PASS

FINANCIAL ACCOUNTING TECHNICAL REVIEW

IFRS/ASPE

2018 CFE

INTRODUCTION

When it comes to the *Financial Reporting* competency, the challenge that many students face is the tremendous amount of technical knowledge included in this competency, especially in light of the fact that students are responsible for both IFRS and Accounting Standards for Private Enterprises (ASPE).

The technical review notes cover the major financial accounting topics that we would expect to potentially come up on the CFE. The notes recognize that few human beings are capable of knowing every detail of every accounting standard and that fortunately this is likely not necessary, in order to pass the CFE. The summaries of the various topics are therefore condensed and do not endeavor to cover every last detail of a given topic. Rather they focus on the key aspects of each topic that we believe have the greatest probability of being examined. The notes assume that the student already has a reasonable knowledge of each of the topics and is looking for a quick way to review financial accounting.

This publication will be appropriate both for both students who have chosen financial reporting as a depth area as well as those who have not.

<u>Scope of Publication</u>

The publication does not cover 100% of the topics in the CPA Canada Handbook. It, however, covers all major topics that we would expect to be potentially tested in detail on the CFE, as students can easily review the minor topics on their own by reviewing the relevant standards in the Handbook. The publication only includes topics that are listed the CPA Competency Map Knowledge Supplement, as these topics are examinable.

A listing of examinable topics that are not summarized in the notes given that they are easy to learn on one's own directly from the CPA handbook, is included in the appendix at the end of this publication.

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ACCOUNTING POLICIES, CHANGES IN ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES

INTRODUCTION

Topic covered under IFRS in IAS 8 and under ASPE in HB Section 1506

Presentation is based on IFRS

IFRS and ASPE are very similar in this area

Any differences between IFRS and ASPE are outlined at the end of the summary

Standard applies to three possible types of accounting changes:

1. Changes in accounting policies
2. Change in accounting estimate
3. Correction of prior period errors

CHANGES IN ACCOUNTING POLICIES

Only permitted to change accounting policy if:

(i) it is required by a primary source of GAAP (e.g. new handbook section issued, section revised etc.)

OR

(ii) results in financial statements providing reliable and more relevant information

Accounting for Change in Accounting Policy

- Change in accounting policy normally applied retrospectively

- Retrospective application means entity adjusts opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied

- Limitations on Retrospective Application

  (i) Change relates to initial application of a primary source of GAAP and there are specific transitional provisions state otherwise

  OR

  (ii) It is impracticable to determine period-specific effects of changing policy on comparative information for one or more prior periods presented

In case (ii) new accounting policy is applied to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, (may be the current period), and a corresponding adjustment is made to the opening balance of equity

If it is impracticable to determine cumulative effect, at the beginning of the current period, new policy applied <u>prospectively</u> from the earliest date practicable

<u>Impracticable</u> means that the entity cannot apply the requirement after making every effort to do so

<u>Change in Accounting Estimate</u>

- A change in an estimate occurs when <u>changes in circumstances</u> occur

  e.g. based on new trend data on collection rates for A/R revision made to ADA

- Sometimes difficult to determine whether a change is a change in estimate or a change between acceptable accounting policies

  e.g. change in method of depreciation from straight line to units of production method for machine would be a change in estimate if new information on pattern of usage suggested that units of production was more reflective, otherwise may be a change in policy

- If event has characteristics of both change in policy and change in estimate, change is treated as a change in estimate

- <u>Changes in estimate applied prospectively</u> (i.e. no restatement of prior periods)

<u>Errors</u>

An error can result from:

- A mathematical mistake in F/S
- Misinterpretation or misrepresentation of information
- Oversight of information available
- Misappropriation of assets (unusual)

Correction of error is retrospective

Prior period comparative financial statements are restated unless <u>impracticable</u> to do so

Similar to change in accounting policies in some cases may only be able to do limited retrospective application (e.g. only adjust opening retained earnings) or may only be able to restate prospectively

<u>Accounting Standards for Private Enterprises (ASPE) – HB Section 1506</u>

Rules are very similar to IFRS

The only significant differences are:

1. Under ASPE errors must always be corrected retrospectively by adjusting prior period F/S; no exemption where is impracticable to do so

2. There are a number of situations under ASPE when an entity may change accounting policies <u>without</u> meeting the regular criteria (i.e. that results in the financial statements providing reliable and more relevant information) including:

   - To consolidate subsidiaries, to account for them using the equity method or in accordance with HB section 3856 on FINANCIAL INSTRUMENTS
   - To account for investments subject to significant influence using the equity method or in accordance with HB section 3856 on FINANCIAL INSTRUMENTS
   - To account for interests in jointly controlled enterprises using the cost or equity method or by accounting for rights to the individual assets and obligations for the individual liabilities, in accordance with INTERESTS IN JOINT ARRANGEMENTS, Section 3056
   - To capitalize or expense expenditures on internally generated intangible assets during the development phase
   - To measure a defined benefit obligation for which an appropriate funding valuation has been prepared using that funding valuation or a separate actuarial valuation prepared for accounting purposes
   - To account for income taxes using the taxes payable method or the future income taxes method
   - To initially measure the equity component of a financial instrument that contains both a liability and an equity component at zero (see summary of Financial Instruments)