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Flash for NFPO

June 2016

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's Strategic Plan

In March 2016, the Canadian Accounting Standards Board (AcSB) published its five-year strategic plan entitled [2016-2021 Strategic Plan – Accounting Standards in Canada: At the Leading Edge of Financial Reporting](#). The plan sets out broad strategic objectives to guide the AcSB in carrying out its mandate of establishing high-quality accounting standards, being accountable to stakeholders and contributing to global best practices in standard setting. As part of its new plan, the AcSB will begin a formal research program to assist in identifying the key issues to be addressed during the development of any standards.

The AcSB reaffirmed its commitment to the four financial reporting frameworks for the major categories of enterprises in Canada: publicly accountable enterprises, private enterprises, NFPO and pension and other benefit plans. Both the AcSB and stakeholders agreed that the overall strategies for private enterprises, NFPO and pension plans were working; nevertheless, the AcSB incorporated some changes.

The AcSB's significant 2016-2021 strategies for private sector NFPO include:

- carrying out its improvements initiative with respect to accounting standards for NFPO, after considering the advice of its Advisory Committee and stakeholders;
- conducting research and consultations on recognizing revenue from contributions; and
- developing and implementing a process to manage and maintain the accounting standards for NFPO (ASNPO).

To implement these strategies, the AcSB plans to increase its understanding of the needs of financial statement users in the NFPO sector.

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

In [January 2016](#), the Not-for-Profit Advisory Committee (the NFPO Committee) held its inaugural meeting. During the meeting, the NFPO Committee discussed its objectives and responsibilities which are as follows:

- identify and recommend to the AcSB topics that should be added to ASNPO; as well as existing content of the standards that should be changed or removed, consistent with meeting the needs of NFPO and the users of their financial statements;
- develop proposed changes to the standards for approval by the AcSB, after the AcSB agrees to add to or change the standards; and
- provide the AcSB with advice on managing ASNPO (e.g., research NFPO issues, suggest timing of changes to standards and the process of communications with stakeholders).

The NFPO Committee also discussed the following three projects, which were approved by the AcSB in May 2015:

- Accounting Standards Improvements for NFPO;
- Reporting Controlled and Related Entities by NFPO; and
- Contributions – Revenue Recognition and Related Matters.

At its [March 2016](#) meeting, the AcSB considered input from the NFPO Committee. The following is a summary of the NFPO Committee's discussions and the AcSB's decisions after considering that input.

Accounting standards improvements for NFPO

The AcSB expects to issue an Exposure Draft on accounting standards improvements in the third quarter of 2016. Below are the proposals and decisions that were made related to their inclusion in the Exposure Draft.

Tangible capital assets and intangible assets

The first proposal is that NFPO should apply ASPE to report the capitalization, amortization and disposal of tangible assets and continue to apply the existing ASNPO guidance for intangible assets.

In addition, NFPO would recognize write-downs to reflect a partial loss of service potential of tangible and intangible assets still in use. The net carrying value of the tangible and intangible assets would be written down to their replacement cost or fair value. Currently, unlike ASPE, ASNPO does not require partial impairments to be recognized; however, the NFPO Committee could not identify any unique circumstances for NFPO in the private sector that warrant different accounting treatment requirements between the two accounting frameworks.

As a result, any duplicate guidance in Section 4431 *Tangible Capital Assets Held by Not-for-Profit Organizations* that is found in ASPE would be removed; however, any guidance in

Section 4431 or Section 4432 *Intangible Assets Held by Not-for-Profit Organizations* that is unique to ASNPO (e.g., material related to contributed assets) would be retained.

The NFPO Committee suggested to the AcSB that these amendments be applied prospectively. The AcSB will discuss transitional provisions on partial impairment at its June meeting.

Works of art, historical treasures and similar items not part of a collection

Currently, these types of assets are accounted for in accordance with Sections 3032 *Inventories Held by Not-for-Profit Organizations*, 4431 or 4432. The NFPO Committee concluded that the intended use of these assets is consistent with those of other assets held or used by an NFPO. As such, NFPO should continue to account for items not part of a collection in a similar manner as for other assets (such as inventory and capital assets).

Collections

Currently Section 4440 *Collections Held by Not-for-Profit Organizations* allows, but does not require, the recognition of collections held by NFPO. In practice, some collections are not recorded, some are recorded at nominal values, some are recorded at cost and others are recorded on a variety of bases. The NFPO Committee will continue to discuss the recognition and measurement of collections at a future meeting. Therefore, the AcSB has not yet decided on proposals to be included in the Exposure Draft relating to collections.

Future projects

The NFPO Committee requested that the AcSB re-evaluate the timing of the projects on reporting controlled and related entities by NFPO and contributions. The NFPO Committee also provided input to the AcSB on the topics outlined below.

Related party transactions and combinations between NFPO

The NFPO Committee noted that diversity in practice exists in measuring related party transactions by NFPO since there are no specific recognition and measurement requirements for NFPO in either ASPE or ASNPO, and Section 4460 *Disclosure of Related Party Transactions by Not-for-Profit Organizations* only contains disclosure requirements. The NFPO Committee also discussed concerns with the definition of a related party and with the measurement of business combinations under common control. As a result of these discussions, the NFPO Committee suggested to the AcSB that it clarify the definition of a related party (e.g., whether a director is a related party) and initiate separate projects on related party transactions and combinations between NFPO.

Disclosure of allocated expenses

Section 4470 *Disclosure of Allocated Expenses by Not-for-Profit Organizations* establishes disclosure standards for those NFPO that classify their expenses by function and allocate expenses to various functions. The NFPO Committee noted that the arbitrary nature of allocating expenses results in information that is not comparable between NFPO. Therefore, the NFPO Committee requested that the AcSB re-examine Section 4470 to

ensure that the information required by Section 4470 is useful to financial statement users of NFPO.

The AcSB will discuss the input regarding future projects at a future meeting.

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). As of April 2016, Melanie Joseph, a Principal in the Grant Thornton LLP National Accounting Standards group, became a Committee member.

The following paragraphs summarize certain topics discussed at meetings held by the AcSB and the Committee since December 2015 which are relevant for NFPO.

Investments

In [February 2016](#), the Committee discussed the responses received on the Exposure Draft, [Subsidiaries and Investments](#), issued by the AcSB in September 2015. Among other concepts which are not applicable to NFPO, the proposed amendments aim to provide guidance on accounting for an investment in an entity subject to significant influence when the NFPO chooses to apply the cost method. For more information on these proposals, consult the [December 2015](#) issue of *Flash*.

Respondents generally agreed with the proposed amendments.

At its [May 2016](#) meeting, the AcSB also decided to discuss at a later meeting whether to add a requirement to expense acquisition-related costs for investments subject to significant influence when the equity method is applied.

The AcSB plans to issue the final amendments to Section 3051 in the fourth quarter of 2016. The amendments should be effective for years beginning on or after January 1, 2018, with earlier application permitted.

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The information in this publication is current as of June 23, 2016.

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