RSM INSIGHTS:
December 2020 year-end reminders: ASPE

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Contents

INTRODUCTION

This publication discusses certain financial reporting requirements as of December 31, 2020. The first section addresses lease accounting, a key topic that financial statement preparers and reviewers should consider in preparing their 2020 statements. The second section provides a brief overview of standards that are not yet effective as of December 31, 2020 and therefore affect future financial reporting. The third section discusses the impact of the COVID-19 pandemic on key areas accounted for in accordance with the Accounting Standards for Private Enterprises ("ASPE").

SECTION 3065, LEASES

On November 1, 2020, the Canadian Accounting Standards Board ("AcSB") issued an amendment to ASPE Section 3065, Leases. The amendment provided relief in the form of a practical expedient for lease modifications that were a direct result of the COVID-19 pandemic. The amendment gave entities the choice to treat a renewal, extension or change in an existing lease agreement either as a new lease, or to apply the expedient and account for any change in the agreement under the terms of the original lease.
An entity is only able to apply this practical expedient when a lessee received or a lessor granted a rent concession in the form of either a waiver of rent payments or a deferral of rent payments to a future period. All of the following criteria also must be met:

- The concession provided and the associated change to the lease agreement must be a direct result of the COVID-19 pandemic;
- The total payments after taking into account the rent concession must be either the same as or less than the total payments that would have been provided for under the original lease agreement; and
- Only payments due on or before December 31, 2021 can be waived or deferred for the purposes of providing a rent concession.

It is not required that an entity utilize the practical expedient, and the expedient can be applied on a lease-by-lease basis to simplify the transition.

Rent concession: Deferral

When a lessor provides a lessee a deferral of lease payments that will result in no change to the total payments required by the original lease contract, the lessee and lessor should account for the transaction as if no changes to the lease contract were made and in accordance with the original lease term. Depending on the type of lease, the treatment would be as follows:

- **Operating lease:** Lessee will recognize a lease expense, and lessor will recognize lease revenue consistent with the terms of the original lease;
- **Capital lease:** Lessee will recognize interest expense and amortize the leased asset consistent with the terms of the original lease; and
- **Sales-type/direct financing lease:** Lessor will recognize interest income consistent with the terms of the original lease.

During the deferral period, the lessee will recognize a lease payable, and the lessor will recognize a lease receivable for the amount of deferred lease payments. The following practical example provides users with a demonstration of the journal entries for a deferral situation from both the lessee and the lessor perspective.

Lease accounting: Deferral example

There is a lease arrangement between Lessee and Lessor. Lessee pays $10,000 per month in rent, and this rent payment does not increase throughout the term of the lease. For purposes of simplicity, assume Lessee's incremental borrowing rate of 10% does not change throughout the term of the lease, and the interest amount is the same each month. The maturity date of the lease is June 30, 2024. Due to the effects of the COVID-19 pandemic, Lessor provided a deferral of six months of rent from April 1, 2020 to September 30, 2020. The deferral must be repaid during the period from January 1, 2024 to June 30, 2024. The following transactions for both Lessee and Lessor have been simplified for illustrative purposes, and therefore both parties should ensure that they are performing an analysis on the impact, if any, that changing the period in which the cash outflow occurs would have on the calculation of financing fees.

If the lease is an operating lease

Lessee accounting			Lessor accounting		
April 1, 2020—September 30, 2020 (monthly entry)			**April 1, 2020—September 30, 2020 (monthly entry)**		
DR Rent expense	$10,000		DR Deferred rent receivable	$10,000	
CR Deferred rent payable		$10,000	CR Rental revenue		$10,000
October 1, 2020—December 31, 2023 (monthly entry)			**October 1, 2020—December 31, 2023 (monthly entry)**		
DR Rent expense	$10,000		DR Cash	$10,000	
CR Cash		$10,000	CR Rental revenue		$10,000
January 1, 2024—June 30, 2024 (monthly entry)			**January 1, 2024—June 30, 2024 (monthly entry)**		
DR Rent expense	$10,000		DR Cash	$20,000	
DR Deferred rent payable	$10,000		CR Deferred rent receivable		$10,000
CR Cash		$20,000	CR Rental revenue		$10,000

If the lease is a capital or sales-type/direct financing lease			
Lessee accounting		**Lessor accounting**	
April 1, 2020—September 30, 2020 (monthly entry)		**April 1, 2020—September 30, 2020 (monthly entry)**	
DR Interest expense	$1,000	DR Deferred rent receivable	$10,000
DR Capital lease obligation	$9,000	DR Unearned income	$1,000
CR Deferred rent payable	$10,000	CR Financing income	$1,000
		CR Rental revenue	$10,000
October 1, 2020—December 31, 2023 (monthly entry)		**October 1, 2020—December 31, 2023 (monthly entry)**	
DR Interest expense	$1,000	DR Cash	$10,000
DR Capital lease obligation	$9,000	DR Unearned income	$1,000
CR Cash	$10,000	CR Financing income	$1,000
		CR Rental revenue	$10,000
January 1, 2024—June 30, 2024 (monthly entry)		**January 1, 2024—June 30, 2024 (monthly entry)**	
DR Interest expense	$1,000	DR Cash	$20,000
DR Capital lease obligation	$9,000	DR Unearned income	$1,000
DR Deferred rent payable	$10,000	CR Financing income	$1,000
CR Cash	$20,000	CR Deferred rent receivable	$10,000
		CR Rental revenue	$10,000

Rent concession: Waiver

In circumstances where the lessor provides a lessee with a waiver in rental payments, resulting in the total payments required in the amended contract to be less than the total payments required by the original lease contract, the lessee and lessor will recognize the reduction in total payments in net income in the period to which the lease payments relate. A lessee and a lessor continue to account for the lease consistent with the terms of the original lease contract. Depending on the type of lease, the treatment would be as follows:

- **Operating lease:** Lessee will recognize a lease expense, and lessor will recognize lease revenue consistent with the terms of the original lease;
- **Capital lease:** Lessee will recognize interest expense and amortize the leased asset consistent with the terms of the original lease; and
- **Sales-type/direct financing lease:** Lessor will recognize interest income consistent with the terms of the original lease.

The following practical example provides users with a demonstration of the journal entries for a waiver situation from both the lessee and the lessor perspective.

Lease accounting: Waiver example

There is a lease arrangement between Lessee and Lessor. Lessee pays $10,000 per month in rent, and this rent payment does not increase throughout the term of the lease. For purposes of simplicity, assume Lessee's incremental borrowing rate of 10% does not change throughout the term of the lease, and the interest amount is the same each month. The maturity date of the lease is June 30, 2024. Due to the effects of the COVID-19 pandemic, Lessor forgave six months of rent for the period from April 1, 2020 to September 30, 2020.

If the lease is an operating lease					
Lessee accounting			**Lessor accounting**		
April 1, 2020—September 30, 2020 (monthly entry)			**April 1, 2020—September 30, 2020 (monthly entry)**		
DR Rent expense	$10,000		DR Loss on waiver	$10,000	
CR Gain on waiver		$10,000	CR Rental revenue		$10,000
October 1, 2020—June 30, 2024 (monthly entry)			**October 1, 2020—June 30, 2024 (monthly entry)**		
DR Rent expense	$10,000		DR Cash	$10,000	
CR Cash		$10,000	CR Rental revenue		$10,000
If the lease is a capital or sales-type/direct financing lease					
Lessee accounting			**Lessor accounting**		
April 1, 2020—September 30, 2020 (monthly entry)			**April 1, 2020—September 30, 2020 (monthly entry)**		
DR Interest expense	$1,000		DR Loss on waiver	$10,000	
DR Capital lease obligation	$9,000		DR Unearned income	$1,000	
CR Gain on waiver		$10,000	CR Financing income		$1,000
			CR Rental revenue		$10,000
October 1, 2020—June 30, 2024 (monthly entry)			**October 1, 2020—June 30, 2024 (monthly entry)**		
DR Interest expense	$1,000		DR Cash	$10,000	
DR Capital lease obligation	$9,000		DR Unearned income	$1,000	
CR Cash		$10,000	CR Financing income		$1,000
			CR Rental revenue		$10,000

Disclosure requirements

If a lessor or lessee takes advantage of the practical expedient provided in Section 3065, the following disclosures are required:

- The entity should disclose that it has applied the expedient;
- If it has applied the expedient to some but not all of their leases that comply with the conditions noted above, the entity should disclose that fact, as well as the reasons for only applying the expedient to certain leases;
- In a deferral situation, the entity should disclose the carrying amount of any lease payments payable or receivable; and
- In a waiver situation, the entity should disclose the amount of gain or loss on the waiver recognized in net income in the reporting period.

Effective date

The effective date of this amendment is for financial statement fiscal periods ending on or after December 31, 2020; however, the standard does permit early application if the financial statements have not yet been authorized for issuance as of November 1, 2020.

NEW STANDARDS AND AMENDMENTS EFFECTIVE AFTER DECEMBER 31, 2020

Due to the effects of the COVID-19 pandemic, the effective dates of certain standards have been extended by one year, as summarized in the following table.

Standard	Original effective date	Revised effective date
Amended Section 3051, *Investments*	January 1, 2020	January 1, 2021
Amended Section 3465, *Income Taxes*	January 1, 2020	January 1, 2021
Amended Section 3856, *Financial Instruments*, regarding retractable or mandatorily redeemable shares issued in a tax-planning arrangement	January 1, 2020	January 1, 2021
Amended Section 3856, regarding related-party financial instruments and significant risk disclosures	January 1, 2020	January 1, 2021
Amended Section 3400, *Revenue*	January 1, 2021	January 1, 2022
New Section 3041, *Agriculture*	January 1, 2021	January 1, 2022

Early application of the amendments and new standards is permitted with note disclosure.

Following are summaries of amended and new standards that are effective for annual periods beginning on January 1, 2021 and January 1, 2022, respectively.

Effective January 1, 2021	
Amended standard	**Brief overview**
Amended Section 3051, *Investments*	In June 2019, the AcSB amended paragraph 7A of Section 3051 to clarify that the guidance relating to the cost method in Section 3051 also should apply to investments in jointly controlled enterprises accounted for using the cost method.
Amended Section 3465, *Income Taxes*	In June 2019, the AcSB amended Section 3465 to change the requirements regarding the presentation of future income tax assets and liabilities. Beginning January 1, 2021, entities will be required to present all future income tax assets and liabilities as non-current, rather than using a current and non-current classification as previously required. Additionally, further disclosures related to the amount of future income tax assets and liabilities for each type of temporary difference are required for each period presented. These changes align the standard more closely with the requirements in International Accounting Standard 12, *Income Taxes*.
Amended Section 3856, *Financial Instruments*, regarding related-party financial instruments and significant risk disclosures	In December 2018, the AcSB issued an amendment to Section 3856 regarding the accounting for related party financial instruments ("RPFI") and significant risk disclosures for financial instrument transactions. The purpose of the amendment was to directly address the diversity in practice of accounting for financial instruments issued in a related-party transaction. Previously, guidance on related-party transactions was included in Section 3840, Related Party Transactions; however, all guidance for RPFIs now has been moved to Section 3856. In addition, the amendments will require entities to disclose entity-specific information related to significant risks that arise from holding financial instruments. This disclosure is not specific to related-party financial instruments. The key changes regarding the accounting for RPFIs include direct guidance on their initial measurement, subsequent measurement and the measurement of RPFIs that include both a liability and an equity component.

Effective January 1, 2021	
Amended standard	**Brief overview**
Amended Section 3856, *Financial Instruments*, regarding related-party financial instruments and significant risk disclosures *(cont'd.)*	Initial measurement of a RPFI should be based on the nature of the financial instrument and can be measured at either the fair value of the RPFI, the cost of the RPFI or the cost of consideration exchanged for the RPFI. The determination of the cost of a RPFI will depend on whether repayment terms exist with respect to the underlying financial instrument. If there are repayment terms, the cost is determined using undiscounted cash flows excluding dividends and interest, less any impairment losses. An example of a RPFI with repayment terms is related-party accounts receivable. If the financial instrument has no repayment terms, the cost of the financial instrument is determined using the consideration transferred by the entity in the transaction with the related party. This cost is measured at either the exchange amount of the consideration transferred or the carrying amount of the consideration transferred. Subsequent measurement of the RPFI will be aligned with the method of initial measurement of the financial instrument. Please refer to the summary provided in paragraph A13A of Section 3856, as well as to the following specific examples: ▪ RPFI initially measured at cost will be subsequently measured at cost ▪ RPFI that is an equity instrument quoted in an active market initially measured at fair value is subsequently measured at fair value ▪ RPFI that is a debt instrument quoted in an active market or a debt instrument for which inputs significant to the determination of its fair value are observable, either directly or indirectly, would be measured at fair value if the entity designated that fair value measurement would apply when first recognized ▪ All other RPFIs are measured at amortized cost In general, impairment considerations are consistent with what an entity would expect for arms-length financial assets, with the exception of how to measure an impairment loss. Impairment of a related-party financial asset subsequently measured at cost should be assessed using the higher of: ▪ The undiscounted cash flows expected to be generated by holding the asset (excluding interest and dividend payments); ▪ The amount that could be realized by selling the asset at the balance sheet date; or ▪ The amount the entity expects to realize by exercising its right to any collateral, net of all costs necessary to exercise those rights. For equity instruments acquired in a related-party transaction and initially measured at cost, when an impairment indicator is triggered, the entity should reduce the carrying amount of the asset to the amount that could be realized by selling the asset on the balance sheet date. In circumstances where a RPFI includes both a liability and an equity component, there are two acceptable methods to account for this transaction. The first method is to measure the equity component at $0, and then allocate to the liability component the entire proceeds from the transaction. The second method is to initially determine the cost of the liability component using the undiscounted cash flows (excluding interest and dividends) expected to be generated from the liability, and then allocate the residual to the equity component. The standard also provides additional guidance on how to account for any gains or losses on RPFIs, as well as how to account for the forgiveness of RPFIs.

Effective January 1, 2021	
Amended standard	**Brief overview**
Amended Section 3856, *Financial Instruments*, regarding retractable or mandatorily redeemable shares issued in a tax-planning arrangement	In December 2018, the AcSB issued an amendment to Section 3856 regarding the classification of retractable or mandatorily redeemable shares issued in a tax-planning arrangement ("ROMRS"). Previously under Section 3856, share arrangements involving ROMRS that normally would qualify as a liability under Section 1000, Financial Statement Concepts, were permitted to be presented as equity at their par, stated or assigned value if they were issued in a tax-planning arrangement under certain sections of the Income Tax Act. The amendment to the standard clarifies the circumstances in which an entity could classify ROMRS as either a liability or as equity. In general, in order for ROMRS issued in a tax-planning arrangement to be presented as equity, all of the following criteria must be met: ▪ Control of the entity that issued the ROMRS is retained by the shareholder receiving the shares; ▪ There is no consideration received by the entity issuing the ROMRS, or only shares were exchanged; and ▪ There is no written or oral agreement requiring the shares to be redeemed on a fixed or determinable date, such as in accordance with a redemption schedule. If one or all of these criteria are not met, the ROMRS are required to be classified as a liability. Another factor to consider is the transitional relief provided for shares that were issued prior to January 1, 2018. For such shares, an entity only is required to meet the following two criteria in order to present the ROMRS as equity: ▪ Control of the entity that issued the ROMRS is retained by the shareholder receiving the shares; and ▪ There is no written or oral agreement requiring the shares to be redeemed on a fixed or determinable date, such as in accordance with a redemption schedule. ROMRS classified as a financial liability at the outset cannot subsequently be reclassified as equity; however, ROMRS classified as equity can be subsequently reclassified as a liability if an event or transaction occurs that indicates the conditions for equity classification no longer are met. Any resulting adjustment should be recorded in retained earnings or as a separate component of equity.

Effective January 1, 2022	
Amended or new standard	**Brief overview**
New Section 3041, *Agriculture*	In November 2019, the AcSB released Section 3041 to address the accounting for agricultural activity. This new standard applies to an agricultural producer's agricultural inventory and productive biological assets, but does not apply to assets that have resulted from activities to transform an item of agricultural inventory into a different asset, referred to as secondary production. For example, this Section would apply to a sheep (productive biological asset) that produces wool (agricultural inventory), but does not apply to the yarn (secondary product) produced from the wool. **Agricultural inventory** is defined as a biological asset, or the harvested product of a biological asset that meets one of the following criteria: ▪ Held for sale in the ordinary course of business; ▪ In the process of agricultural production to be held for sale or for use in a productive capacity; ▪ In the form of raw materials or supplies to be consumed in the enterprise's agricultural production process; or ▪ Held for use in a productive capacity with short productive lives. Agricultural inventory is measured using either a cost model or a net realizable value (NRV) model. The cost model provides the producer the accounting policy choice of either (a) measuring the inventory using only input costs, which involves the cost of direct materials and labour, or (b) using the full cost of the inventory, which includes input costs as well as a systematic allocation of fixed and variable production overhead incurred in the development of the asset. The producer can elect to use the net realizable value model when all of the following conditions are met: ▪ The product has a reliable, readily determinable and realizable market price; ▪ The product has reliably measurable and predictable costs of disposal; and ▪ The product is available for immediate delivery. When the above conditions are not met, the producer must use the cost model to measure the agricultural inventory. Any changes in the carrying amount of the inventory resulting from a change in NRV should be realized in net income in the period in which the change occurs.

Effective January 1, 2022	
Amended or new standard	**Brief overview**
New Section 3041, *Agriculture (cont'd.)*	A **productive biological asset** is a biological asset that meets all of the following criteria: ▪ Held for use in the production or supply of agricultural inventories or other productive biological assets; ▪ Acquired or developed for use on a continuing basis with other-than-short productive lives; and ▪ Not intended for sale in the ordinary course of business. Productive biological assets initially are measured at cost, and subsequently are amortized over the estimated useful life of the asset, with one exception. If a producer manages a biological asset whose purpose is to maintain the group's collective productive capacity, that asset is assumed to have an indefinite useful life and is not amortized. When a biological asset is considered to have an indefinite useful life, that asset is tested for impairment whenever events or circumstances indicate that its carrying amount may not be recoverable, which occurs when the carrying amount exceeds the sum of undiscounted cash flows expected to result from its use and eventual disposition. The impairment loss is calculated based on the difference between a biological asset's carrying amount and its fair value, and productive biological assets that are managed on a collective basis are grouped for purposes of impairment testing. If there is a change in use of a biological asset, an entity can reclassify an item of agricultural inventory to a productive biological asset when used in a productive capacity. However, an entity is not able to reclassify a productive biological asset to agricultural inventory.

Effective January 1, 2022	
Amended or new standard	**Brief overview**
Amended Section 3400, *Revenue*	In December 2019, the AcSB approved amendments to Section 3400 due to a lack of guidance in the standard for certain revenue transactions that were commonplace, resulting in a diversity of practice. The amendments provided additional guidance on the following topics: ▪ Percentage of completion method; ▪ Multiple-element arrangements; ▪ Reporting revenue gross versus net; ▪ Bill and hold arrangements; and ▪ Upfront non-refundable fees or payments The amendments also provide specific guidance on what qualifies as a unit of account including direction on when a transaction consists of a single contract or a group of contracts, and in which circumstances it might be necessary to combine a group of contracts to reflect the substance of a transaction. **Percentage of completion method amendments** The AcSB provided additional guidance on how to determine the degree of completion of a contract, using either input or output measures. The AcSB also provided guidance on which costs to include when measuring the degree of completion, utilizing a ratio of incurred costs to total estimated costs. Only costs that reflect work performed should be included; however, the cost of uninstalled materials that have been delivered to the job site also now are allowed to be included in the calculation of the degree of completion.

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<tr><th>Amended or new standard</th><th>Brief overview</th></tr>
<tr><td>Amended Section 3400, Revenue (cont'd.)</td><td>
The AcSB also provided direct guidance on how to account for income earned during the period under the percentage of completion method. The estimated gross profit on a revenue contract, which equals the difference between the estimated contract revenue (earned revenue) and estimated contract cost (cost of earned revenue), must be determined before the amount earned on a contract each period can be calculated.
Two approaches were provided as an example of how to account for this income; however, another approach also may be appropriate. The two alternative approaches for computing earned revenue, the cost of earned revenue and gross profit are as follows:

Earned revenue is computed by multiplying total estimated contract revenue by the percentage of completion. The change in the earned revenue balance between the amount recognized in the prior year and the balance calculated in the current year is recognized as income in the current year. The cost of earned revenue is computed in a similar manner. Gross profit on the contract equals earned revenue less the cost of earned revenue.
Earned revenue is the amount of gross profit earned on a contract for a period plus the cost of earned revenue. The cost of earned revenue is the cost incurred during the period on the contract, excluding costs incurred for subcontracted work not yet performed. The gross profit is computed by multiplying the total estimated gross profit on the contract by the percentage of completion, with the excess over the balance recognized in the previous year being recognized in income in the current year.

Further, the AcSB elected to provide additional guidance on the accounting for expected contract losses, as the concept of onerous contracts is not included in ASPE.
Multiple-element arrangements amendments
Due to the current lack of guidance on the concept of the "act of performance" in a multiple-element arrangement, whether an element is significant, and how to allocate revenue across multiple elements, the AcSB decided to augment the current guidance.
The amended standard states that, in a multiple-element arrangement, the sale should be allocated to each component at the inception of the contract on a relative stand-alone selling price basis. The best metric for determining the stand-alone selling price is the observable price of a good or service when the enterprise sells that good or service separately in similar circumstances to similar customers. If a stand-alone selling price is not observable, an entity can estimate the selling price by considering all information that is reasonably available to the entity.
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Effective January 1, 2022	
Amended or new standard	**Brief overview**
Amended Section 3400, *Revenue (cont'd.)*	There are two allowable methods for estimating the stand-alone selling price; however, an entity is not limited to these methods: ▪ *Adjusted market assessment approach* – The entity estimates the price a customer in its current market would be willing to pay for the entity's goods or services. Alternatively, an entity could refer to a competitor's prices for similar goods or services and adjust those prices to reflect the entity's costs and margins. ▪ *Expected cost plus a margin approach* – The entity will forecast its expected costs of delivering its goods or services in each unit of account, and then will add an appropriate margin for those goods or services. **Reporting revenue at gross versus net amendments** Due to a lack of guidance in ASPE, the AcSB believed it was prudent to include additional criteria for the determination of whether an entity was the principal or an agent in a transaction, to provide indicators for reporting revenue gross versus net, and to make available illustrative examples to provide further context on how to interpret indicators. These indicators now can be found in paragraphs A37 through A39 of Section 3400. **Bill and hold arrangements amendments** To address diversity in practice, these amendments provide guidance on how to account for bill and hold arrangements, where revenue has been recognized but the products have not been delivered. The amendments will now provide a list of criteria that are required to be met in order for an entity to recognize revenue in a bill and hold arrangement. These criteria include: ▪ The risks of ownership must have passed to the buyer; ▪ The customer must have made a fixed commitment to purchase the goods; ▪ The buyer, not the seller, must request that the transaction be on a bill and hold basis, and the buyer must have a substantial business purpose for ordering the goods on a bill and hold basis; ▪ There must be a schedule for delivery of the goods that is reasonable and consistent with the buyer's business purpose (e.g. storage periods are customary in the industry); ▪ The seller must not have retained any specific performance obligations such that the earning process is not complete; ▪ The ordered goods must have been segregated from the seller's inventory and not be subject to being used to fill other orders; and ▪ The product must be complete and ready for shipment **Upfront non-refundable fees or payments amendment** This amendment provides further guidance regarding the accounting for upfront non-refundable fees or payments. Revenue should be deferred when an upfront fee is in exchange for products delivered or services performed that do not have utility to the buyer separate and independent of the enterprise's performance of the other elements of the arrangement.

Effective January 1, 2022	
Amended or new standard	**Brief overview**
Amended Section 3462, *Employee Future Benefits*	On November 1, 2020, the AcSB issued an amendment to Section 3462 to clarify the measurement of a defined benefit obligation ("DBO") when there is a legislative, regulatory or contractual requirement to prepare an actuarial valuation for funding purposes ("funding valuation"). The amendment also clarifies that an actuarial valuation for accounting purposes ("accounting valuation") reflects management's best estimate for the measurement of a DBO with a funding valuation requirement; however, there is still a policy choice that allows for the use of a funding valuation. The amendment also states that an aggregate of all components in a funding requirement should be incorporated into the funding valuation in the financial statements. These components would include items such as a Stabilization Provision or a Provision for Adverse Deviation when applicable. In circumstances where a DBO does not have a funding valuation requirement, an entity no longer can choose whether to use a funding valuation or an accounting valuation, and now must measure the DBO using an actuarial valuation for accounting purposes. The AcSB sought to minimize the cost to incorporate this amendment by not requiring an entity to obtain a new funding valuation and not requiring an entity to retrospectively restate its financial statements.

COVID-19 ASPE INSIGHTS

The effects of the COVID-19 pandemic continue to affect an entity's financial reporting. The following table provides a brief overview of several financial reporting matters for consideration during the financial reporting process.

Topic	Key considerations
Going concern	Due to the widespread and significant impact to businesses resulting from the COVID-19 pandemic, entities need to evaluate the impact to operations (and therefore, their ability to meet their obligations) from location and production closures, decreased demand for products or services, inability to collect from customers on outstanding receivables, the ability to access additional financing because of liquidity issues, and other relevant factors. Management may need to consider different factors or consider projections differently than in previous years, such as: ▪ Whether the use of historically based projections is reasonable for predicting future results ▪ The use of probability weighting for different outcomes of future events ▪ The impact of government stimulus packages on future operations, the entity's ability to take advantage of such support, and the timing of any expected support If, after considering the conditions and events that raise substantial doubt and considering management's plans, management concludes substantial doubt exists, further disclosure will be required in the financial statements.

Topic	Key considerations
Subsequent events	The situation will continue to evolve such that, at each reporting period end, consideration should be given to subsequent events in accordance with Section 3820, *Subsequent Events*, and distinguishing between those that should be recognized versus unrecognized under the provisions of that standard. In other words, entities with year ends in 2020 will need to give more specific consideration to the date events related to the pandemic occurred and the effect of this on recognition and disclosure in the financial statements.
Inventory	If the amount of net realizable value falls below the carrying amount (cost) of inventory, the loss should be recognized as an expense in the period the write-down or loss occurs. Given the current conditions attributable to the COVID-19 pandemic, an entity should consider whether any losses should be recognized on inventory. Expect that the auditor may perform additional procedures on the entity's estimate of valuation provisions for current inventory balances, the entity's classification of inventory and the assessment of whether the cost of the inventory exceeds the net realizable value. Inventory production levels may be severely diminished for certain entities as a consequence of forced business closures, reduced demand and other ramifications of the COVID-19 pandemic. The amount of fixed overhead allocated to each unit of production should not be increased as a consequence of abnormally low production or an idle plant, as the fixed overhead allocation is based on normal capacity. In other words, unallocated costs need to be expensed as incurred. It is expected that an entity will take this into account when performing the calculation to allocate fixed overhead charges across the different units of inventory, and auditors will perform procedures related to this calculation, as appropriate.
Impairment of financial instruments: Accounts receivable and loans receivable	In most situations, an entity will need to assess whether the present value of future cash flows expected to be generated from holding an asset or group of similar assets, discounted using a current market rate appropriate for the asset or group of similar assets, is less than the carrying amount of the asset or group of similar assets. When applicable, additional audit procedures will be performed to assess the level of impairment analysis completed on receivable balances, as well as the fair value or cash flow models prepared to calculate the impairment loss. In light of the current severe economic conditions, consider the appropriateness of management's allowance for expected losses. Pay particular attention to receivables material to the entity that may have renegotiated payment terms under a multi-year payment plan. This would result in a: ▪ Classification bifurcation between current and long-term receivables; ▪ Disclosure requirements for segregating unusual items of significant amounts and the associated impairment loss; and ▪ Consideration of the impact of this receivable on the entity's credit risk disclosure.

Topic	Key considerations
Impairment of financial instruments: Equity securities	Due to the pandemic, an entity should consider whether it has appropriately evaluated equity securities for impairment and recognized losses based on that evaluation. Equity securities quoted on the active market should be measured at fair value, and equity securities not quoted on the active market are subsequently measured at cost less any reduction for impairment. Securities recorded at fair value likely will have significant fluctuations in fair value due to the current COVID-19 environment. Securities that are measured at cost will require an impairment assessment. At the end of each reporting period, an enterprise shall assess whether there are any indications that a financial asset, or group of similar financial assets, measured at cost or amortized cost or using the cost method may be impaired. When there is an indication of impairment, an enterprise should determine whether a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets. A qualitative assessment performed under current conditions may result in a conclusion that the investment is impaired, in which case management will need to determine the fair value of the investment in order to quantify the impairment loss.
Impairment of investments held at cost or under the equity method, and joint arrangements	An entity should assess investments held at cost or under the equity method for impairment at the end of each reporting period when there is an indicator of impairment. Investments in joint arrangements (whether measured at cost or under the equity method) are required to be assessed for impairment at the end of each reporting period. The COVID-19 pandemic and associated economic fallout likely will be a trigger for most entities, and therefore it is important to perform this assessment on all investments measured at cost or under the equity method and in joint arrangements in the reporting period that includes the impairment trigger.
Impairment of long-lived assets, intangible assets and goodwill	An entity should perform an impairment test on an asset, asset group or reporting unit whenever events or changes in circumstances indicate that: ▪ The carrying amount of the asset or asset group may not be recoverable; ▪ The carrying amount of an indefinite-lived intangible asset exceeds its fair value; or ▪ The carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit. As it is anticipated that for most entities COVID-19 will have a severe impact on their operations, an entity should consider whether an impairment indicator is present. Therefore, a robust analysis of impairment indicators might be appropriate. The order in which an impairment test is performed is of critical importance under ASPE. An entity must first perform an impairment analysis on working capital items, such as accounts receivable, loans receivable or inventory, and write down those balances. An entity will then perform an impairment analysis on long-lived assets and intangible assets and asset groups to determine whether an impairment loss should be recorded to reduce the carrying amount of those assets. An impairment loss should be measured as the amount by which the carrying amount of an asset or asset group exceeds its fair value. After all of the individual asset and asset groups within a reporting unit are assessed for impairment, an entity can perform an impairment test on the reporting unit to determine whether goodwill should be written down. Goodwill cannot be written down to a negative value.

Topic	Key considerations
Debt agreement modification and covenants	If, as a consequence of the impacts of the COVID-19 pandemic or otherwise, the entity's terms of existing debt agreements are modified, an entity should evaluate whether such changes represent a modification or extinguishment of debt. An entity should ensure that it has reviewed the guidance provided in section 3856 and prepared the appropriate present value cash flow models needed to support any transactions recorded to account for contract modifications. If the impacts of the COVID-19 pandemic on cash flows or financial metrics make it probable that the entity will not comply with future debt covenants, an entity should evaluate the impact on its ability to continue as a going concern for a reasonable period of time. If there has been a covenant violation or other default, consider whether the classification of long-term debt needs to be revised and related disclosure requirements are addressed.
Lease modifications	As a consequence of the pandemic, an entity should consider whether the appropriate consideration has been given to the accounting treatment for rent abatements, concessions or modifications. Lease modifications resulting from a renewal, an extension or a change in the provisions of an existing lease also may need to be considered. As discussed above, on November 1, 2020, relief was provided for both the lessor's and the lessee's accounting of lease modifications resulting from the COVID-19 pandemic.
Government subsidies	An entity should consider how to account for government subsidies received from the various federal and provincial programs, including the Canada Emergency Business Account (CEBA) loan forgiveness program and the Canadian Emergency Wage Subsidy (CEWS) program. Government grants shall be recognised in net income based on the expenditures in which the funds are intended to compensate. If the grant agreement does not include any restrictions on the use of the funds, or the funds are tied to current expenditures, the entity can recognize the grant in net income in the current period. If there are restrictions tied to allowable expenditures in the agreement, the entity should defer and recognize the revenue consistent with related expenditures. In the case of the CEBA loan program, where a portion of the funds are forgivable, it should be noted that grant revenue related to a forgivable loan only should be recognized when there is reasonable assurance that the entity has complied and will continue to comply with all of the conditions of the underlying loan agreement.
Revenue recognition	Any uncertainty associated with a transaction should be resolved before revenue recognition criteria are met. If a performance obligation was based on a reasonable estimate at the time of the transaction, but due to the COVID-19 pandemic there is uncertainty regarding whether performance can be achieved, an entity is not allowed to recognize that revenue.
Assets held for sale and discontinued operations	An entity should consider whether properties previously classified as held for sale still meet the criteria for that presentation. Once classified as held for sale, the asset should be measured at the lower of its carrying amount and its fair value less the cost to sell. The asset should not be amortized while it is classified as held for sale. A loss should be recorded equal to the amount by which the carrying amount exceeds fair value; however, that loss can be reversed up to the original carrying amount. An entity should consider whether the sale of a division or group of assets as a result of the COVID-19 pandemic represents a discontinued operation. If so, an entity is required to restate the prior-year financial statements, and show the discontinued operations, less applicable income taxes, as a separate element of income.

Topic	Key considerations
Asset retirement obligations	An entity also should consider whether the sale of a division or a group of assets resulting in the closure of stores or the sale of property will result in an asset retirement obligation to restore the property back to its original state.
Restructuring	ASPE does not have specific guidance for "restructuring" activities, so an entity will need to assess whether associated costs meet the definition of a liability.
Termination costs	As a result of the effects of the COVID-19 pandemic, an entity should consider whether disposal activities, including restructuring within the corporate hierarchy, have been accounted for appropriately. As a result of this restructuring, an entity also will need to consider whether employee benefits have been changed, and whether a postemployment benefit obligation has been incurred due to the termination of employees. If the amount of employee benefits has changed, the entity may be required to recognize a liability when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated.
Income tax	If an entity elects to use the future tax method to account for its income taxes, the effects of the COVID-19 pandemic could result in an entity having to assess whether its future tax assets can be ultimately recovered. The need for a reassessment of the recoverability of future tax assets can result from a reduction in current or forecasted net income, or an increase in current or forecasted net losses.
Fair value measurements: Financial instruments and hedge accounting	Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Existence of published price quotations in an active market at the latest closing price is the best evidence of fair value. If quoted market prices are not available, the estimate of fair value is based on the best information available. The estimate of fair value takes into account prices for similar assets and liabilities to the extent information is available, or the results of valuation techniques. An example of a valuation technique is the expected present value of future cash flows. For some instruments, there could be circumstances where there no longer is a market for similar assets or liabilities, or circumstances where there is imperfect or conflicting information. An entity must utilize the information it believes is the most reasonable and representative of the transaction and the environment in which it takes place. In performing this analysis, an entity also must be sure to address any contradictory information and assess its impact on the fair value determination. **Derivatives** Given current economic conditions and the duress certain entities are under, non-performance risk can have a more significant impact on the valuation of a derivative, particularly if the derivative contract is not fully collateralized with liquid assets on a daily basis by whichever party is in a liability position on that day. **Hedge accounting** Consider whether any of the criteria to apply hedge accounting are no longer met, including the criterion that requires hedged forecasted transactions to be probable of occurring, or when it is probable that the anticipated transaction will occur at the time and in the amount designated.

Topic	Key considerations
Stock-based payment arrangements	Stock-based payment arrangements may include performance targets tied to an entity's operations (e.g., customer sales, revenues or annual EBITDA). Entities are required to recognize the compensation expense based on the best estimate of whether performance conditions on stock-based payments will continue to be met. If it is expected that performance conditions will not be satisfied due to the effects of the pandemic, the compensation expense would need to be adjusted to reflect the expected outcome of performance conditions until the stock option vesting date. If an entity makes the decision to modify the terms or conditions of a stock-based payment, an additional cost should be recorded for any increase in the fair value of the awards granted.
Consolidation	An entity should reconsider conclusions reached regarding whether a legal entity is controlled by the parent entity, or whether facts and circumstances related to the COVID-19 pandemic have changed that assessment. If during the COVID-19 pandemic the subsidiary has to issue new capital that has changed the ownership structure, entities should consider whether this constitutes a loss of control.

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