OCTOBER 2015
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ASSURANCE AND ACCOUNTING

ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS (ASNPO) UPDATE 2015

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 2015, there were no amendments made to Part III of the Handbook.

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. During the year, changes to ASPE resulting from the Accounting Standards Boards (AcSB's) ASPE Annual Improvements Process became effective and additional amendments were made to various Sections.

This publication will discuss the changes applicable to NPOs, changes that will become effective in the upcoming year and will conclude with a discussion on projects the AcSB is currently working on that affect NPOs.

Standards Effective in 2015

As a result of the 2014 ASPE Annual Improvements Process, the following amendments which also affect NPOs were made to Section 3856, *Financial Instruments*. These amendments are effective for years beginning on or after January 1, 2015:

When a hedge of an anticipated transaction matures after the anticipated transaction occurs, Section 3856 was previously not clear on how to account for the hedging item if a reporting period ended between the date the hedge transaction occurred and the date the hedging item matured. This Section was amended to clarify that in this situation, the hedging item is remeasured at the balance sheet date using the spot rate in effect at that date, with any gain or loss included in excess of revenue over expenses.

An additional amendment was made to Section 3856 to clarify the disclosures required when current trade accounts receivable are impaired. Section 3856 previously required an entity to disclose the carrying amount of impaired financial assets, by type of asset, and the amount of any related allowance for impairment. For certain financial assets, such as current trade receivables, impairment may be assessed on a group basis. In this situation, it was unclear whether the carrying amount of impaired financial assets was required to be disclosed since the allowance does not relate to specific items. The amendment clarifies that for current trade receivables, only the amount of the allowance for impairment is required to be disclosed. For all other financial assets, the carrying amount of impaired financial assets is required to be disclosed by type of asset, and the amount of any related allowance for impairment is also required to be disclosed.

Standards Effective in 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.

Subsidiaries

In August 2014, the AcSB issued new Section 1591, *Subsidiaries*, which replaces Section 1590 of the same name. Accounting Guideline 15 (AcG-15), *Consolidation of Variable Interest Entities*, has also been withdrawn and replaced by guidance included in new Section 1591. Section 1591 requires the use of professional judgment to determine when control is obtained through means other than equity interests. Currently, NPOs follow the guidance in Section 4450, *Reporting Controlled and Related Entities by Not-for-Profit Organizations*, in accounting for controlled and related entities. Section 4450 directs NPOs to Section 1591 for guidance when determining control of profit-oriented enterprises. Under Section 1591, control of an enterprise would be assessed by giving consideration to involvement in the inception of the other enterprise and decisions made in determining its purpose and design; how decisions are made about strategic policies that could affect the rights and abilities to obtain future economic benefits and related risks; and the risks to which the other enterprise was designed to be exposed. All contractual arrangements would be required to be reviewed to consider all facts and circumstances when assessing control.

This new standard is effective for fiscal years beginning on or after January 1, 2016. Earlier application is permitted. NPOs will look to new Section 1591 for guidance on determining control of profit-oriented enterprises once it is effective.

Reporting Controlled and Related Entities by NPOs

New 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. Earlier application is permitted.

Projects on the Go

Improvements to Not-for-Profit Standards

The Accounting Standards Board (AcSB) which develops accounting standards for private sector not-for-profit organizations (NPOs) and the Public Sector Accounting Board (PSAB) which establishes accounting standards for public sector entities, including government NPOs have been working together to improve not-for-profit standards to better meet the needs of users.

During 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 following three private sector NPO projects 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 will address the proposals that a private sector NPO:

- Applies the referenced 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 a requirement to Part III to recognize collections at either cost or nominal value; and
- Maintains the existing standards in Part III for:
  - Works of art, historical treasures and similar items that are not part of a collection;
  - Related party transactions; and
  - Allocated expenses (related to fundraising and general support costs).

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, and will address the proposals that:

- Require consolidation of controlled NPOs, subject to an exclusion from consolidation of a large number of individually immaterial organizations;
- Require the application of the equity method to account for controlled profit-oriented enterprises although an organization would not be required to conform the accounting principles of the subsidiary with those of the parent;
- Maintain the existing standards for the definition and disclosure of economic interests; and
- Present expenses by function in the financial statements, disclose expenses by object in the notes and present total fundraising and support expenses in either the financial statements or disclose them in the notes.

Contributions – Revenue Recognition and Related Matters

This project will involve conducting further research on the recognition of revenue from contributions as part of addressing the proposals that state:

- Pledges must meet the definition of an asset to be recorded;
- A contribution stipulation must meet the definition of a liability in order to not be recognized as revenue when received or receivable;
- When a stipulation gives rise to a liability, revenue would be recognized as the liability is settled; and
- Contributions of materials and services may be recognized if a fair value can reasonably be recognized.

This project would also address the implications of:

- Eliminating the $500,000 size exemption in Part III of the Handbook that permits non-recognition of tangible and intangible capital assets; and
- Applying the referenced standards in Part II of the Handbook to the presentation of financial statements subject to retaining guidance material in Part III that addresses unique financial statement presentation issues faced by NPOs.

As the above projects could have a significant impact on accounting for private sector NPOs we would encourage NPOs to watch them closely. The latest information on these projects can be found on the ASNPO section of the FRAS Canada website or by clicking here.

Post-implementation Review & Feedback Statement — Financial Instruments

During the year, the AcSB undertook a Post-implementation Review of Section 3856, *Financial Instruments*, for the purpose of assessing the effect of this standard on financial statement users and preparers. This is the first review of its kind undertaken by the Board and the feedback received will allow the Board to assess whether the Section provides financial statement information that is useful to users and how this usefulness can be improved, whether there are unexpected costs or challenges in applying the standard, and whether there are areas of the standard that present interpretation challenges and result in inconsistent application.

The Board considered the responses it received and issued a Feedback Statement in September 2015. According to this document, stakeholders support the principles and most of the requirements of Section 3856 and find that it has been successful in providing one standard to address all aspects of accounting for and disclosing financial instruments, one impairment model for financial assets, simplified hedge accounting requirements, and classification and measurement guidance for financial liabilities and equity. However, stakeholders did express their concerns and some of the most frequent comments received were that they have experienced challenges determining the initial measurement of some financial instruments, there is some confusion regarding the scope and initial and subsequent measurement of financial instruments issued between related parties, and some of the financial instrument disclosures, particularly those related to risk and uncertainty, are not necessarily useful to financial statement users. The Board will further analyze the feedback received and decide what, if any, aspects of Section 3856 should be considered for amendment. Any proposed amendments would be developed in accordance with the AcSB's due process procedures.

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.