Accounting Standards Update

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Definition

A **not-for-profit organization** (“NPO”) is an entity, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or other not-for-profit purpose. A NPO organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

Standards

What standards to follow

- NPOs in Canada have the option to follow Part III or Part I of the CPA Canada Handbook

  "Not-for-profit organizations apply either accounting standards for not-for-profit organizations in Part III of the Handbook or the International Financial Reporting Standards in Part I of the Handbook."

- Part III refers to Part II for almost all standards and disclosure requirements

  "A not-for-profit organization applying this part of the Handbook also applies the standards for private enterprises in Part II of the Handbook to the extent that the Part II standards address topics not addressed in this Part. Some of the standards in Part II are of limited or no applicability to not-for-profit organizations either because the topics are specifically addressed in Part III or the standards in Part II relate to transactions or circumstances that do not pertain to not-for-profit organizations. When a not-for-profit organization applies standards in Part II, references to "private enterprise" and "entity" should be read as "not-for-profit organization"."

- Government controlled NPOs are required to follow PSAB
  - Control can be determined by who appoints Board or funding requirements, etc.

Section 3462 *Employee Future Benefits*

- New standard has replaced Section 3461 *Employee Future Benefits*. No additional guidance in Part III for NPOs.

- 3462 eliminates the ability to smooth the recognition of actuarial gains or losses through income as allowed by the deferral and amortization method of accounting for employee future benefits.

- Requires the full amount of the defined benefit liability (net of related assets) to be recorded on the balance sheet.

- Any changes resulting from subsequent re-measurement are recorded on the statement of operations as they arise.

- The new standard allows for actuarial valuation for funding purposes or an actuarial valuation for accounting purposes. However, the valuation method must be applied consistently across all defined benefit plans of the entity.

Changes Effective for 2014

- Few new standards as the AcSB remains committed to slowing the pace of transitions in Canadian Accounting Standards.

- New guidance issued: 3462 *Employee Future Benefits* Part II of the Handbook

- Effective for years commencing on or after January 1, 2014, with earlier application permitted for all of an entity's benefit plans.

Section 3462 *Employee Future Benefits*

- Amount of re-measurement must be disclosed, either as separate line item on the statement of operations or in the notes to the financial statements.

- Actual rate of return must be disclosed in the notes to the financial statements.

- Plan assets and defined benefit plans should be measured as at the balance sheet date.

- Disclosure of the effective date of the most recent actuarial valuation, as well as method of valuation required.

Section 3462 *Employee Future Benefits*

- Amendments are to be applied retrospectively, except when benefit costs are included in the carrying amount of assets, such as property and equipment and inventory.

Proposed Amendments

Proposed Statement of Principles ("SOP")

- AcSB and PSAB, working jointly to improve NPO standards to better meet user needs.
- The two Boards established a joint task force to review current standards (Part III Section 4400 and PSAHB Section 4200 Series).
- SOP outlines core concepts and basic principles upon which future accounting standards will be developed.
- SOP is first phase of public consultation in standard setting process.
- Responses were due by December 2013.
- Boards will review the responses in 2014 and decide on future steps.

Proposed Amendments

Contributions

- Elimination of contribution and deferral methods.

- Moving towards Public Sector approach to revenue recognition.
  - Items can only be deferred if they meet the definition of a liability.
  - Focus will be on asset/liability recognition as opposed to matching i.e., operating grants will no longer be deferred, unless there are repayment requirements.

- Endowment contributions will no longer be recorded directly to equity; will be recorded in the statement of operations.

- Capital contributions will no longer be deferred and recorded during life of capital asset but will be recorded in year of contribution in operations.

Proposed Amendments

Contributions receivable

- Currently recognized when ultimate collection is reasonably assured and amount can be reasonably estimated.
- Proposed to be recognized when the NPO controls the contribution, would exercise that control if necessary and can estimate the amount.

Controlled and related entities

- Currently have a choice to consolidate or provide prescribed information in the notes to the financial statements.

- Will be required to consolidate or present under equity method.
  - Controlled for profit organization required to be disclosed under equity method.
  - Controlled not-for-profit required to be consolidated.

Proposed Amendments

Financial statement format

- Retain reporting guidance – will have additional guidance issued including:
  - Ability to report funds separately in response to user needs;
  - Requirement to report revenues and expenses at gross amounts;
  - Ability to disclose restrictions on net assets; and
  - Ability to report net assets and changes in net asset balances.

Questions?

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