

Accounting Standards for Private Enterprises (ASPE) Update 2024

Introduction

In 2024, the Accounting Standards Board (AcSB or the Board) continued to advance several projects related to Part II of the CPA Canada Handbook - Accounting: Accounting Standards for Private Enterprises (ASPE). In addition, Accounting Guideline AcG-20, Customer's Accounting for Cloud Computing Arrangements, came into effect. This publication will discuss these changes, as well as other amendments and standards effective in future years, and provide an overview of key ongoing projects that will affect private sector entities following ASPE.

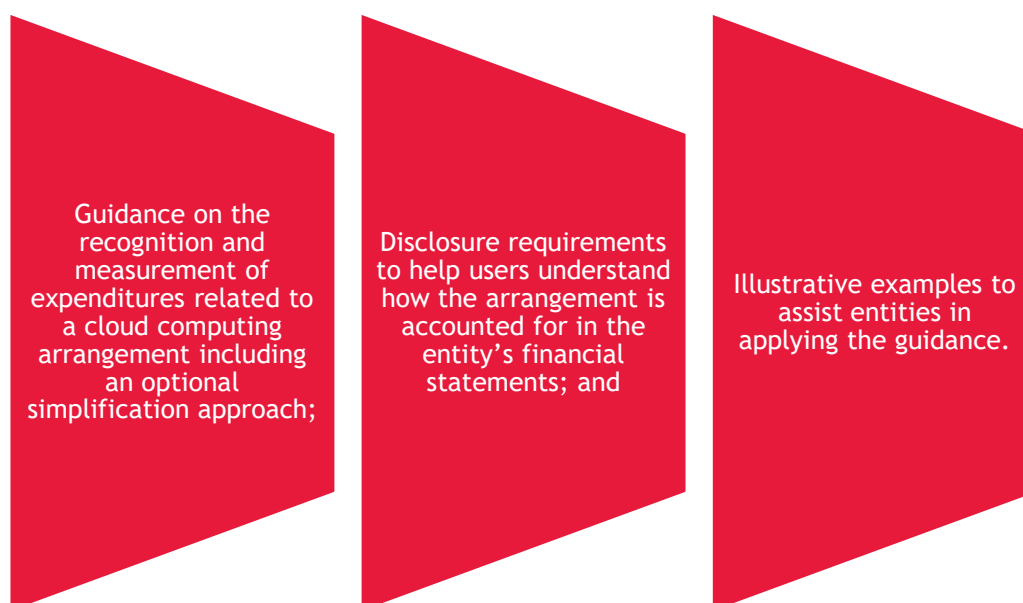
NEW STANDARDS / AMENDMENTS EFFECTIVE FOR FISCAL YEARS BEGINNING ON OR AFTER:	
January 1, 2024	<ul style="list-style-type: none">• AcG-20, Customer's Accounting for Cloud Computing Arrangements
January 1, 2025	<ul style="list-style-type: none">• Amendments to Section 3840, Related Party Transactions, and Section 3856, Financial Instruments, to clarify the accounting for related party combinations• Amendments to Section 3400, Revenue and Upfront Non-Refundable Fees or Payments
KEY PROJECTS ON THE GO:	
	<ul style="list-style-type: none">• Insurance Contracts with Cash Surrender Value• Subsequent Measurement of Goodwill and Acquired Intangible Assets• Evaluating the Preface & Detailed Review of ASPE

Standards Effective in 2024

New Accounting Guideline (AcG) 20, Customer's Accounting for Cloud Computing Arrangements

Overview

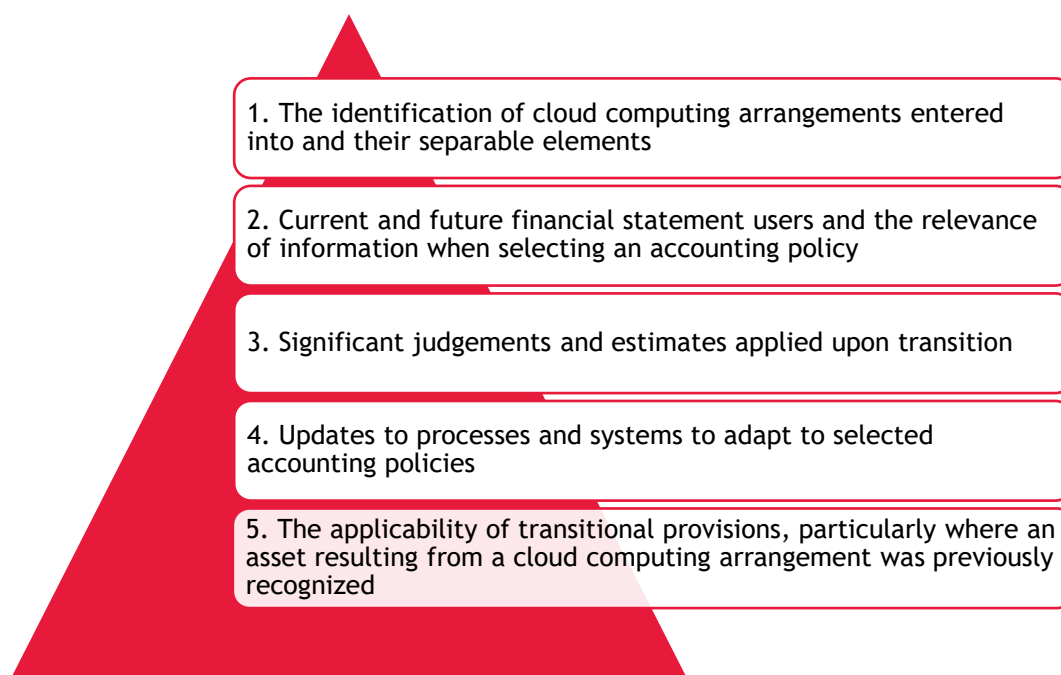
More entities have begun using cloud computing arrangements to access software. These arrangements contain varying contractual terms and the accounting can be complex which has led to diversity in practice and concerns that the accounting outcome for implementation expenditures incurred for an arrangement are not reflective of the economic benefits an entity receives over time. The AcSB heard stakeholders' concerns and issued Accounting Guideline (AcG) 20, Customer's Accounting for Cloud Computing Arrangements. The new Guideline provides:



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.

Impact to your organization

To implement this change entities will need to consider:



Resources

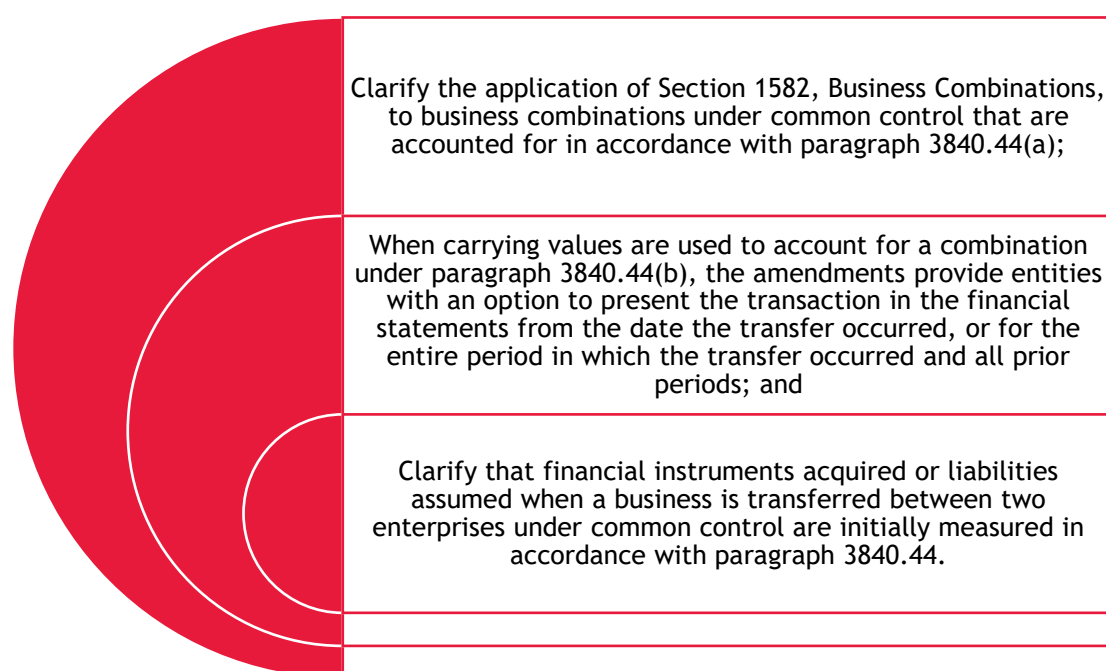
For additional information on this new Guideline refer to our [ASPE at a Glance: AcG-20 - Customer's Accounting for Cloud Computing Arrangements](#) publication.

Standards Effective in 2025

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

Overview

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 was accounting for related party combinations. Specifically, the guidance in paragraph 3840.44 on accounting for a business transferred between two enterprises under common control. As a result, in September 2023 the Board issued amendments to Section 3840 and Section 3856. The amendments:



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

Impact to your organization

Apart from the new option on how to present a common control transaction when carrying values are used, the amendments generally align the accounting guidance with common practice, therefore, significant financial reporting changes are not expected.

However, where the carrying values are used to account for a transfer of a business between enterprises under common control:

- The needs of the financial statement users and relevancy of comparative information will need to be assessed to select the most appropriate method of presentation; and
- Application questions have been raised regarding this amendment and the Board has tentatively decided to develop an Exposure Draft to propose a narrow-scope amendment to Section 3840 to provide further clarification. This Exposure Draft is expected to be issued for comment in Q4 of 2024.

Resources

As this is an area of complexity and additional guidance may be forthcoming, please reach out to your BDO advisor if you would like to early adopt these amendments.

Amendments to Section 3400, Revenue and Upfront Non-Refundable Fees or Payments

Overview

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 originally effective for fiscal years beginning on or after January 1, 2022 and were applicable retroactively. However, as entities began preparing 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.

In response to these concerns, the Board initially deferred the effective date of these specific amendments to January 1, 2025. Then in May 2024, after conducting further research and receiving feedback on another Exposure Draft, an amendment was issued to indefinitely defer the effective date of the amendments until the Board's project on Evaluating the Preface ([see below](#)) is complete.

Even though the Board indefinitely deferred the effective date of this additional application guidance, it decided to leave the guidance in Section 3400 in case some entities find it useful and choose to early adopt it.

Additionally, the most recent amendments require an enterprise to disclose the nature and amount of upfront non-refundable fees or payments that are recognized in revenue upon entering into the arrangement. This disclosure requirement is effective for fiscal years beginning on or after January 1, 2025 with early application permitted.

Impact to your organization

Entities should assess whether they are recognizing upfront non-refundable fees or payments in revenue upon entering into the arrangement and if so, start gathering the information that will be required for disclosure under the recent amendments.

Resources

Reach out to your BDO advisor if you have questions on how these amendments may apply to your organization.

Assurance Impact

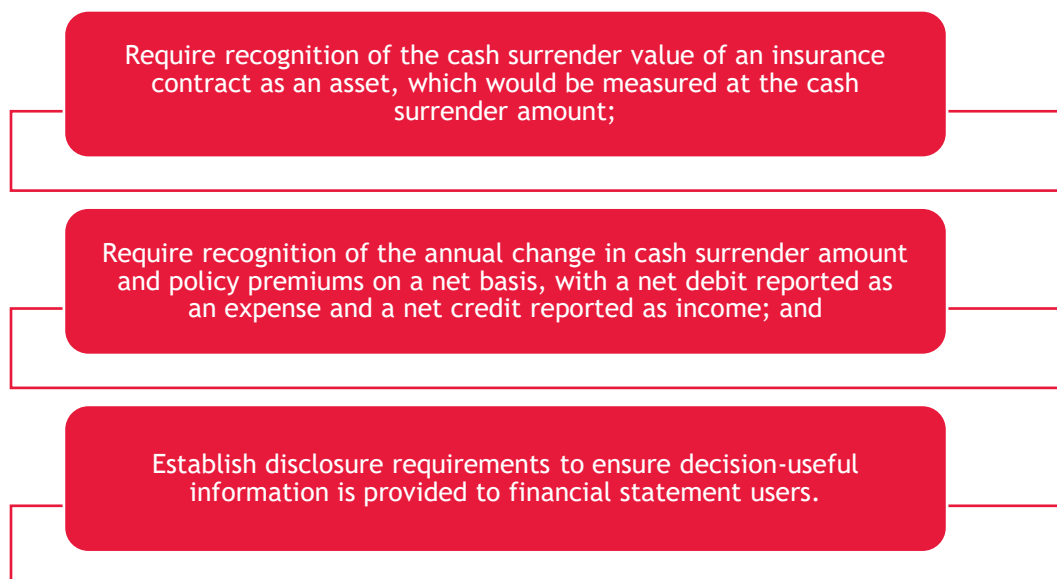
Applying new and amended standards can be complex and could impact the amount and nature of assurance work required for audited or reviewed financial statements. Your assurance team will be required to gain an understanding of how these changes were applied in your financial reporting including any significant accounting positions and judgments. Reach out to your engagement team as soon as possible to understand the impacts and to prepare for your upcoming year-end.

Projects on the Go

The AcSB has a number of projects on the go which seek to improve private sector standards to better meet stakeholder needs both now and in the future. The following provides a brief overview of some of these projects.

Exposure Draft - Insurance Contracts with Cash Surrender Value

In 2022, the AcSB began a project to provide guidance on the recognition and measurement of the cash surrender value of an insurance contract. In November 2023, the Board issued an Exposure Draft to propose the issuance of a new Accounting Guideline (AcG) 21, Accounting for Life Insurance Contracts with Cash Surrender Value. The main proposals of AcG-21:



The Board reviewed the feedback received on the Exposure Draft and recently approved AcG-21. It is expected to be issued in the Handbook in Fall 2024 with an effective date of fiscal years beginning on or after January 1, 2026.

Project - Subsequent Measurement of Goodwill and Acquired Intangible Assets

The Board has been made aware of challenges faced by entities related to the recognition of intangible assets acquired in a business combination and subsequent measurement of goodwill. Challenges include:

- Separating out and estimating the fair value of certain intangible assets acquired in a business combination; and
- Carrying out goodwill impairment tests.

The Board has also received feedback that financial statement users may not find quantitative information on goodwill and some intangible assets useful.

In response to these concerns, the Board has undertaken a project to better understand the current challenges and information needs of financial statement users. As a part of this project, the Board will consider whether to propose relief from the recognition of intangible assets acquired in a business combination and/or whether to propose a change to allow for the amortization of goodwill.

The Board conducted public outreach sessions in May and June of 2024 and is currently analyzing the feedback received before deciding next steps. We would encourage entities to stay up to date with the

latest developments on this project which can be found on the [Subsequent Measurement of Goodwill and Acquired Intangible Assets project page](#) on the FRAS Canada website.

Projects - Evaluating the Preface & Detailed Review of ASPE

As a part of its 2022-2027 Strategic Plan, the AcSB has undertaken two projects to enhance the relevance of accounting standards:

1. **Evaluating the Preface:** The CPA Canada Handbook - Accounting (Handbook) is made up of four parts (also known 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 CPA Canada 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. 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 and if not whether changes to the Preface are needed.
2. **Detailed Review of ASPE:** Based on feedback received from respondents to its recent Consultation Paper I - Exploring Scalability in Canada, the Board heard that several standards in ASPE are either complex to apply or result in information that is not actually useful to users of financial statements. As a result, the Board has decided to conduct a detailed review of ASPE to identify these reporting requirements and consider practical solutions that increase the understandability and accessibility of the standards for all entities while still meeting user needs. A Consultation Paper is expected to be issued in early 2025. We would encourage entities to stay up to date with the latest developments on this exciting project which can be found on the [Detailed Review of ASPE project page](#) on the FRAS Canada website.

Together these two projects are focused on ensuring the reporting needs of Canadian entities and the users of their financial statements are met by the Preface and the current standard-setting frameworks.

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 Handbook and the projects on the go will affect your organization. Reach out to us today.

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