

Non-Monetary Transactions

New Handbook Section 3831

Background



➤ Harmonization

- with FAS 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29*
- with IASB revisions to IAS 16, *Property, Plant and Equipment*, IAS 38, *Intangible Assets*, and IAS 40, *Investment Property*

Purpose



- Alleviate interpretation difficulties with
 - Culmination of the earnings process
 - Similar productive assets

What's new



- Test for fair value measurement of non-monetary exchanges changed from culmination-of-the-earnings-process to commercial substance

What's new

- 10% monetary consideration threshold (boot) removed from definition of non-monetary exchange

Underlying principle

- A non-monetary transaction should be measured at fair value unless
 - It lacks commercial substance
 - It is an exchange of a product or property held for sale in the ordinary course of business to facilitate sales to customers
 - Fair value is not reliably measurable
 - It is a non-monetary non-reciprocal transfer to owners

Commercial substance



➤ Two tests:

- Significant difference in configuration of cash flows,

OR

- Significant change in entity-specific value

Commercial substance

➤ Cash flow configuration

- 3 aspects - risk, timing and amount
- Significant difference in any aspect satisfies test
- Simple comparison, not present value

Commercial substance



- Entity-specific value
 - Present value of after-tax cash flows expected from continuing use of asset and disposal at end of useful life, or expected to be incurred when settling a liability

Commercial substance



- Entity-specific value
 - Broader than configuration of cash flows
 - Captures synergistic effects of the transaction
 - Change must be significant relative to fair value of assets exchanged

Reliably measurable fair value

- Comparable market transactions
- Estimates when
 - Insignificant variability in range or estimates, or
 - Probabilities reasonably assessed and used
- More reliably measurable of asset given up or asset received

Scope - exclusions

- Business combinations (Section 1581)
- Employee future benefits (Section 3461)
- Most related party transactions (Section 3840)
- Stock based compensation/payments (Section 3870)

Consequential amendments



- Business combinations, Section 1581
 - Removed reference to culmination of the earnings process
- Disposal of long-lived assets and discontinued operations, Section 3475
 - Removed reference to exchange of similar productive long-lived assets

Consequential amendments



- Interests in joint ventures, Section 3055
 - Transfer to a joint venture when the venturers are unrelated is measured at fair value because a significant change in cash flow configuration occurs
 - Transfer to a joint venture when the venturers are related is a related party transaction

Consequential amendments



- Related party transactions, Section 3840
 - Commercial substance replaces culmination of the earnings process for normal course transactions and transactions not in the normal course of operations
 - Exchanges of product or property held for sale in the ordinary course of business to facilitate sales to customers are measured at carrying amount

Transition



- All non-monetary transactions initiated in periods beginning on or after January 1, 2006
- Optional early adoption as of July 1, 2005
- No restatement of balances arising from prior transactions
- No retroactive application

Implementation guidance



- AcSB website – www.acsbcanda.org or
- Contact Kate Ward at 416-204-3437 or kate.ward@cica.ca