease receivables should be similar. Therefore, the Board amended paragraph 3065.81 to clarify that disclosure is only required for the amount of the allowance for impairment.

Projects on the Go

Improvements to Not-for-Profit Standards

The AcSB has been working on a project to improve standards for private sector NPOs. In 2015, the AcSB approved the creation of a “Not-for-profit Organizations Advisory Committee” to assist the Board with its standards improvements initiatives, as well as to provide input on other standard-setting matters of interest to private sector NPOs. The AcSB also approved the three projects outlined below to address the proposals related to private sector NPOs that were included in the April 2013 joint AcSB/PSAB Statement of Principles—Improvements to Not-for-Profit Standards:

Accounting Standards Improvements

This project is being undertaken first and in May of this year the AcSB issued an Exposure Draft which proposes a number of changes related to the guidance an NPO follows when accounting for tangible capital assets, intangible assets, collections, and works of art and historical treasures. Overall, the Board is proposing to:

REPLACE EXISTING SECTION	WITH PROPOSED SECTION
Section 4431, *Tangible Capital Assets Held by Not-for-Profit Organizations*	Section 4433 of same name
Section 4432, *Intangible Assets Held by Not-for-Profit Organizations*	Section 4434 of same name
Section 4440, *Collections*	Section 4441 of same name

The three new sections would be based on the existing sections with certain revisions.

Tangible Capital Assets & Intangible Assets

When accounting for tangible capital assets and intangible assets, the Exposure Draft proposes that an NPO would follow the guidance in ASPE Sections 3061, *Property, Plant and Equipment*, 3064, *Goodwill and Intangible Assets*, and 3310, *Asset Retirement Obligations*, except for NPO specific guidance that would be included in new Sections 4433 and 4434 on contributed assets and write-downs of assets. Applying Section 3061 would include considering the guidance on asset componentization.

A tangible capital asset or intangible asset would be written down to its fair value or replacement cost to reflect a partial impairment of the asset when conditions indicate that the asset:

- No longer contributes to an NPOs ability to provide goods or services; or
- The value of future economic benefits or service potential associated with the asset is less than its net carrying amount.

New Sections 4433 and 4434 would provide examples of conditions that may indicate impairment and any impairment would be disclosed in accordance with the requirements in ASPE Section 3063, *Impairment of Long-lived Assets*.

Collections

Collections are works of art, historical treasures or similar assets that are:

- Held for public exhibition, education or research;
- Protected, cared for and preserved; and
- Subject to an organization policy that requires any proceeds from their sale be used to acquire other items to be added to the collection or for the direct care of the existing collection.

The Exposure Draft proposes that collections would be recorded as a separate line item on the face of the Statement of Financial Position and an NPO would make an accounting policy choice to record all of its collections at either:

- Cost; or
- Nominal value.

To reflect partial impairment of a collection recorded at cost whenever events or changes in circumstances indicate that its net carrying value may exceed fair value, it would be written down to either fair value or replacement cost. New Section 4441 would provide examples of conditions that may be present to indicate impairment. When there is impairment, disclosure would be required of whether the write-down is measured at the collection's fair value or replacement cost.

Guidance on disposing of items in a collection would also be added. Under the proposals in the Exposure Draft when:

- Items contributed to a collection that are subject to external restrictions are disposed of, the gain or loss would be accounted for in accordance with Section 4410, *Contributions—Revenue Recognition*.
- When items in a collection that do not have external restrictions and are disposed of, the gain or loss would be recognized in the Statement of Operations.

Works of Art and Historical Treasures Not Part of a Collection

For works of art, historical treasures and similar items that are not part of a collection, depending on their intended use, they would continue to be accounted for as either:

- Tangible capital assets, in accordance with new Section 4433;
- Intangible assets, in accordance with new Section 4434;
- Investments in accordance with ASPE Section 3051; or
- Inventory type items in accordance with Section 3032, *Inventories held by Not-for-Profit Organizations*.

Transition

The Exposure Draft proposes that prospective application of new Sections 4433 and 4434 would be required in accordance with Section 1506, *Accounting Changes*, except as permitted by the transitional provisions. The transitional provisions would provide relief for an NPO to:

- Allocate the costs of tangible capital assets to their component parts based on their relative cost or fair value at the date the assets were acquired, or at fair value or replacement cost at the date the Section is first applied; and
- Recognize an adjustment to opening net assets for partial impairments of tangible capital assets and intangible assets existing at the date the Section is first applied.

New Section 4441 would be required to be applied retrospectively in accordance with Section 1506 except as permitted by the transitional provisions. The transitional provisions would provide relief for an NPO that chooses to record its collection at cost to:

- Capitalize items in a collection acquired in previous periods at cost or fair value at the date of acquisition, or at fair value or replacement cost at the date the Section is first applied;
- Measure items in a collection at nominal value when the cost cannot be reasonably determined; and
- Recognize as an adjustment to opening net assets for partial impairments of collections existing at the date the Section is first applied.

The Board is currently reviewing the feedback received on the proposals in the Exposure Draft and will then determine its next steps. To keep up to date on the latest information on these proposed changes check out the AcSB's activities on the related project page of the Financial Reporting & Assurance Standards Canada website or by clicking here.

Reporting Controlled and Related Entities by NPOs

This project will address whether and how to amend Section 4450, *Reporting Controlled and Related Entities by Not-for-Profit Organizations*, regarding how to account for controlled not-for-profit organizations and profit-oriented enterprises. The project will also include including gathering information on combinations between NPOs and whether to undertake a future project to issue guidance on that topic given such combinations are becoming more frequent.

Contributions—Revenue Recognition and Related Matters

This project will involve conducting further research on how NPOs should recognize revenue from contributions. It will also consider the implications to NPOs of eliminating the $500,000 size exemption for capital assets as well as examine whether NPOs should be directed to follow the financial statement presentation guidance in ASPE except for presentation issues unique to NPOs for which guidance will be retained in Part III of the Handbook. The AcSB is currently carrying out research on recognition of revenue from contributions including seeking to better understand current practices, such as what types of NPOs use the deferral method vs. the restricted fund method and why they use each method, as well as the significance of different types of revenue to those organizations. The Board is also consulting with a range of users of NPO financial statements to understand what information they need to make decisions.

Based on feedback received from the Not-for-Profit Advisory Committee, the Board will also consider whether to undertake a future project on related party transactions.

As the above projects could have a significant impact on accounting for private sector NPOs we would encourage NPOs and the users of their financial statements to watch them closely. The latest information on these projects can be found on the ASNPO section of the Financial Reporting & Assurance Standards Canada website or by clicking here.

Narrow Scope Amendments—Financial Instruments

In 2014, the AcSB issued its Post-implementation Review: Section 3856, *Financial Instruments*. Based on the feedback provided the Board understands that the current guidance on the scope of accounting for related party financial instruments after initial recognition and on the measurement of related party compound financial instruments is not clear and is resulting in diversity in practice. Additionally, financial instrument risk disclosures is not entity-specific and therefore is not providing useful information. As a result, the Board has taken on a narrow scope amendment project which will consider:

- Clarifying the scope of related party financial instruments;
- Initial measurement of related party financial instruments;
- Clarifying the measurement of related party compound financial instruments;
- Classification of impairment and forgiveness of related party loans;
- The scope of accounting for modifications and extinguishments of related party loans; and
- Usefulness of financial instrument risk disclosures.

The Board plans to issue an Exposure Draft on these issues in the fourth quarter of 2017.

Conclusion

As we head closer to the end of the year, now is the time to check with your BDO advisor about how the changes made and the upcoming changes to the standards will affect your organization.