

Assurance and Accounting

Accounting Standards for Private Enterprises (ASPE) Update 2023

Introduction

It was another active year for the Accounting Standards Board (AcSB or the Board) and for Part II of the CPA Canada Handbook - Accounting: Accounting Standards for Private Enterprises (ASPE). The Board was hard at work advancing the progress of a number of projects including: issuing amendments to provide clarity on accounting for related party combinations; approving a new project on accounting for insurance contracts with cash surrender value; and embarking on a project to explore adding scalability to the current accounting standards. While no new standards became effective in 2023, a new accounting guideline that provides guidance on accounting for cloud computing arrangements will become effective in 2024. This publication will discuss these changes, as well as, other amendments and standards effective over the next few years and will provide an overview of the main projects the Board has on the go that will affect private sector entities following ASPE. Use the table below to navigate to the sections of the publication most relevant for you.

NEW STANDARDS / AMENDMENTS EFFECTIVE FOR FISCAL YEARS BEGINNING ON OR AFTER:	
January 1, 2024	AcG-20, Customer's Accounting for Cloud Computing Arrangements
January 1, 2025	Amendments to Section 3840, Related Party Transactions, and Section 3856, Financial Instruments, to clarify the accounting for related party combinations
KEY PROJECTS ON THE GO:	
	<ul style="list-style-type: none"> • Evaluating the Preface • Scaling the Standards • Revenue – Upfront Non-Refundable Fees or Payments • Insurance Contracts with Cash Surrender Value

Standards Effective in 2024

New Accounting Guideline AcG-20 - Customer's Accounting for Cloud Computing Arrangements

As the way software is delivered has changed, more entities have begun using cloud-computing arrangements to access software. In the past, entities would do an outright purchase of software that would then be installed onto their own hardware. In a cloud computing arrangement, customers have the right to use software through remote access whereby the actual software resides on the vendor's cloud environment. These arrangements contain varying contractual terms and the accounting can be complex, which has led to diversity in practice. There have also been concerns that the accounting outcome for implementation expenditures incurred for an arrangement that was a service contract was not reflective of the economic benefits an entity receives over time. The AcSB heard stakeholders' concerns, and in November 2022 issued Accounting Guideline AcG-20, *Customer's Accounting for Cloud Computing Arrangements*, to provide guidance on this topic. The new Guideline provides:

- Clarification that an entity determines a method on a rational and consistent basis to allocate the arrangement consideration to the significant separable elements in a cloud computing arrangement;
- An optional simplification approach to permit an entity to expense as incurred the expenditures related to the elements in a cloud computing arrangement that fall within the scope of the Guideline;
- For those entities that do not apply the simplification approach, the Guideline provides factors to assist the entity in determining whether a software element in the arrangement is a software intangible asset that would be accounted for in accordance with Section 3064, *Goodwill and Intangible Assets*, or a software service;
- For a software service, there is an accounting policy choice to either:
 - Capitalize the expenditures on implementation activities that are directly attributable to preparing the software service for its intended use as an asset; or
 - Expense as incurred such implementation costs;

- Disclosure requirements to help users understand how the cloud computing arrangement is accounted for in the entity's financial statements; and
- Illustrative examples to assist entities in applying the guidance.

AcG-20 is effective for fiscal years beginning on or after January 1, 2024, with earlier application permitted. The Guideline is applied retrospectively, with certain transitional relief. For additional information on this new Guideline refer to our ASPE at a Glance: AcG-20 - Customer's Accounting for Cloud Computing Arrangements publication, which will be available soon on our [ASPE Knowledge Centre](#).

Standards Effective in 2025

Amendments to Section 3840, Related Party Transactions, and Section 3856, Financial Instruments

The results of an AcSB survey of stakeholders on the priority of projects for domestic standards, identified Section 3840, *Related Party Transactions*, as a high priority. An area of concern identified by stakeholders was accounting for related party combinations. Specifically, the guidance in paragraph 3856.44 on accounting for a business transferred between two enterprises under common control was not clear and often caused application difficulties in practice. Additionally, it was unclear whether financial instruments transferred in such a transaction should be measured using the principles in paragraph 3856.44 or those in Section 3856, *Financial Instruments*.

As a result, the Board undertook a project to address these concerns and in September 2023 issued amendments to Section 3840 and Section 3856. The amendments:

- Clarify the application of Section 1582, *Business Combinations*, to business combinations under control that are accounted for in accordance with paragraph 3850.44(a);
- Provide entities with an option to retrospectively restate all prior periods when carrying values are used to account for a combination or prospectively account for these transactions; And
- Clarify that financial instruments acquired or liabilities assumed when a business is transferred between two enterprises under common control are initially measured in accordance with paragraph 3840.44.

These amendments are applicable for fiscal years beginning on or after January 1, 2025, with early application permitted.

Projects on the Go

The AcSB currently has a number of projects in progress that propose future changes to the ASPE Handbook. The following provides a brief discussion of the main projects underway.

Project – Evaluating the Preface

The CPA Canada Handbook - Accounting (Handbook) is made up of four parts (also referred to as frameworks): Part I - International Financial Reporting Standards (IFRS); Part II - Accounting Standards for Private Enterprises (ASPE); Part III - Accounting Standards for Not-for-Profit Organizations (ASNPO); and Part IV - Accounting Standards for Pension Plans (ASPP). The Preface of the Handbook explains which part of the Handbook applies to a reporting entity. Currently the Preface states that publicly accountable enterprises must apply IFRS, private enterprises can choose to apply ASPE or IFRS, private sector not-for-profit organizations can choose to apply ASNPO or IFRS and pension plans must apply ASPP.

As part of its 2022-2027 strategic plan, the AcSB has undertaken a project to evaluate the Preface of the Handbook to determine if it remains appropriate. Through this project the Board will identify the types of entities directed by the Preface to apply a certain accounting framework and explore whether their financial reporting needs are being appropriately met by that framework. If the Board finds needs are not being appropriately met, it will explore other options including whether changes to the Preface are needed.

In conjunction with this project, the AcSB is working on a Scaling the Standards project, discussed below. Together these two projects are focused on ensuring the reporting and non-reporting needs of Canadian entities and the users of their financial statements are met by the Preface and the current standard-setting frameworks.

Consultation Paper - Scaling the Standards

As part of its 2022-2027 strategic plan, the AcSB committed to consider scaling the standards for non-listed entities (private enterprises, private sector not-for-profit organizations and pension plans) to better meet their changing reporting needs and the diversity in the size and complexity of these entities. Scaling the standards, which may also be referred to as tiering, can take different forms and may mean providing additional accounting policy choices within the existing frameworks, adding new frameworks, or changing disclosure requirements.

As part of the first phase of this project, the Board issued a Consultation Paper in March 2023 to obtain feedback from the stakeholders of non-listed entities on current issues with the existing frameworks and potential scalability solutions. The Consultation Paper highlighted the concerns with the frameworks the Board has heard to date and proposed the following as some potential options that could be undertaken to add scalability into the existing Handbook :

1. Incorporate tiering within the existing ASPE and ASNPO frameworks by adding simplified recognition and measurement within selected standards
2. Incorporate tiering within existing ASPE and ASNPO frameworks in the form of reduced disclosure requirements
3. Adding an intermediary accounting framework option between IFRS and ASPE and/or between IFRS and ASNPO
4. Adding a new framework for small entities

The Consultation Paper asked stakeholders to share their feedback on whether any or a combination of these options could be useful and to provide the Board with any other options

they believed could be beneficial. The consultation period closed July 31, 2023 and the Board is now analyzing the feedback received before deciding on next steps for this project. We would encourage entities to stay up to date with the latest developments which can be found on the [Scaling the Standards project page](#) on the FRAS Canada website.

Exposure Draft - Revenue - Upfront Non-Refundable Fees or Payments

In December 2019, the AcSB issued amendments to Section 3400, *Revenue*, to provide additional application guidance on complex revenue topics, including determining when to recognize revenue from upfront non-refundable fees or payments. The amendments were effective for fiscal years beginning on or after January 1, 2022 and were applicable retroactively. However, as entities started to apply these amendments, the AcSB heard of application challenges, particularly from some member benefit organizations that were concerned about the decision-usefulness of deferring upfront non-refundable fees over long member durations and the associated cost of applying the amendments. Currently some member benefit organizations are not-for-profit organizations that follow ASNPO, while others are for-profit organizations that follow ASPE.

In response to these concerns, the Board initially deferred the effective date of these specific amendments to January 1, 2025 so that it could undertake research on these issues. However, after performing additional research, the Board is planning to issue an Exposure Draft in October 2023 proposing to indefinitely defer the effective date of these specific amendments (with early application still permitted) until its project on Evaluating the Preface of the CPA Canada Handbook is complete, since changes made as a result of that project may impact this issue. The Exposure Draft will also propose a new disclosure requirement for entities recognizing upfront non-refundable fees or payments in revenue entirely up front. We would encourage affected entities to watch for this Exposure Draft, which will be available on the [revenue - upfront and non-refundable fees or payments project page](#) of the FRAS Canada website, and provide their feedback on the Board's proposals.

Project - Insurance Contracts with Cash Surrender Value

During the past year, the AcSB began a project to provide guidance on the recognition and measurement of the cash surrender value of an insurance contract, as currently ASPE does not address accounting for such items. The Board is currently working on an Exposure Draft proposing the development of an accounting guideline that would:

- Require recognition of the cash surrender value of an insurance contract as an asset, which would be measured at the cash surrender amount;
- Require recognition of the annual change in cash surrender amount and policy premiums on a net basis, with a net debit reported as an expense and a net credit reported as income; and
- Establish disclosure requirements to ensure decision-useful information is provided to financial statement users.

The Board plans to issue the Exposure Draft in October 2023. We encourage entities to watch for this Exposure Draft, which will be available on the [insurance contracts project page](#) of the FRAS Canada website, and provide their feedback on the Board's proposals.

Conclusion

As we head closer to the end of the year, now is the time to check in with your BDO advisor about how the changes made to the ASPE Handbook and the projects on the go will affect your organization. Reach out to us today.

The information in this publication is current as of September 1, 2023.

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