



Grant Thornton

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Flash for NFPO

March 2017

Flash bulletins provide a summary of the most recent news and publications from standard setters on accounting standards for private enterprises (ASPE), not-for-profit organizations (NFPO) and pension plans. This version of *Flash* specifically addresses the most recent news and publications relevant to NFPO (including changes made to ASPE which are relevant for NFPO). The version of *Flash* specifically addressing [ASPE](#) can be accessed from the Grant Thornton Canada website.

This publication is intended to inform readers about recent changes in accounting; however, it cannot deal with all topics. Readers are always encouraged to refer to the original publications mentioned in the articles before making any decisions.

AcSB and Not-for-Profit Advisory Committee projects and activities

The AcSB is continuing various projects to amend accounting standards for NFPO (ASNPO) to maintain the quality and credibility of NFPO financial statements while meeting the needs of NFPO and their financial statement users. To accomplish this task, the AcSB is supported by the Not-for Profit Advisory Committee (the NFPO Committee). Grant Thornton LLP currently has a member serving on the NFPO Committee.

Since June 2016, the AcSB and the NFPO Committee have discussed the following topics:

- accounting standards improvements for NFPO
- contributions – revenue recognition and related matters
- other projects

Accounting Standards Improvements for NFPO

In February 2017, the AcSB issued an Exposure Draft [Accounting Standards Improvements for Not-for-Profit Organizations](#) which includes proposals pertaining to

- tangible capital assets and intangible assets;
- works of art, historical treasures and similar items not part of a collection; and
- collections.

The AcSB proposed that the effective date of the new guidance would be fiscal years beginning on or after January 1, 2019.

A detailed discussion of the Exposure Draft will be issued in an upcoming special edition of *Flash*.

Future projects

Contributions – revenue recognition and related matters

Currently, ASNPO permit NFPO a free choice to apply either the deferral method or the restricted fund method to recognize contributions revenue. The choice of methods sometimes results in recognizing revenue from essentially the same transaction in different accounting periods just because of that accounting policy choice. This affects the comparability of NFPO financial statements. Stakeholders that provide resources to NFPO have suggested that the AcSB enhance financial statement comparability among NFPO by adopting a single method of revenue recognition for contributions. In [November 2016](#), the NFPO Committee discussed the following topics:

- reasons for two methods of accounting
- how two methods serve conceptual principles and the effect on donors
- pros and cons of the two methods of revenue recognition
- accounting for endowments
- US accounting standards pertaining to accounting for contributions

Based on a NFPO Committee suggestion, the AcSB has requested that staff undertake further research on the recognition of revenue from contributions.

Our thoughts

This project is in its early stages, but the end result could be a significant change to the timing of an NFPO's recognition of donations. We strongly advise that NFPO monitor this project and consider attending future roundtables and responding to Exposure Drafts to ensure their voices are heard. Grant Thornton plans to be in the forefront in providing feedback to the AcSB to ensure they understand our NFPO clients' needs.

Other projects

In [June 2016](#), the NFPO Committee discussed the need for projects on how to account for combinations between NFPO and the measurement of, and other matters pertaining to, related party transactions. Some of the issues cited included the difficulty in determining “control” and “significant influence” and the diversity in practice created by the absence of measurement guidance for related party transactions. In [September 2016](#), based on the NFPO Committee's recommendation, the AcSB directed staff to

- undertake research into the presentation of controlled entities and related parties in NFPO financial statements and, in particular, to obtain information on NFPO combinations; and
- continue to monitor issues and concerns relating to NFPO related party transactions.

2017 Annual Improvements to ASPE

In September 2016, the Canadian Accounting Standards Board (AcSB) issued an Exposure Draft entitled [*2017 Annual Improvements to Accounting Standards for Private Enterprises*](#) as part of the annual ASPE improvements process that aims to clarify guidance or wording and to correct for unintended consequences, conflicts or oversights.

The final amendments are expected to be issued in the third quarter of 2017 and effective for years beginning on or after January 1, 2018. Earlier adoption would be permitted.

Below is a summary of the amendments that were proposed:

- Section 1505 *Disclosure of Accounting Policies* currently requires an entity to disclose its accounting policies in the first note to its financial statements. The proposed amendment would provide more flexibility by requiring the presentation of accounting policies in one of the first notes to the financial statements.
- Currently, when an entity changes an accounting policy, it must disclose the amount of the adjustment to each financial statement line item affected for the current period. The proposed amendment, however, would require disclosure of the amount of the adjustment for each financial statement line item related to a change in accounting policy “for each of the prior period(s) presented”.
- Section 1521 *Balance Sheet* is intended to summarize the presentation requirements found in all the other standards within ASPE and identifies certain items that are required to be presented separately on the balance sheet or in the notes to the financial statements. The amendments propose changes to some of the items that currently require separate presentation on the balance sheet. For example, the proposed amendments would clarify the existing presentation of assets under capital lease by stating that these assets may be presented on the face of the balance sheet or in the notes to the financial statements.
- Section 1651 *Foreign Currency Translation* currently states that previous write-downs of inventories related to an integrated foreign operation cannot be reversed. This requirement contradicts the requirements in Section 3031 *Inventories* which requires the reversal of previous write-downs to inventories when the circumstances that caused the write-down no longer exist or there is clear evidence of an increase in the net realizable value. The AcSB proposes an amendment to Section 1651 to make it consistent with Section 3031 by allowing the reversal of write-downs of inventories of an integrated foreign operation.
- The last proposed amendment would remove the requirement to disclose the carrying amount of impaired operating lease receivables in Section 3065 *Leases*.

Our thoughts

The amendments proposed in the 2017 Annual Improvements project are fairly minor and non-controversial. If approved as exposed, these amendments are not expected to have a significant impact on NFPO.

AcSB and Private Enterprise Advisory Committee projects and activities

The AcSB is continuing various projects to amend ASPE in order to preserve the quality and credibility of private enterprises' financial statements. To accomplish this task, the AcSB is supported by the Private Enterprise Advisory Committee (the Committee). Grant Thornton LLP currently has a member serving on the Committee. The following paragraphs summarize certain topics discussed at meetings held by the AcSB and the Committee since June 2016.

Post-implementation Review: Section 3856 *Financial Instruments*

In October 2014, the AcSB undertook a post-implementation review of Section 3856 *Financial Instruments* and, in September 2015, published a [Feedback Statement](#) summarizing the results of this review. In [June 2016](#), the Committee discussed the feedback from stakeholders and agreed to suggest to the AcSB that it add the issues noted below to the AcSB's project plan so they can be addressed through either a major project or a narrow-scope amendment:

- accounting for related party financial assets and financial liabilities after initial recognition
- measuring related party compound financial instruments
- classification of impairment and forgiveness of related party loans
- determination of the carrying amount or exchange amount of newly issued related party financial instruments
- classification of certain instruments as either equity or financial liabilities
- revisions to certain disclosure requirements

The Committee also agreed to suggest to the AcSB that it should carry out further research on the issues noted below:

- initial measurement of financial instruments with non-market conditions or uncertain cash flows
- determination of fair value for certain financial assets (including mutual or pooled funds)

The Committee noted that the latter issue is prevalent with NFPO and, accordingly, suggested that it be raised with the Not-for-Profit Advisory Committee.

At its [January 2017](#) meeting, the AcSB approved a project to address several narrow-scope issues such as the scope of related party transactions, measurement of related party compound financial instruments and disclosure. In addition, stakeholders will be asked to provide feedback about the relative priorities for Part II for other topics, such as

- fair value measurement, and
- hedge accounting.

The AcSB agreed that if these topics are added to its work plan, they would need to be addressed through major projects.

Consultation on priorities for Part II

One of the AcSB's expected activities described in its *2016-2017 Annual Plan* is to consult with stakeholders about its relative priorities for future projects relating to ASPE. In [September 2016](#), the AcSB decided to focus its efforts on the following specific topic areas relevant to NFPO at this time:

- Section 1000 *Financial Statement Concepts*
- Section 3400 *Revenue*

Discussions on the above topics are expected to continue at future meetings of the Committee and the AcSB.

Review of recently issued standards under other accounting frameworks

The AcSB also directed staff to research whether allowing the application of push-down accounting in more situations than currently permitted by Section 1625 *Comprehensive Revaluation of Assets and Liabilities* would provide significant benefits to stakeholders. Lastly, the staff were directed to consider a project that would address the presentation of current and non-current future income tax assets and liabilities. The AcSB agreed that projects addressing the following topics (that would affect both private enterprises and NFPO) would not be undertaken at this time:

- recognition of cloud computing fees
- leasing under IFRS and US GAAP

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The information in this publication is current as of March 1, 2017.

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