Introduction

All Not-for-Profit Organizations (NPOs) other than Government Not-for-Profit Organizations (GNPOs) have a choice of applying Part I of the CICA Handbook – Accounting: International Financial Reporting Standards (IFRS) or Part III of the CICA Handbook - Accounting: Accounting Standards for Not-for-Profit Organizations for year ends beginning on or after January 1, 2012. This publication is intended for all NPOs other than Government NPOs.

NPOs adopting Part III of the CICA Handbook - Accounting are essentially adopting the relevant standards from Part II of the CICA Handbook - Accounting: Accounting Standards for Private Enterprises (ASPE) plus NPO-only standards in Part III which includes the previous 4400 series of standards that were contained in Part V of the CICA Handbook – Accounting: Pre-changeover Accounting Standards with minor modifications.

Even though NPOs have yet to issue their first set of financial statements prepared in accordance with Accounting Standards for Not-for-Profit Organizations (ASNPO), a number of amendments have been made to the related standards. Most of these amendments are as a result of the Accounting Standards Board’s (AcSB’s) first (2011) and second (2012) Annual Improvements Process for ASPE, which were made to Part II of the Handbook. The purpose of the Annual Improvements Process is to clarify guidance or wording and to correct for unintended consequences or conflicts in the standards. No major improvements to the standards, such as the issuance of a new standard, are included in the Annual Improvements Process.

The changes resulting from the 2011 Annual Improvements Process are summarized below. These changes are effective for NPOs for years beginning on or after January 1, 2012. As a result, these changes will be applicable to NPOs adopting ASNPO for the first time in 2012.

General Standards of Financial Statement Presentation

Section 1401, General Standards of Financial Statement Presentation, now includes an additional paragraph stating that an organization may only have one set of general purpose financial statements under ASNPO. If an organization prepares any other sets of financial statements, these statements are required to refer to its general purpose financial statements. As a result of this amendment, an organization that wants to prepare both consolidated and unconsolidated financial statements in accordance with ASNPO will have to choose which set of statements are its general purpose statements and refer to those statements in the other set of statements.

Goodwill and Intangible Assets

Section 3064, Goodwill and Intangible Assets, was modified to clarify that expenditures on mail order catalogues and other similar documents intended to advertise goods, services, or events to customers are included in advertising and promotional activities that must be expensed as incurred.
These expenses are incurred when an organization has a right to access goods (i.e. when it owns them). The Section also says services are received when they are performed by the supplier in accordance with their contract and not when they are used for another purpose. In the case of catalogues or similar documents this means that they will be expensed when received from the supplier, not when they are delivered to customers.

This does not mean that prepaid advertising no longer exists, as an organization could still have a prepaid for amounts paid in advance of receiving goods or services.

**Subsequent Events**

A new paragraph has been added to Section 3820, Subsequent Events, to clarify what is meant by the completion date of financial statements. Financial statements are considered complete when:

a. A complete set of financial statements, including all required note disclosures, has been prepared;

b. All final adjusting journal entries have been reflected in the financial statements;

c. No changes to the financial statements are planned or expected; and

d. The financial statements meeting the above requirements have been approved in accordance with the organization’s process to finalize its financial statements.

The financial statement completion date is a critical date, as it is the date to which subsequent events must be considered.

**Financial Instruments**

A number of revisions have been made to Section 3856, Financial Instruments. The revisions all relate to Hedge Accounting. For more information on Financial Instruments and Hedge Accounting see our publications “A Guide to Financial Instruments for Private Enterprises and Private Sector Not-for-Profit Organizations” and “A Guide to Hedge Accounting for Private Enterprises and Not-for-Profit Organizations.”

Changes resulting from the Accounting Standards Board’s 2012 Annual Improvements Process are summarized below. These changes will also be applicable to NPOs for year ends beginning on or after January 1, 2013, however early adoption is recommended. By adopting these changes early, they can be incorporated into the transition to ASNPO.

**Foreign Currency Translation**

Originally, Section 1651, Foreign Currency Translation, required an appropriate part of the foreign exchange gains and losses accumulated in a separate component of shareholders equity to be included in net income when there was a reduction in the net investment. However, Section 1602, Non-controlling Interests, required a change in a parent’s interest in a consolidated subsidiary that does not result in a loss of control to be accounted for as an equity transaction.

Section 1651 was amended to make it consistent with Section 1602 in its treatment of the related part of the foreign exchange gains and losses accumulated in net assets.

The amendment also clarified the accounting for foreign exchange gains and losses accumulated in a separate component of net assets, for various scenarios involving a full or partial reduction in an organization’s interest in a foreign operation.

**Investments**

Previously, Section 3051, Investments, did not provide guidance on the accounting for dilution gains and losses that resulted, for example, when an investee issues additional shares to third parties. The section was amended to require gains and losses resulting from the dilution of an organization’s interest in an investee accounted for using the equity method, to be recognized in income. This treatment is consistent with the accounting for a gain or loss arising from the sale of a portion of an investment.
**Business Combinations**

An amendment was made to Section 4450, Reporting Controlled and Related Entities by Not-for-Profit Organizations. Paragraph 01A, of Section 4450, states that Section 1582, Business Combinations, in Part II of the Handbook does not apply to a combination between not-for-profit organizations, nor does it apply to the acquisition of a profit-oriented enterprise by a not-for-profit organization. Until further guidance is issued that addresses combinations of, or acquisitions by, not-for-profit organizations, other sources of GAAP that specifically relate to such matters may be applied as described in Section 1101, Generally Accepted Accounting Principles (GAAP). As a result NPO’s may continue to apply continuity of interest accounting.

The following improvements to Section 1501, First-time Adoption Standards, were made during 2011 and 2012 and will apply to all NPOs transitioning to Part III of the CICA Handbook. These changes are effective for NPOs for years beginning on or after January 1, 2012.

**First-time Adoption**

**Employee Future Benefits**

- Section 1501, First-time Adoption, was amended to allow an organization that uses the deferral and amortization approach to account for defined benefit plans to carry forward at the date of transition to ASNPO any unrecognized actuarial gains and losses and any past-service costs that were previously determined in accordance with Section 3461 in Part V of the CICA Handbook: Accounting – Pre-changeover Accounting Standards or an equivalent basis of accounting.

**Goodwill**

- Paragraph 1501.12(e) was added to clarify that if an organization does not apply Section 1582, Business Combinations, retrospectively to a past business combination, the carrying amount of goodwill reflected in the opening balance sheet will equal the carrying amount of goodwill under the previous financial reporting standards, subject to the following adjustments:
  - Goodwill is increased by the amount of any item recognized as an intangible asset previously that does not qualify for recognition as an intangible asset under ASNPO. Similarly, goodwill is decreased by the amount of any item recognized as an intangible asset under ASNPO that was not recognized as an intangible asset previously but was included in goodwill.
  - Goodwill is tested for impairment at the date of transition to ASNPO in accordance with Section 3064, Goodwill and Intangible Assets, if circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit.

**Cumulative Translation Differences**

- An amendment was made to paragraph 19 that permits an organization that has a cumulative translation difference for domestic operations to deem that difference to be zero at the date of transition to ASNPO. Prior to this amendment, the exemption only referred to self-sustaining foreign operations. However, a cumulative translation adjustment account could have arisen on domestic operations which used a presentation currency that differed from their measurement currency. This amendment addresses that situation.

**Part IV: Accounting Standards for Pension Plans**

There was also an amendment to Part IV of the CICA Handbook - Accounting: Accounting Standards for Pension Plans which is relevant to entities that may have been considered NPOs for accounting purposes in the past. Originally, Part IV defined a benefit plan as any arrangement whereby an organization undertakes to provide its employees with benefits after active service in exchange for their services. This appeared to scope out Health and Welfare Trusts so they continued to apply Part V, Pre-Changeover Accounting Standards, in 2011 and planned to transition to Part III in 2012. However, in March 2012, the AcSB amended the definition of benefit plans to include plans that provide benefits during active service. As a result, Health and Welfare Trusts are captured in this definition and will now transition to Part IV of the Handbook, not Part III, for fiscal periods beginning on or after January 1, 2012.
Future Projects

Exposure Draft – Section, 3462, Employee Future Benefits

This Exposure Draft proposes two significant changes. The first change is elimination of the option to use the deferral and amortization approach, which gives entities the option to defer the recognition of gains and losses on its defined benefit plans to future periods. Instead, entities would be mandated to account for defined benefit plans under the immediate recognition approach, which is the other option currently allowed under ASPE. For more information on this approach please refer to our publication entitled “ASPE’s Immediate Recognition Method: A Simplification to Post Employee Benefit Accounting.” This change would result in more volatility in an organization’s financial statements. The second change is measuring plan obligations and plan assets at the balance sheet date rather than up to three months before that date.

The amendments related to this Exposure Draft would be effective for years beginning on or after January 1, 2014.

Exposure Draft – Section 3475, Discontinued Operations

This Exposure Draft proposes a higher threshold for disposals to be classified as a discontinued operation compared to the existing requirements in Section 3475. As a result, fewer disposals would qualify as discontinued operations in practice. This change would bring Section 3475 in line with reporting under International Financial Reporting Standards (IFRS).

The changes related to this Exposure Draft would be effective for years beginning on or after January 1, 2014.

Joint Not-for-Profit Review

The AcSB which develops accounting standards for private sector NPOs and the Public Sector Accounting Board (PSAB) which establishes accounting standards for governments and government organizations, including government NPOs, have established a Joint Not-for-Profit Task Force to improve accounting standards for future reporting of both private and public sector NPOs. Currently the task force is reviewing the content of the 4400 series of standards in Part II of the CICA Handbook – Accounting and the PS 4200 series of standards in the CICA Public Sector Accounting Handbook. Deliberations are in progress and a statement of principles is expected to be approved and released in the near future.

In addition, watch for upcoming Exposure Drafts from the Accounting Standards Board on Consolidations, Joint Arrangements and the 2013 Annual Improvements in the near future.

Conclusion

As we head closer to the end of the first year of actually applying ASNPO, now is the time to check with your BDO advisor about anything you want to know about your move to ASNPO or the changes to the standards made in 2012.