

## ASSURANCE AND ACCOUNTING

# ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS (ASNPO) UPDATE 2016

### 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 2016, minor amendments to Part III of the Handbook became effective.

However, 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. In 2016, new ASPE Sections 1591, Subsidiaries, and 3056, Interest in Joint Arrangements, became effective as well as amendments resulting from the Accounting Standards Boards (AcSB's) ASPE Annual Improvements Process.

This publication will discuss the impact of these changes on NPOs as well as an update on the progression of the AcSB's NPO improvement project.

### Standards Effective in 2016

#### Subsidiaries

In August 2014, the AcSB issued new Section 1591, *Subsidiaries*, which replaces Section 1590 of the same name and Accounting Guideline 15, *Consolidation of Variable Interest Entities*. Section 1591 provides guidance on determining when control is obtained via equity interests or through other means. NPOs follow the guidance in Section 4450, *Reporting Controlled and Related Entities by Not-for-Profit Organizations*, in accounting for controlled and related entities. Previously, Section 4450 directed NPOs to Section 1590 for factors to be considered when determining whether an organization controls a profit-oriented enterprises. Section 4450 has been amended to direct NPOs to refer to those factors on determining control in Section 1591 that remain unchanged from the guidance in Section 1590. Section 1591 is effective for fiscal years beginning on or after January 1, 2016.

#### Reporting Controlled and Related Entities by NPOs

Section 3056, *Interests in Joint Arrangements*, was issued in Part II of the Handbook in August 2014 and it replaces existing Section 3055, *Interests in Joint Ventures*. Section 3056 does not apply to NPOs. However, Section 4450, *Reporting Controlled and Related Entities by Not-for-Profit Organizations*, in Part III of the Handbook, previously looked to Section 3055 for the definition of proportionate consolidation. The proportionate consolidation method is not included in new Section 3056. As a result, Section 4450 was amended to incorporate the definition of proportionate consolidation and amend other references to Section 3055. The amendments to Section 4450 are effective for annual financial statements relating to fiscal years beginning on or after January 1, 2016.

#### 2015 Annual Improvements to ASPE

As a result of the 2015 ASPE Annual Improvements Process, amendments which also affect NPOs were made to the following Sections. These amendments are effective for years beginning on or after January 1, 2016:

##### Investments & Leases

Section 3051, *Investments*, and Section 3065, *Leases*, contain requirements for recognizing an impairment loss and the reversal of a

previously recognized impairment loss. However, neither Section previously required disclosure of such amounts. Amendments were made to these Sections to clarify that disclosure of any impairment loss or the reversal of a previously recognized impairment loss is required.

### Employee Future Benefits

Section 3462, *Employee Future Benefits*, permits the use of a funding valuation to determine the obligation for an unfunded defined benefit plan. This option allows an entity that uses a funding valuation for its funded defined benefit plans to measure all of its defined benefit plans on a consistent basis. The amendments clarify that the option to use a funding valuation can only be applied by entities that have at least one funded defined benefit plan and use a funding valuation to measure that plan. In addition, a decision tree was also added to the Section. The amendments also clarified that an actuarial valuation for funding purposes is one that is required to be prepared in order to comply with legislative, regulatory or contractual requirements.

## Projects on the Go

### Exposure Draft – 2017 Annual Improvements Process

In September, the AcSB issued an Exposure Draft on the 2017 Annual Improvements Process to ASPE. The Exposure Draft proposes the following amendments to ASPE, which would also affect NPOs. These changes are proposed to be effective for years beginning on or after January 1, 2018, with earlier application permitted.

### Disclosure of Accounting Policies

Currently, 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 have noted that this requirement is too prescriptive. As a result, the Board proposes to amend this paragraph to require 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, *Accounting Changes*, set out the disclosure requirements related to changes in accounting policy. Current paragraphs 1506.34(e) and .35(c) require 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 have 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 proposes to address this issue by removing the requirement to disclose the amount of an adjustment related to an accounting policy change for the current period and instead require disclosure "for each of the prior period(s) presented".

### Balance Sheet

Section 1521, *Balance Sheet*, identifies 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 no presentation and disclosure requirements related to assets under capital leases are provided in this Section. Therefore, the Board proposes to amend Section 1521 to clarify the existing presentation and disclosure requirements related to assets under capital leases. The Board also proposes to clarify the requirements of Section 1521, as they relate to the presentation and disclosure requirements of other standards in Part II of the Handbook.

### Foreign Currency Translation

Currently, 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. As a result, the Board proposes to remove paragraph 1651.53 and provide further clarification of this situation in the example included in paragraph 1651.51.

### Leases

Existing 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 proposes to amend paragraph 3065.81 to clarify that disclosure is only required for the amount of the allowance for impairment.

## 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 addresses the following proposals that a private sector NPO:

- Applies the accounting standards for private enterprises in Part II of the Handbook to report the capitalization, amortization and disposal of tangible assets and recognize write-downs to reflect a partial loss of service potential of a tangible asset still in use;
- Continues to apply the existing Part III standards for intangible assets and adds a requirement to Part III of the Handbook to recognize write-downs to reflect a partial loss of service potential of an intangible asset still in use;
- Continues to apply the existing Part III standards for collections and adds requirements to Part III to recognize collections on the statement of financial position at either cost or nominal value and to recognize write-downs to reflect a partial loss of service potential of a collection; and
- Continues to apply the existing standards in Part III for works of art, historical treasures and similar items that are not part of a collection.

The Board is planning to issue an Exposure Draft on the above proposals by the end of 2016. The Exposure Draft will also consider whether the proposals should be applied retrospectively or prospectively and any transitional relief to be provided. We would encourage private sector NPOs to provide their responses to the Board's proposals when the Exposure Draft is issued. The latest information on this specific project can be found [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. The AcSB has directed its staff to begin research on topic.

### 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. AcSB staff is currently carrying out research on contributions.

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](#).

## 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.

The information in this publication is current as of September 30, 2016.

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