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ASSURANCE AND ACCOUNTING

ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES (ASPE) UPDATE 2011

Introduction

Even though most private enterprises have not yet issued their first set of financial statements prepared in accordance with Accounting Standards for Private Enterprises (ASPE), a number of amendments have been made to the standards. These amendments are as a result of the Accounting Standards Board's first Annual Improvements Process. The purpose of the Annual Improvements Process is to clarify guidance or wording and to correct for unintended consequences or conflicts in the standards. No major improvements to the standards, such as the issuance of a new standard, are included in the Annual Improvements Process.

The changes from the first Annual Improvements Process are summarized below[1].

General Standards of Financial Statement Presentation

Section 1400, General Standards of Financial Statement Presentation, now includes an additional paragraph stating that an entity may only have one set of general purpose financial statements under Part II of the Canadian Institute of Chartered Accountants (CICA) Handbook. If an entity prepares any other financial statements, they are required to refer to its general purpose financial statements in any additional sets of financial statements. As a result of this amendment, an entity that wants to prepare both consolidated and unconsolidated financial statements in accordance with ASPE, will have to choose which set of statements are its general purpose statements and refer to those statements in the other set of statements.

Balance Sheet

Section 1521, Balance Sheet, was amended to address some presentation inconsistencies between it and Section 1510, Current Assets and Current Liabilities. These changes are very minor and we do not anticipate any change in practice as a result of these changes.

Goodwill and Intangible Assets

Section 3064, Goodwill and Intangible Assets was modified to clarify that expenditures on mail order catalogues and other similar documents intended to advertise goods, services or events to customers are included in advertising and promotional activities that must be expensed as incurred.

These expenses are incurred when an entity has a right to access goods (i.e. when it owns them). Services are received when they are performed by the supplier in accordance with their contract and not when they are used for another purpose. In the case of catalogues or similar documents this means that they will be expensed when received from the supplier, not when they are delivered to customers.

This does not mean that prepaid advertising no longer exists, as an entity could still have a prepaid for amounts paid in advance of receiving goods or services.

[1] Note that similar changes were made to the relevant standards under Part III, Accounting Standards for Not-for-Profit Organizations.

Subsequent Events

A new paragraph has been added to Section 3820, Subsequent Events, to clarify what is meant by the completion date of financial statements. Financial statements are considered complete when:

a. A complete set of financial statements, including all required note disclosures, has been prepared;

b. All final adjusting journal entries have been reflected in the financial statements (for example, adjustments for income taxes and bonuses);

c. No changes to the financial statements are planned or expected; and

d. The financial statements meeting the above requirements have been approved in accordance with the entity's process to finalize its financial statements.

The financial statement completion date is a critical date, as it is the date to which subsequent events must be considered.

Financial Instruments

A number of revisions have been made to Section 3856, Financial Instruments. The revisions all relate to hedge accounting. For more information on hedge accounting see our publication "A Guide to Hedge Accounting for Private Enterprises and Not-for-Profit Organizations"[2]. The amendments are as follows:

- The standard now increases the maximum number of days between a hedged transaction and the maturity of a hedging forward contract for hedge accounting to apply from 14 days to 30 days.
- The accounting treatment for a qualifying hedge of an anticipated transaction has been clarified as follows:
    a. The hedged item is recognized initially at the amount of consideration payable or receivable. The gain or loss on the hedging item is recognized as an adjustment of the carrying amount of the hedged item when the anticipated transaction results in the recognition of an asset or a liability. When the hedged item is recognized directly in net income, the gain or loss on the hedging item is included in the same category of income or expense.

    b. When the hedging item matures before the hedged item is recognized, the gain or loss on the hedging item is recognized as a separate component of equity until the hedged item is recognized. When the hedged item is recognized, the gain or loss on the hedging item is transferred from the separate component of equity to the carrying amount of the hedged item or to net income in accordance with (a).

    c. When the hedging item matures after the hedged item is recognized, the hedging item is recognized on the same date as the hedged item using the spot price or rate in effect on that date (i.e., at an amount equal to the difference between the contract rate and the spot rate on the measurement date multiplied by the notional amount or quantity of the contract). The gain or loss is included in the carrying amount of the hedged item or in net income in accordance with (a), with the offsetting amount recognized as a derivative-related asset or liability, as appropriate. When the hedging item matures, the asset or liability is derecognized and any additional gain or loss on the forward contract is recognized in net income.
- The Section clarifies qualifying conditions for hedging a prepayable interest-bearing financial asset or financial liability with an interest rate swap pertaining to the prepayable option. It must now be probable that the instrument will not be prepaid to qualify for hedge accounting.
- The transitional provisions under the section were adjusted to require that notwithstanding the requirement to designate and document all hedging relationships at inception, an entity may designate and document any hedging relationship that otherwise meets the requirements of Section 3856 at any time prior to the end of the first fiscal year beginning on or after January 1, 2011.
- The conditions for concurrent hedging of a commodity and foreign currency risks in an anticipated purchase or sale of a commodity were clarified.

[2] http://www.bdo.ca/library/publications/assuranceandaccounting/documents/A-guide-to-Financial-Instruments-for-Private-Enterprises.PDF

Transitional Date

All of the above changes are effective for years beginning on or after January 1, 2011. As a result, the improvements must be incorporated by 2011 first time adopters of ASPE.

Future Projects

Watch for upcoming Exposure Drafts from the Accounting Standards Board on Employee Future Benefits, Fair Value Measurement, and Financial Statement Concepts in the 4th quarter of 2011.

Conclusion

As we head closer to the end of the first year of actually applying ASPE, now is the time to check in with your BDO advisor about anything you want to know about your move to ASPE or the changes to the standards made in 2011.