MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

Changes to Accounting Standards for Private Enterprises (ASPE) - Employee Future Benefits

If your company uses Accounting Standards for Private Enterprises (ASPE) and offers retirement benefits to employees, your financial reporting may be impacted by recent changes to ASPE.

Depending on the type of benefits offered, the impact may be substantial, and we recommend that companies actively discuss the implications with all stakeholders in advance of implementing the changes.

Overview

In May of 2013 the Accounting Standards Board issued *Section 3462 – Employee Future Benefits*. This new section is effective for fiscal years beginning on or after January 1st, 2014. The most significant changes relate to the way defined benefit plans can be accounted for. Before discussing this, it's important to understand that defined benefit plans are relatively simple concepts. As a balance sheet item, they possess two major components; the plan assets and the plan obligations.

1. **The Plan Assets**
    - Plan assets are typically comprised of various investments that have been set aside by the company in order to fund the retirement benefits.
2. **The Plan Obligations**
    - Plan obligations represent the amounts expected to be paid to the employees in the future.

Both of these components are measured at their "fair value" by actuaries, and this is where things become complicated. Determining the fair value requires the use of assumptions, and actual results often vary from the expected results. These differences result in gains and losses in the net value of the plan, which we will refer to as "actuarial fluctuations."

In the past, companies have had two choices as to how they could account for these actuarial fluctuations.

1. **The Immediate Recognition Approach**

    - Results in the actuarial fluctuations being brought into net income immediately. While this approach was easier to understand, and showed the true economic status of the plan, it was less commonly used because of the volatility it introduced.

2. **The Deferral and Amortization Approach**

    - Results in the actuarial fluctuations being brought into net income over a number of years. This approach was more commonly used, and was preferred as it resulted in smoother earnings.

As of January 1st, 2014, the *deferral and amortization approach* will no longer be allowed; companies will need to adopt the *immediate recognition approach*. This change will need to be accounted for retrospectively (with some minor transitional exemptions). As a result, financial statements will need to be presented as if the *immediate recognition approach* had always been used. Moreover, the prior year opening retained earnings will be changed, and the actuarial fluctuations that had been deferred will be removed from the net position of the plan.

There are a number of other changes to this section that will impact the amounts used when calculating the value of the plan assets and obligations. These include:

1. The date that they must be measured,
2. The valuation method used on the assets and;
3. Past service costs will be recognized immediately

Summary

In summary, there are a number of significant changes to ASPE's *Section 3462 – Employee Future Benefits*, which could significantly impact your financial reporting. For assistance determining how these changes will impact your company please contact your Manning Elliott business advisor for more information.

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