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Accounting and Auditing Updates – Learning Forum

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Outline

01 Interest Rates Reform
(Applicable now)

02 Cloud Computing Arrangements
(Applicable to 2024 year-ends)

03 Business Combinations Under Common
Control (Applicable to 2025 year-ends)

1

Interest Rates Reform (Applicable now)

Reform of Reference Interest Rates (Reform of Inter-Banks Rates)

Context

Several countries, including Canada, are replacing existing interbank rates with alternative reference rates. Ex.: LIBOR and CDOR.

Rate changes will result in the modification of loan and derivative contracts that refer to these rates.

The standard guidance in Section 3856, Financial Instruments, requires companies to determine qualitatively and quantitatively whether the modification of a debt contract should be treated as an extinguishment.

Reform of Reference Interest Rates (Reform of Inter-Banks Rates)

Context (cont'd)

The Accounting Standards Board (ACSB) concluded that it should intervene on the normative front and offer relief aimed at:

Simplify the accounting analysis of modifications to debt instruments resulting solely from the reform of benchmark interest rates, and thus treat modifications as a continuation of the original contract, rather than as an extinguishment.

Allow hedging relationships to be maintained in the event of a change in certain key conditions linked to the reform of benchmark interest rates.

Reform of Reference Interest Rates (Reform of Inter-Banks Rates)

Optional simplification measure for accounting for changes in debt instruments

01 This measure applies only to changes linked to the replacement of interbank rates.

02 If the optional measure is chosen, it must be applied uniformly to all debt instruments that refer to interbank rates

03 Applicable to annual financial years ending on or after February 1, 2022

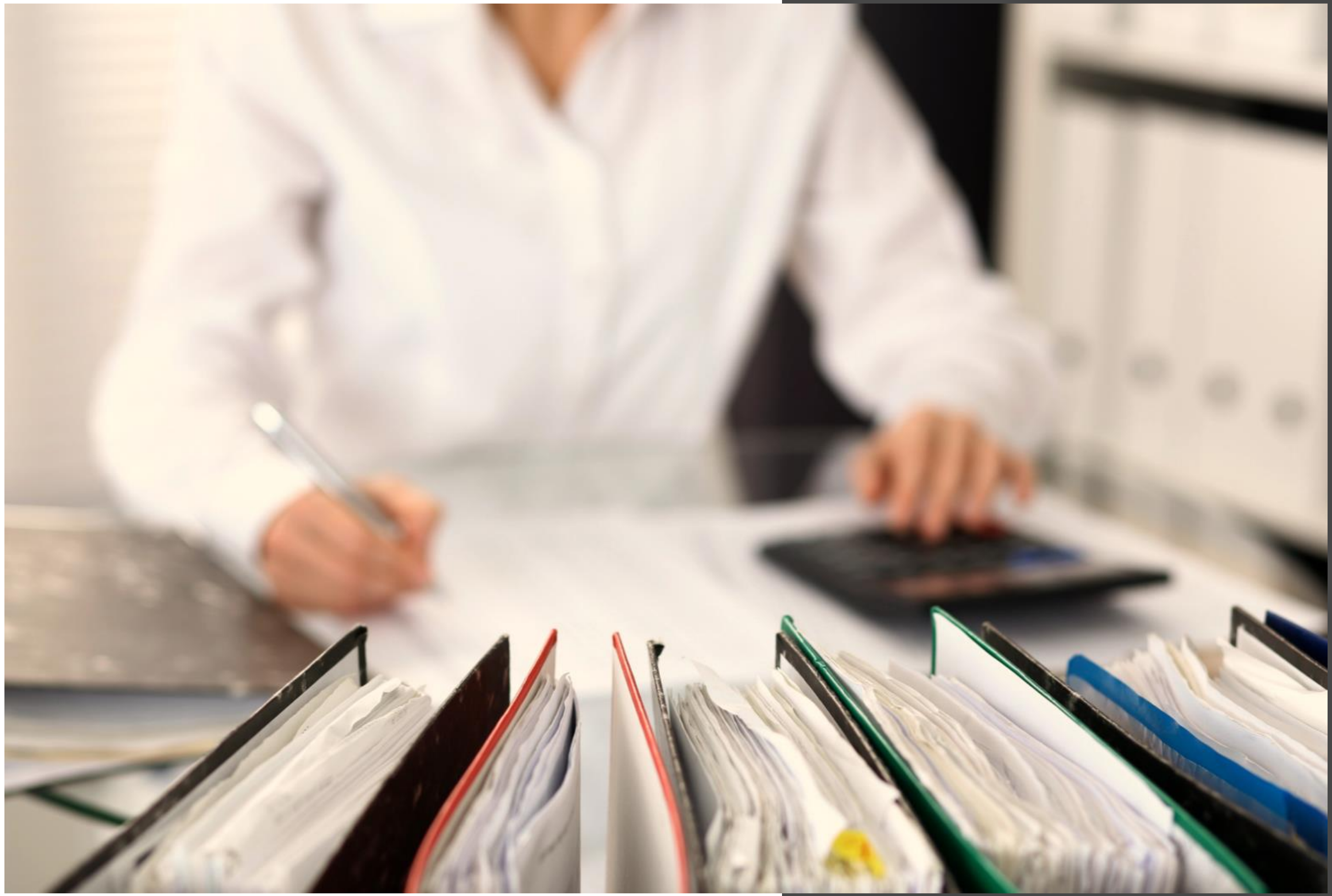
04 Early application is allowed.

05 Retrospective application.

Reform of Reference Interest Rates (Reform of Inter-Banks Rates)

Example

✓	✗
- Change in reference interest rate. - Adding or modifying a deviation adjustment. - Changes to the revision period and day-counting methods. - Adding or modifying fallback clauses. - Modifications to terms and conditions that are necessary to comply with legal or regulatory texts or to harmonize terms and conditions with market conventions with respect to the replacement rate.	- Changes in nominal value. - Changes in due date. - Replacement of the existing reference interest rate by a stipulated fixed rate. - Addition of an underlying element or variable unrelated to the reference interest rate. - Relief for borrowers in financial difficulty. - Addition or deletion of a leverage feature.



Cloud Computing Arrangements (Applicable to 2024 year-ends)

Customer's Accounting for Cloud Computing Arrangements (AcG-20)

Scope

- Cloud computing consists of providing access to computer resources on demand over the Internet or a private network: software, servers, data storage and networking functions, etc. (Ex.: QuickBooks, Microsoft One Drive)
- Cloud computing arrangements may have multiple components, including:
  - Software or access to software.
  - Equipment acquired or leased (tangible property).
  - Implementation activities.

- AcG-20 specifies which standards to apply to expenditures related to different components:
  - For equipment, Section 3061, Property, Plant and Equipment, or Section 3065, Leases, shall be applied.
  - Where the component is not a tangible property or a right to use tangible property, AcG-20 should be applied.

Customer's Accounting for Cloud Computing Arrangements (AcG-20)

Software Component

CHOICE OF APPLICATION OF SIMPLIFICATION MEASURES

- The entity must recognize as an expense all expenditures related to the cloud computing agreement components, in particular:
  - When goods are provided, the entity recognizes these expenditures as an expense when it has a right of access to these goods. When services are provided, the entity recognizes these expenditures as an expense when it receives the services in question.
  - An entity is not prohibited from recognizing an advance payment as an asset when goods or services are paid for before the enterprise receives them.
- The simplification measure is an accounting policy to be applied **consistently** to **all** cloud computing arrangement expenditures.

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Customer's Accounting for Cloud Computing Arrangements (AcG-20)

Software Component (cont'd)

SOFTWARE INTANGIBLE ASSET

- The entity that chooses not to apply the simplification measure will be required to analyze the cloud computing agreement to determine the existence of an intangible asset.
- The software component of an arrangement is recognized as a software intangible asset if it meets the definition of an intangible asset and the recognition criteria set out in **Section 3064**, *Goodwill and Intangible Assets*:

  - The software component must be identifiable.
  - The software component must be controlled by the entity.
  - The software component must provide future economic benefits to the entity.

Customer's Accounting for Cloud Computing Arrangements (AcG-20)

Software Component (cont'd)

DETERMINATION OF CONTROL

The AcSB has proposed guidance to help the entity determine whether or not it has control over the software.

- If the entity has the contractual right to obtain the software without incurring a significant penalty and if it is possible for it to run it on its own infrastructure or that of a third party, it has control over the software.
- Other factors that may indicate the existence of control
  - Exclusive rights (e.g., the supplier cannot make the software available to other customers).
  - Decision rights (e.g., the entity can decide how and when the software is updated or reconfigured).

Customer’s Accounting for Cloud Computing Arrangements (AcG-20)

Software Component (cont’d)

SERVICE SOFTWARE

- If there is no intangible software asset, the agreement is a service software.
- The service software does not meet the definition of an intangible asset and the recognition criteria set out in Section 3064.
- The company pays a subscription fee to have access to the software.
- Costs attributed to the service software should be expensed as incurred.

Customer's Accounting for Cloud Computing Arrangements (AcG-20)

Implementation Activity

- Current expenses are not accounted for in the same way depending on whether they relate to an intangible software asset or a service software:

Expenses	Software Intangible Asset	Software as a Service	
Implementation costs directly attributable.	Write-down of intangible assets to cost and amortize over the useful life of the asset.	**Election** to record these costs as other assets, separately on the balance sheet, and expense them over the expected period of access to the SaaS.*	**Election** to expense costs as incurred.*
Implementation costs that are NOT directly attributable.	Recognize costs as incurred.		
* The accounting method chosen should be applied **consistently to all arrangements.**			

Customer's Accounting for Cloud Computing Arrangements (AcG-20)

Impact on Financial Statements

Software Intangible Asset

Expense	Balance Sheet	Income Statement
License fees capitalized as software intangible assets	Long-term assets	Depreciation
Directly attributable implementation costs recorded in cost of intangible assets	Long-term assets	Depreciation
Implementation costs not directly attributable to expense	–	Operating expenses

Software as a service and directly attributable implementation costs capitalized

Expense	Balance Sheet	Income Statement
Subscriber fees recognized as an expense	–	Operating expenses
Directly attributable implementation costs recorded as assets	Current assets/ long-term assets	Operating expenses
Implementation costs not directly attributable to expense	–	Operating expenses

Customer's Accounting for Cloud Computing Arrangements (AcG-20)

Disclosures

If the enterprise applies the simplification approach, disclose:

- That fact; and
- The amount expensed for the period, including the caption in the income statement in which the expense is included.

For a software intangible asset, disclose information in accordance with 3064:

- Cost.
- Amortization.
- Methods and periods of amortization.
- Impairments if any.

For a software service, disclose:

- The policy followed to account for expenditures that are directly attributable to implementing the software service;
- The amount expensed for the period, including the caption in the income statement in which the expense is included;
- If directly attributable expenditures on implementation activities are capitalized, the net carrying amount capitalized as other assets and the method used to expense the other assets; and
- For any impairment loss recognized on the other assets, the amount of the impairment loss, the caption in the income statement in which the impairment loss is included, and the facts and circumstances leading to the impairment.

An enterprise shall disclose information in accordance with CONTRACTUAL OBLIGATIONS, **Section 3280**, regarding commitments to make expenditures on a cloud computing arrangement.

Customer's Accounting for Cloud Computing Arrangements (AcG-20)

Effective Date and Transition Period

- Applicable to annual financial statements for fiscal years beginning on or after **January 1, 2024**.
- Earlier application permitted.
- Retrospective application.
- Transitional relief:

  - **Companies not using the simplification measures**:

    May elect to apply AcG-20 retrospectively only to implementation expenditures incurred in a cloud computing arrangement from the beginning of the earliest period presented in the financial statements where the guideline is first applied.

    If the relief is applied, AcG-20 must be applied retrospectively to previously recognized assets. Any adjustment must be recognized in the opening balance of retained earnings for the first period presented.

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Customer's Accounting for Cloud Computing Arrangements (AcG-20)

Example

For each of the following scenarios, please indicate whether the software component of an arrangement meets the definition of an intangible asset and the recognition criteria in **Section 3064** and can therefore be accounted for as a software intangible asset.

SCENARIO 1 –

Your company has just signed a contract to use a project management software. This is a Cloud Computing Agreement as you will have access to the software in the provider's Cloud environment for the duration of the agreement, five years. This project management software is one of the best in Quebec in the field and is used by several companies. Because of the specifics of your company's operations, you have also signed a customization and coding contract to have the vendor modify the software according to your needs. In addition, the vendor will build an interface for you between the software and your in-house accounting software. Once the project management software is in operation, the vendor will control the updates. You will not have the opportunity to make changes without him being involved.

Customer's Accounting for Cloud Computing Arrangements (AcG-20)

Example (cont'd)

SCENARIO 2 –

Your company has hired a supplier to develop a more modern version of your in-house project management software. The provider will transfer the programming to a more modern computer environment.
To facilitate access to the software and allow for the addition of certain functionality, the vendor will install the software on your private cloud environment and ensure access and maintenance of the software for the duration of the agreement, which is 10 years. As this is your in-house software, you will retain your ownership rights in the software.
It cannot be sold to others without your agreement. However, the provider will have rights to the functionalities it develops for you and may reuse these programming elements in other situations. Your company is looking forward to the software being ready as it will free up approximately 40 hours of work per month due to the automation of certain processes.

3

Business Combinations Under Common Control (Applicable to 2025 year-ends)

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Business Combinations Under Common Control (2025)

Changes

The proposed changes to the accounting treatment of business combinations under common control are summarized as follows:

- **Removal** of the reference to "**exchange amount**" in paragraph 3840.44 (a) to permit the application of all of the requirements of BUSINESS COMBINATIONS, Section 1582, in the case of certain business combinations under common control.
- **Added an election** in paragraph 3840.44 (b) between retrospective restatement of all prior periods when carrying amounts are used to account for a combination and **prospective** recognition of the transaction.

Business Combinations Under Common Control (2025)

Modified Paragraph Issued

44. Except as specified in SUBSIDIARIES, paragraph 1591.26A(a), a business transferred between two enterprises under common control is accounted for as follows:

a) The transaction is accounted for in accordance with BUSINESS COMBINATIONS, **Section 1582**, when:

   i. The transaction is a monetary transaction, or a non-monetary transaction that has commercial substance;
   ii. The change in the ownership interests transferred is substantive; and
   iii. The amount of consideration paid or received is established and agreed to by related parties and is supported by independent evidence.

b) When the **criteria** in paragraph 3840.44(a) are **not met**, the acquiring enterprise records the acquired assets and liabilities at their **carrying amount** in the balance sheet of the transferred business and, if appropriate, recognizes a non-controlling interest in accordance with NON-CONTROLLING INTERESTS, Section 1602. Any change in the non-controlling interest is recognized as an equity transaction in accordance with Section 1602. For each transaction, the financial statements of the combined enterprise shall present the earnings, assets and liabilities of the acquired enterprise in either of the following ways:

   i. **From the date that the transfer occurred**; or
   ii. **For** the entire period in which the transfer occurred and for **all** prior periods.

Business Combinations Under Common Control (2025)

Analysis of the Effects

- Exchange amount and restriction on use of Section 1582:
  - Few changes in practice.
  - Dissolve the ambiguity surrounding the provisions of Section 1582 that an enterprise may apply.
  - Consistency of financial reporting.
- Election to Restate Comparative Information:
  - Change in the practices of certain companies.
  - Providing more relevant information to financial statements users and relieving obligations.
  - Caution: Potential for loss of useful information if the forward-looking basis is selected.

Business Combinations Under Common Control (2025)

Application Date

Applicable to annual financial statements relating to fiscal years beginning on or after **January 1, 2025**.

Early application would be permitted.

Prospective application to new combination transactions entered into on or after the beginning of the first year of application of the amendments.

Bill S-211

ASSESSING THE RISKS RELATED TO FORCED LABOUR AND CHILD LABOUR IN YOUR SUPPLY CHAIN

Deliverables: report and questionnaire
Deadline: May 31st of each year.
Fines: up to $250,000 for the entity or for any of its officers or directors.

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Bill S-211

ASSESSING THE RISKS RELATED TO FORCED LABOUR AND CHILD LABOUR IN YOUR SUPPLY CHAIN (CONT'D)

WHO IS IMPACTED?

Any corporation, trust, partnership or other unincorporated organization whose activities include :

- producing, selling or distributing goods in Canada or elsewhere,
- importing goods into Canada, or
- controlling an entity engaged in any of these activities

and is either:

- listed on a stock exchange in Canada

OR

- has a place of business in Canada, does business in Canada or has assets in Canada and meets two (2) of the following three (3) criteria for at least one of its two most recent financial years based on its consolidated financial statements:
  - $20 million or more in assets
  - $40 million or more in revenue
  - An average of 250 or more employees

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CONCLUSION AND DISCUSSION

QUESTIONS AND COMMENTS

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